Governor's Statement

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

The takaful industry has for more than a decade been experiencing double digit growth. This momentum has continued in the year 2001. The efforts by the Government to promote the development of the Islamic financial sector and the aggressive marketing effort by the takaful operators to penetrate the largely untapped potential of the takaful sector have been the main catalyst of growth. Higher growth was substantially evident in family takaful resulted in the combined takaful funds assets reaching RM2.4 billion or 4.6% (2000:2.6%) of the total assets of the insurance funds. Nevertheless, the takaful operators are beginning to face competitive pressures from the market and the more sophisticated customers who demand more innovative products rather than the generic insurance products. To stay relevant, the takaful industry must continuously improve and position itself within the hub of mainstream financial system. The focus should therefore be on strengthening and preparing the takaful players to be more effective, efficient and resilient in facing these challenges.

As business grows, the takaful industry has to be fully equipped to meet the increasing capacity. The expanding takaful funds have to be properly and effectively managed. The prevailing global market and softening investment conditions in the financial market have posed serious challenges in ensuring good returns and assets value for takaful operators. Investment strategies therefore have to be enhanced and stress test measures on financial performance projection be continuously carried out to ensure sustainability of business and growth.

Although the takaful industry has strengthened further, market penetration is still relatively low at 2.8% compared to the conventional industry which has reached 31.5%. Hence, the industry needs to market takaful aggressively in order to make greater inroads and promote takaful as a viable alternative to the existing conventional insurance business which has secured a dominant position and growing in both sophistication and resilience. Product innovations, benchmarking and customer service need to be further enhanced. These are undoubtedly the main yardsticks for customers before considering takaful products. With globalisation and financial liberalisation looming, takaful operators need to strive harder in ensuring that takaful will not only remain relevant but also an active player in the financial market.

In March 2001, Bank Negara Malaysia unveiled the Financial Sector Masterplan (FSMP) with a chapter dedicated to Islamic banking and takaful. Specific recommendations have been outlined to further boost the market penetration of takaful in the country. Among the focus is on regulatory framework development, product and market development, legal and Syariah framework and enhancement of knowledge and expertise.

One of the significant inroads made by the takaful operators was gaining a large market share in the Employees Provident Fund Annuity Scheme which was introduced in July 2000. Takaful operators secured contributions amounting to RM1.2 billion out of total annuity scheme premium of RM4.1 billion. Nevertheless, this scheme was discontinued by the Government in 2001. The success of this scheme has shown tremendous opportunity for pension scheme products in Malaysia. Continuous product research and development is vital to ensure more Syariah compliant products will emerge to meet the need of customers.

In line with the aspiration to develop the nation as a regional centre for Islamic financial services, it is imperative that knowledge and expertise need to be enhanced to create a large pool of high calibre industry personnel. The Islamic Banking and Finance Institute Malaysia was formed to undertake the role as the industry's centre of research and training. Takaful has thus been earmarked as a main component of the institution's core deliverables. Growing interest is also evident among higher learning institutions to develop and offer Islamic banking and takaful studies, an important development towards increasing the pool of experts in the field.

With the objective to create greater awareness among the public, the Islamic Banking and Takaful Week was held from 26 October to 2 November 2001. The week long nationwide campaign focused on awareness and educational programmes meant to build high impact image and increase the visibility of Islamic banking and takaful.

As the nation progresses towards a knowledge-based economy, takaful operators have to keep abreast with the latest technology. Advances in technology have altered business practices and channels of distribution. It is encouraging that takaful operators have made progress including embarking into e-commerce.

Takaful industry in Malaysia has effectively met the challenges of a competitive market. As we plan for the future, takaful operators have to improve, intensify effort and grow in order to be a worthy viable alternative and achieve the aspirations as envisioned in the FSMP.

Zeti Akhtar Aziz
Governor

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