Policies and Developments

The year 2003 saw significant developments in the takaful industry as a result of continuing efforts by both Bank Negara Malaysia and the takaful industry, particularly in the areas of enhancing the institutional capacity and operational efficiency as well as promoting consumer education and awareness on takaful.

Increasing Institutional Capacity

In a move to strengthen the takaful operators' capacity to support their business expansion and absorb greater risks, the Bank has announced the imposition of RM100 million minimum paid-up capital for takaful operators effective 31 December 2004. The higher minimum paid-up capital requirement aims at improving the financial resilience of takaful operators and enable them to enhance their capacity in their business underwriting.

Focus was also directed to enhance corporate governance of the takaful operators. Additional new measures on the function of the board of directors were introduced in 2003. The takaful operators are required to establish nominating, remuneration and risk management committees of the board to ensure that the shareholders play a more effective role in overseeing the effectiveness of the board of directors and management team. The requirements also specified the minimum qualifications and training requirements for directors and highlighted the roles and responsibilities of independent directors, which includes providing effective oversight of the board.

The Bank has prescribed the Takaful (Prescribed Financial Institution, Loan and Investments) Regulations 2003 to expand the list of authorised Malaysian assets. The new regulation provides more flexibility to the takaful operators in their investment activities. Following this prescription, a detailed specification relating to investments in Islamic private debt securities (IPDS) and Islamic financing facilities (IFF) was issued to safeguard the takaful funds. Amongst others, the specification sets out the conditions and type of security for IPDS and IFF to ensure its quality and enforceability as well as the acceptable minimum rating for unsecured IPDS to be qualified as authorised assets. It also specifies the individual and aggregate investment limits for IPDS and IFF to ensure sufficient spread and diversification of investments in takaful funds.

To promote the competitiveness of takaful operators by improving their operational flexibility, the Bank removed the restrictions on the outsourcing of non-core activities by takaful operators in 2003. Takaful operators are now allowed to engage services of resident service providers or their group resources located in Malaysia to manage their non-core functions such as information technology and human resource management. The removal of the restrictions provides the opportunity for the takaful operators to achieve greater access to advanced technology, resources and expertise that will facilitate greater operational innovation on the part of takaful operators.

Enhancing Operational Efficiency

One of the areas that were given focus during the year was the improvement of the operational cost efficiency of family takaful business. Guidelines on Operating Costs of Family Takaful Business were introduced to takaful operators with the objective to encourage fairer pricing of family takaful products and better returns to the participants. The Guidelines provide takaful operators with flexibility in formulating a scheme for agency benefits, which includes, inter alia, the commission scales, agency-related benefits and expenses of management. With cost efficiency, it is envisaged that the takaful operators would be better placed to compete more effectively with insurance companies by offering family takaful products as attractive alternative medium of savings to the public.

Significant attention was also placed on improving the claims handling services in the general takaful business and among the initiatives undertaken were the inclusion of takaful operators in the revised Knock-for-Knock (KfK) Agreement as well as the issuance of Guidelines on Claims Settlement Practices. The KfK agreement aims at streamlining and expediting claims processing between takaful operators and insurers. In addition, it enables takaful operators to obtain speedy access to information on the damage to the vehicles covered by them and exercise better control over the claims settlement process. On the other hand, the Guidelines on Claims Settlement Practices specified the minimum standards for prompt and fair payment of claims to be observed by the takaful operators.

To complement the initiatives on the improvement of claims handling services, takaful operators have also established dedicated complaints units at their respective organisations as an avenue for consumers to seek redress through proper channels in the event of dispute with takaful operators. The establishment of these complaints units would promote a more efficient and pro-active approach in the management of complaints by the takaful operators and provide valuable information regarding any shortcoming in the products and services of the takaful operators.

Another important development during the year was the requirement for all takaful operators to report to the Bank all instances of Cash Before Cover non-compliance for motor business underwritten with effect from 1 January 2003. The requirement aims at ensuring that takaful operators do not assume any risk in respect of any general business unless and until the takaful operators receive the contribution payable. The imposition of this requirement encourages a more disciplined and efficient treatment of contributions receipts and cover notes issuances by both takaful operators and their intermediaries.

During the year, Malaysian Takaful Association participated in Persatuan Insurans Am Malaysia's initiative to establish Insurance Services Malaysia (ISM). ISM will collate insurance statistics and provide a credible database to facilitate the scientific underwriting of risks. In addition, ISM will also provide a mechanism for determining benchmarks for prudent pricing and reserving of insurance products as well as technical and actuarial services to the industry players.

Strengthening Consumer Protection

During the year, Guidelines on Prohibitions against Unfair Practices in Takaful Business were introduced to promote sound business practices among takaful operators and fair treatment to consumers. The Guidelines provide for enhanced disclosures to consumers, requirements for takaful products to be marketed on equitable terms and conditions, and specific restrictions against misrepresentation of takaful plans and unfair discrimination between participants.

The Bank has also introduced Guidelines on Proper Advice Practices for Family Takaful Business to be observed by the takaful intermediaries. The primary purpose of the Guidelines is to ensure that a takaful intermediary obtains sufficient information about a prospective participant before rendering appropriate advice on the suitability of a particular family takaful product to the prospective participant. The Guidelines are aimed at raising the professional standards and accountability of takaful intermediaries as well as to protect the participants' interests by ensuring that they are in a position to make an informed decision when participating in family takaful products.

As part of the overall strategy of enhancing consumer protection, a number of programmes were organised to promote consumer education and awareness on takaful. It included, among others, the organisation of the second Islamic Banking and Takaful Week (IBTW) themed \`Your Financial Partnership´ from 26 September to 2 October 2003. During the week, series of activities and events were organised by the industry players which include publication of articles in newspapers and magazines, media events on television and radio, exclusive forums and exhibition booths at public places. The organisation of the IBTW provided the opportunity to the public to learn more on the virtues, benefits and various products offered by the Islamic banking and takaful industry.

The Consumer Education Programme (CEP) on insurance and takaful, known as \`InsuranceInfo´, was also launched on 29 August 2003 as a 10-year programme to provide educational information to the consumers. Series of booklets on \`Fundamentals of Insurance and Takaful´, \`Motor Takaful´, \`Houseowners/Householders Takaful´, \`Family Takaful´ and \`Medical and Health Takaful´ were issued. The consumers can also access the information from the website of

`InsuranceInfo´ and articles that are published in major newspapers.

International Cooperation

Recognising the growth potential for the takaful industry worldwide, Malaysian takaful operators have ventured abroad by participating in equity interests in takaful companies in Indonesia, Sri Lanka and Saudi Arabia. Through their participation, Malaysian takaful operators provided technical assistance for the development of takaful outside the country. As part of these efforts, the ASEAN Takaful Group (ATG), which was formed as an association to enhance greater cooperation among takaful operators in Malaysia, Indonesia, Brunei and Singapore, is now welcoming participation from other international takaful operators to promote strong inter-regional cooperation.

Takaful Operators Statistical System

To enhance the quality of financial reporting by takaful operators, the financial statements and statistics to be submitted by the takaful operators have been revised with the implementation of Takaful Operators Statistical System (TOSS). The implementation of TOSS will achieve the following:

- facilitate comprehensive reporting on the financial performance of takaful operators;
- timely submission since the takaful operators are required to submit the returns within a shorter time period;
- improve turnaround time in collecting and processing of data for the takaful industry through online submission;
- facilitate easy retrieval of takaful operators' financial data for analysis purposes;
- early identification of any deterioration in the financial condition of a takaful operator and enable appropriate remedial actions be instituted to address the problem at an early stage;
- assist the Bank in prioritising on-site examinations and identifying particular aspects of operations of the takaful operator to focus on; and
- assist the management and the board of directors of the takaful operators to analyse key performance data of the takaful operator.

Components of TOSS

Every takaful operator will be required to submit the statistical and non-statistical returns monthly and annually to the Bank. The components of TOSS are as follows:

Statements and Declarations

- Among the statements that need to be submitted are disclosure on related party transactions and particulars of investment management; and
- The declarations that need to be submitted are the statutory declaration under section 41(1) of the Takaful Act 1984, auditors' certificate, directors' report, certificate by the principal officer and declaration in respect of business outside Malaysia.

General Takaful Business

- Detailed information on all classes of general takaful business;
- Detailed revenue accounts and balance sheets for general and shareholders' funds with supporting schedules;
- Statements of contributions, commissions and claims to enable analysis of operating ratios separately for direct business, retakaful accepted and retakaful cessions; and
- Reporting contributions through various distribution channels namely direct marketing, agents, brokers, internet and bancassurance.

Family Takaful Business

- Separate statements for different types of family business comprising ordinary, annuity and investment-linked business and further breakdown based on sub-funds i.e. Participants' Account (PA), Participants' Special Account (PSA) and Group Family Takaful Account (GFTA);
- Statements on new business, terminations and transfers and business in force on different types of family takaful business; and
- Statements on contributions and claims for yearly renewable medical and health products to facilitate better analysis on medical and health products.

To facilitate the smooth implementation of TOSS, the Bank has drawn up notes for guidance which provides detailed instructions on how the statements and schedules are to be completed.