

Life Insurance Conference 2012



Takaful Business – Challenges and Opportunities

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By:

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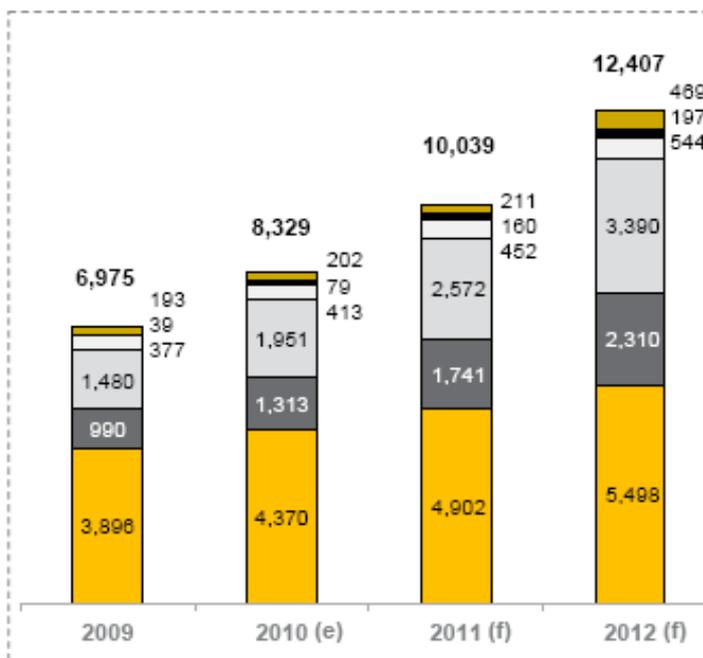
Etiqa Insurance & Takaful

Global Takaful Forecast

Continued steady growth in core markets and the emergence of new fringe markets such as Indonesia, Brunei and Bangladesh suggest a USD 12b industry by 2012 and USD 25b by the end of 2015.

WTR12 Forecasts for Global Gross Takaful Contributions – including cooperatives (US\$m)

- ▶ The World Takaful Report 2011 forecasted total contributions to reach US\$9.1b by 2011.
- ▶ The results have been lower (US\$8.3b) due to industry slow down in core markets relative to the high growth rates seen in previous years. The anticipated compulsory medical insurance regulation in Dubai and other UAE emirates was not rolled out either.
- ▶ Current growth trends would suggest US\$12b in gross contributions by 2012.
- ▶ Excluding Saudi cooperative contributions, total Takaful contributions are expected to be reach US\$7b by 2012.



Growth 2010	
Indian Sub-continent	5%
Levant	102%
Africa	10%
South East Asia	32%
GCC- (excluding Saudi)	33%
Saudi cooperative	12%

Takaful – excluding Saudi cooperatives



Note: Forecast is based on respective growth rates in 2010, adjusted for emerging trends.

Sources: World Islamic Insurance Directory 2012, Ernst & Young analysis

Takaful Industry in Malaysia

Development of the Malaysian Takaful Industry

In developing the takaful industry in Malaysia, the Government had adopted a gradual approach which can be divided into three phases:

PHASE I (1982– 1992)

- ❑ Special Task Force to explore the viability of setting up an Islamic insurance company.
- ❑ The Takaful Act 1984, to govern the conduct of Takaful business, and provide for the establishment of Shariah Committees to ensure that the business operations of a Takaful operator are in compliance with Shariah principles at all times.
- ❑ 1st Takaful operator in 1984 – Syarikat Takaful Malaysia.
- ❑ Main focus was the establishment of the basic infrastructure for the industry.

PHASE II (1993 – 2000)

- ❑ Entry of another Takaful operator – Takaful Nasional Sdn Bhd.
- ❑ Formation of the ASEAN Takaful Group in 1995 and the establishment of ASEAN Retakaful International (L) Ltd. in 1997.
- ❑ Appointment of members of the National Shariah Advisory Council for Islamic Banking and Takaful.
- ❑ Takaful Malaysia and Takaful Nasional (now known as Etiqa Takaful) jointly developed a Code of Ethics for the industry in 2000.

PHASE III (2001 – Current)

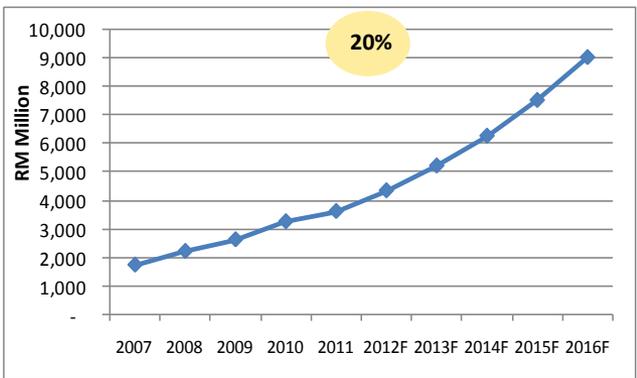
- ❑ FSMP 2001: enhancing the capacity of the Takaful operators and strengthen the legal, Shariah, and regulatory framework.
- ❑ Takaful Malaysia and Takaful Nasional launched an initiative in 2001 with the Life Insurance Association of Malaysia to promote best practices and greater professionalism in the industry.
- ❑ Increased pace of development and competition with the licensing of new operators.
- ❑ The Malaysian Takaful Association was established in 2002 to further promote the development of the Takaful industry.
- ❑ Setting up of Takaful Ikhlas in 2002
- ❑ Issuance of four new Takaful licenses between 2005 – 2007
- ❑ Establishment of MIFC (Malaysia International Islamic Financial Centre) - To develop intermediation linkages in the global market place
- ❑ Liberalization of the Takaful industry in 2009: the issuance of 4 new family Takaful licenses in 2010 (Total number of Takaful operators: 12).
- ❑ To adopt more stringent capital requirements, Malaysia has extended the discussion on RBC to Takaful. The RBC approach is expected to be implemented in 2013, which will help to enhance the industry's capital base
- ❑ Bank Negara Malaysia launched Financial Sector Blueprint (2011 – 2020)

Overview of the Takaful Industry Performance

The Takaful market in Malaysia has been showing robust CAGR of 25 % for the last 5 years and is poised to grow strongly in the coming year. However, despite its growth, the penetration rate is still low at only 11 % . Between 2007-2011, net contributions for Family Takaful increased at a compound annual growth rate of 20%, outpacing the General Takaful business.

Family Takaful

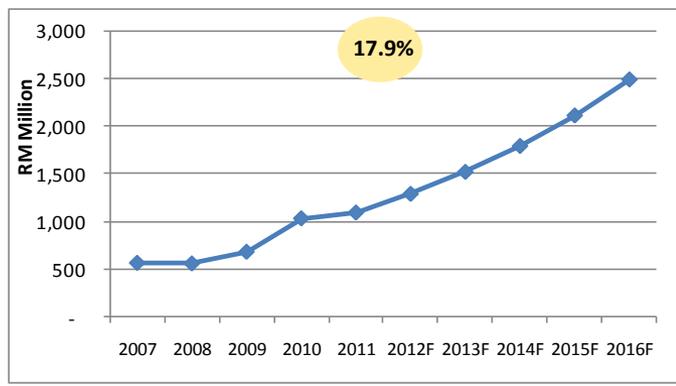
Family Business (Total Net Contributions)



(RM mil')	2007	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F
NET CONTRIBUTIONS	1,760	2,241	2,649	3,284	3,644	4,371	5,243	6,289	7,544	9,049

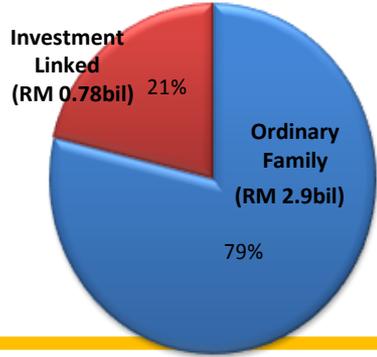
General Takaful

General Takaful Business (Total Net Contributions)



(RM mil')	2007	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F
NET CONTRIBUTIONS	570	563	686	1,038	1,099	1,295	1,526	1,798	2,119	2,498

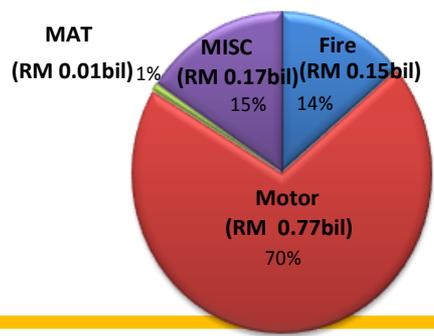
2011 (Breakdown of Business)



Takaful Penetration (% of GDP) in 2009

Malaysia	0.60%
Indonesia	0.05%
Thailand	0.01%
Brunei	0.23%
Saudi Arabia	1.05%
Bahrain	0.45%
UAE	0.31%
Sudan	0.63%

2011 (Breakdown of Business)

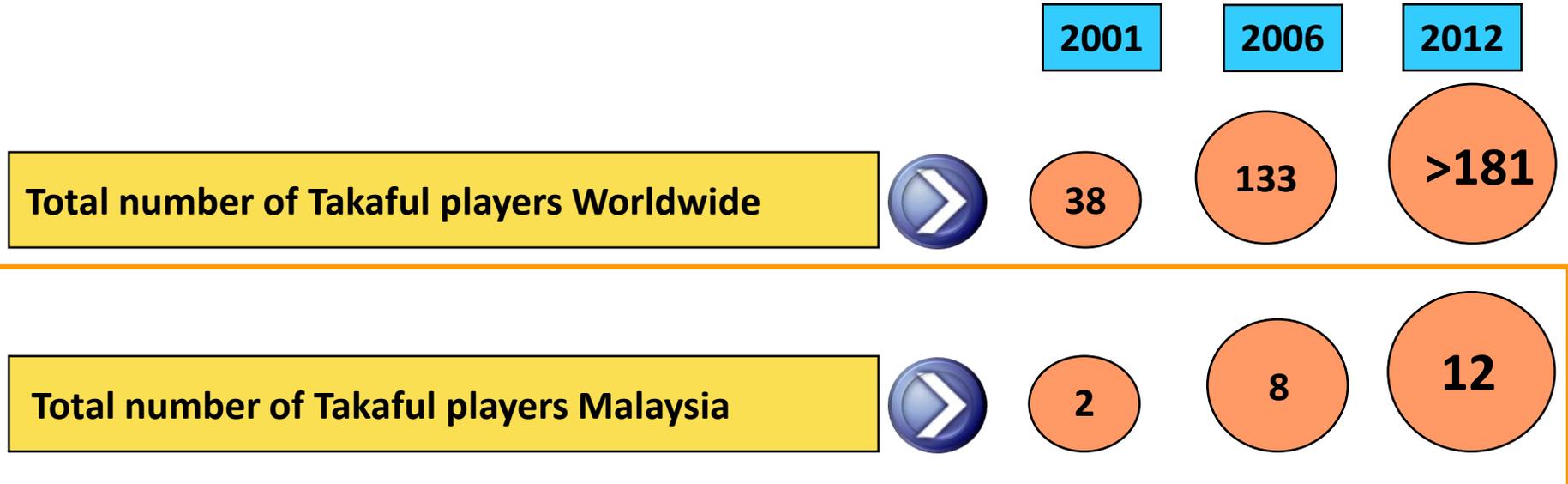


: 5-Years CAGR

Source - Central Bank of Malaysia Report
- Ernst & Young (EY) World Takaful Report 2011

New players emerge...

The market has become more diverse internationally and locally, as there has been tremendous increase in the number of takaful operators operating worldwide as well as Malaysia (*where from having a single takaful operator in 1984, we now have 12 takaful operators*)



Source: a. World Takaful Report
b. Institute of Islamic Banking & Insurance

Top 5 Family New Business

Jul 2011 - Jun 2012	Family Business		
	New Business Contribution	Market Share	Rank
ETIQA TAKAFUL	1,023,408,812	34.0%	1
SYARIKAT TAKAFUL MALAYSIA	658,159,300	21.8%	2
PRUDENTIAL BSN TAKAFUL	323,137,978	10.7%	3
HSBC AMANAH TAKAFUL	315,126,991	10.5%	4
TAKAFUL IKHLAS	205,422,940	6.8%	5
TOTAL INDUSTRY	3,014,417,255		

Top 5 General Takaful Business

Jul 2011 - Jun 2012	General Takaful Business		
	Gross Contribution	Market Share	Rank
ETIQA TAKAFUL	799,234,080	47.3%	1
SYARIKAT TAKAFUL MALAYSIA	391,412,489	23.2%	2
TAKAFUL IKHLAS	181,469,806	10.7%	3
MAA TAKAFUL	145,731,959	8.6%	4
HONG LEONG MSIG TAKAFUL	72,824,244	4.3%	5
TOTAL INDUSTRY	1,690,554,774		

* In Ringgit Malaysia (RM)



What's our **Brand Promise?**

“Humanizing Insurance & Takaful”

- *Its about **People** not Policies*



The brand implies changing the way our employees behave. “The Etiqa Way” was introduced.....

A vertical yellow graphic with the eTiqa logo at the top. Below the logo, the text "The Etiqa Way" is written, with "Way" in a cursive script. The graphic contains three paragraphs of text, each starting with "In" and ending with a period.

eTiqa

The Etiqa
Way

*Insurance is about helping people.
Helping them to protect
their assets, maintain their lifestyle
and build a better future.*

*In everything we do, we keep
things as simple as possible,
we deliver on our promise and
we place people over policies.
That's how we humanize insurance.*

*In doing so, we act with
professionalism, empathy,
courage and integrity.*

*We make a difference,
by doing it the Etiqa Way.*

How Etiqa brand attributes contributes to Humanizing Insurance & Takaful

- **Performance with Conscience**

“There is care in what we do”

As we work towards our goals, we strive to balance profits with community interests. And even though we’re ambitious about the future, we believe in caring for humanity.

- **Hand-in-Hand**

“With diversity, we create opportunity”

We form partnerships with agents, companies, families and individual based solutions. And together, we create a network of convenience and accessibility that makes us dependable in time of need.

- **Crystal Clear**

“We like to keep things clear”

We take a transparent approach to communication. With simpler processes and clearer benefits, we believe that we can achieve much more. Because people only trust what they understand.

- **Rock Solid**

“We have a firm foundation to build on”

Billions in assets, Global expertise. Branches nationwide, and more. It wasn’t built overnight, we earned it. And it has made us a solid and reliable entity. One that will have many more success stories to share in the coming years.

Humanizing Insurance & Takaful It’s about people not policies

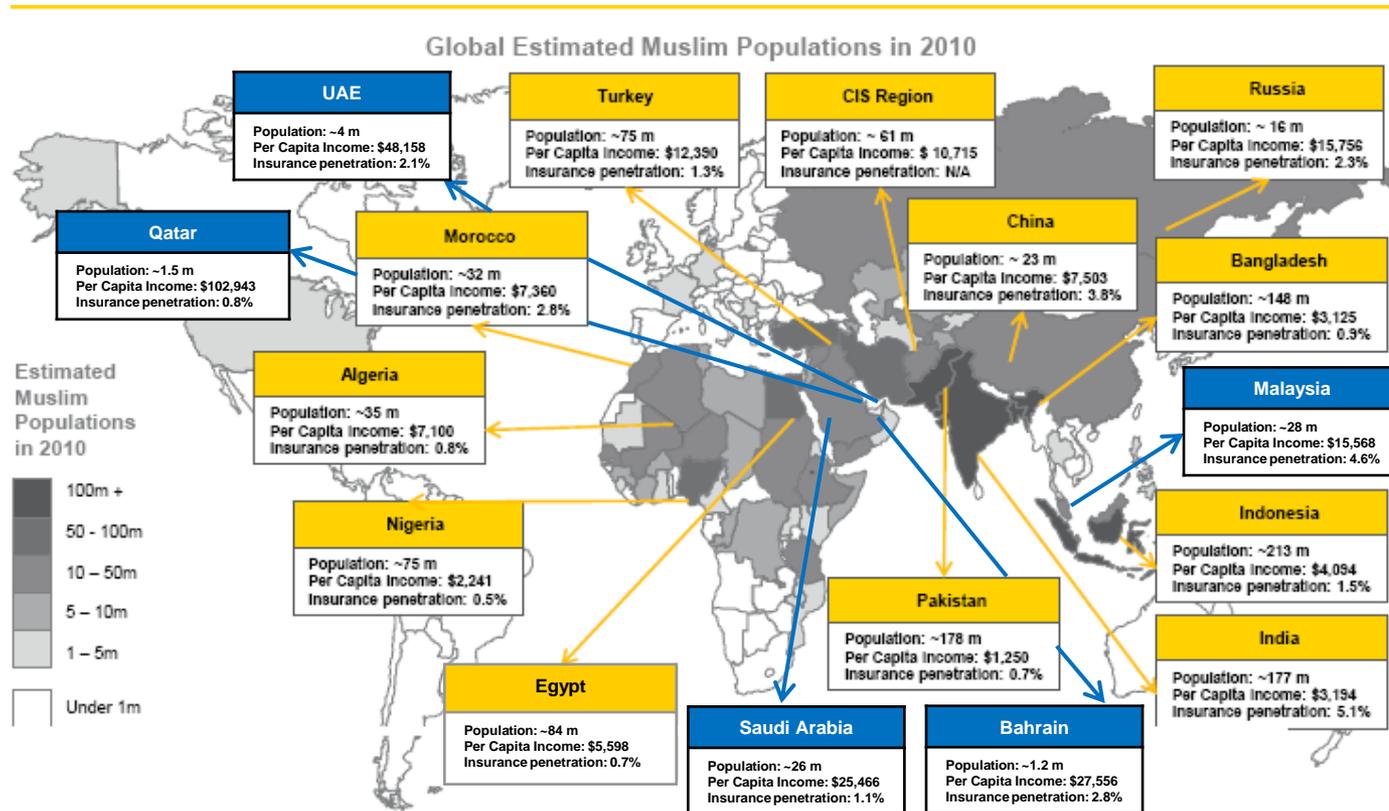


Growth Opportunities for Takaful



Current and Potential Takaful Markets

There are large Muslim population centers throughout the emerging markets of MENA and Asia. Many of these markets hold great potential for Islamic Finance and Takaful.



There is a significant market for Takaful. Besides expansion in the Muslim world and for Takaful to grow further to the next level, Takaful has to be marketed to non-Muslim communities as well.

Source: Global Insights (Per Capita Income is based on PPP of individual markets), Pew Forum, Swiss Re, Sigma and Wikipedia

Where Does Takaful Grow Further?

The Takaful business has an explicit ethical structure which can be marketed to both Muslims and non-Muslims.

Current Muslim Market

- The world's 1.6 billion Muslim represent huge potential customer base
- Most Muslims are either uninsured or underinsured
- Significant enticement to the Takaful operators worldwide to venture into international market
- Opportunity for Family Takaful to grow in the MENA region
 - Underpenetrated and is estimated to contribute only 5% of gross contributions in MENA region compared to 77% in Malaysia

Non-Muslim Market

- Takaful can be attractive to non-Muslim consumers
 - e.g. Europe with a significant Muslim population, potential market among Muslims and non-Muslims, despite the obvious religious and cultural differences
- Can be reached without focusing on the religious aspects of Takaful but inherent features of Takaful
- An ***“element of profit sharing, transparency over product profitability and the limitations on acceptable investment”*** may be attractive to the growing “ethical investment” segment

From humanity perspectives, only **80 million** of the world's **2.5 billion** poor are currently covered by some form of microinsurance. Only **3%** of the poor in **India** and **China** are insured, and only **0.3%** of the poor in **Africa** are insured. In **23** of the **100** poorest countries in the world, there is currently no identified micro-insurance activity. The majority of the population is in the low-income bracket.

New Wave of Family Takaful Products

Changes in demographic structure leading to the changes in the financial product and services required. As the consumers become more mature, it is envisaged that the financial needs of consumer will become more varied and sophisticated, leading to increase demands for more innovative product and services.

Medical Health Takaful

- Growth in healthcare expenditure and demand for better healthcare benefits leading to the needs of insurers to develop cost-effective ways to provide healthcare needs and protection.
- Rapidly growing in the GCC as it is increasingly made compulsory in GCC countries.

Retirement

- With the improved quality of life, the life expectancy has increased and this longevity risk has posed great challenge to the adequacy of savings for retirement.
- Introduction of Private Retirement Scheme in Malaysia - alternative retirement saving option

Investment Linked Products

- Investment linked products are gaining traction given the low penetration, rising income, growing population and knowledge in this sector.
- In Malaysia, new business contributions from investment linked products increased to RM 511 million in 2011 from RM 391 million in 2010.

MicroTakaful

- Only 80 million of the world's 2.5 billion poor are currently covered by some form of microinsurance.
- Some Muslim populated countries are also characterized by having low income households - Indonesia, Pakistan, Bangladesh, Sudan.

Challenges for Takaful



Challenges on the Way Forward for Takaful

CHALLENGES

Product Innovation

Innovative products that meet consumers' need and market expectation

Investment Compliance

Lack of long-term Sukuk is hampering the industry growth and need to overcome by maximizing on other investment vehicles available in the market e.g. equities & properties

Lesson Learned from Conventional Insurance's Experience

Longer experience in product strategy/positioning and sales/marketing strategies could be applied to takaful companies

Value Added

Adding value to customers to expand their market share as well as increasing market penetration

Talent and Expertise

Takaful talents especially in the advisory and operations level with the expected increase in Takaful business globally

Research and Development

Investment in R&D for market segmentations, products structuring and differentiation would benefit Takaful operators in the long run

Retakaful

Retakaful capacity, which would cater to the unique principles of Takaful products and to provide essential technical capabilities in managing risks

Return on Equity (RoE)

The RoE for insurance sectors is relatively higher than Takaful partly due to profit sharing. To move to the next level of growth coupled with increased capital requirement, most Takaful operators need to strengthen their capital base

How to attract investors to the Takaful market?

Even though Takaful reflects the concept of “mutual assistance”, in reality most Takaful operators are standalone companies which are profit seeking organizations backed by shareholders who demands a good return on equity (“ROE”) for their investment. In general, the ROE for insurance sectors is relatively higher than Takaful partly due to profit sharing. To move to the next level of growth coupled with increased capital requirement, most Takaful operators need to strengthen their capital base.

How will Takaful industry position itself to move forward so they will be able to attract capital and compete in the market? **How would Takaful be able to create comparable ROE for the shareholders compared to insurance?**

Four different spectrums

Mutual Insurance	Pure Operator Takaful Model	Advanced Takaful Model	Insurance
<ul style="list-style-type: none"> No shareholders - owned entirely by its participants Capital is not required – based on participants contribution only Non profit organization - surplus funds are paid entirely to participants 	<ul style="list-style-type: none"> Main risk is operational risk management, hence only have operational risk charges No investment or insurance risk charge since they are already embedded in the funds If there is deficit in the funds, participants would have to top up As such, capital requirement would be lower compared to Insurance, and with comparable pricing, should give better ROE to shareholders More like an asset management company, with relatively small capital base but managing large assets under management on behalf of others 	<ul style="list-style-type: none"> Closer to Risk Based Capital Framework with different risk charges including insurance risk charge and also profit rate charge, plus profit sharing More lookalike to how an insurance company is regulated, risk expectation similar to insurance Each respective fund must be able to keep sufficient capital to run the fund of participants As such, capital requirement would be higher, hence leading to lower ROE Under this model, Takaful operators must: <ul style="list-style-type: none"> Strengthen their capital Be more aware of capital intensive products and the impact to capital requirement Need to build in capital requirement when doing pricing; may lead to higher pricing compared to insurance 	<ul style="list-style-type: none"> Conventional insurance is based solely on commercial factors The premium is paid to conventional insurance companies and is owned by them in exchange for bearing all expected risks (risk transfer) In case of deficit, the conventional insurance company covers the risks

Summary: What needs to be done to allow takaful to become a global practice?

- Internationally accepted Shariah compliancy standards
- Training on Islamic finance on a global scale from the core centres of expertise in Islamic finance
- Deepen the Islamic capital markets - Malaysia dominates the global sukuk market and remains a top investment destination for Islamic funds, accounting for 73.2% of global sukuk issuances in 2011 (2010: 72.5%)
- Global marketing of Takaful brand for all population groups
- Building awareness for customer needs in insurance and takaful (e.g. mortality gap, retirement and pensions, longevity etc.)
- Micro takaful for poor segment of population
- Improve shareholders return for Takaful players. Average RoE for insurance companies, Takaful operators and cooperatives (2011):
 - Malaysia: 17% (insurance companies) ; 4% (Takaful operators)
 - GCC: 9% (insurance companies) ; 4% (Takaful operators)
 - Saudi Arabia: -7% (Cooperative insurance companies)
- Robust in new product development to fulfill financial needs of modern days consumers – (innovative products: Takaful operators need to offer a unique value proposition to compete with conventional offerings)
- Efficient distribution channels - diversify distribution channels to reach a larger segment of the market
- Build retakaful capacity, which would cater to the unique principles of takaful products and to provide essential technical capabilities in managing risks
- Develop takaful talents especially in the advisory and operations level
- Investment in R&D for market segmentations, products structuring and differentiation that would benefit takaful operators in the long run

End

