Governor's Statement

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

The takaful industry continued to face an increasingly challenging environment in the year 2004. The financial landscape is being constantly reshaped by the forces of globalisation, technological advancements, innovative distribution channels and continuing convergence of financial activities in a more diversified and liberalised financial market. The level of competition has also intensified not only from within the takaful industry, but also from its conventional counterpart. In this challenging environment, the takaful industry sustained its growth in 2004 at 10.8% and 13.5% in terms of aggregate contribution income and takaful fund assets respectively.

In the rapidly changing and competitive financial landscape, a significant challenge for the takaful industry is to advance greater ability to compete effectively in the pursuit to expand the industry. It is therefore imperative for the takaful operators to position themselves with strategic focus that sharpen their competitive edge to respond proactively to the sophisticated and differentiated demands of the more discerning consumers. Improvements in terms of innovation and efficiency in product design and development, enhanced distribution system capabilities, high standard of services and professionalism have now become even more important for the industry to strengthen its position in today's competitive financial landscape. The strengthening of internal capabilities to adjust and adapt to the changing conditions and uncertainties in the marketplace is also a prerequisite to enhance the potential for the industry to capitalise on expanded and new growth opportunities, both domestically and on the global front. Greater investments in human capital development and information technology are an integral part of this process.

Policy initiatives of the Bank have been strategically directed toward building capacity and strengthening the infrastructures for a stronger and vibrant takaful industry that is robust and resilient. A more structured Shariah governance framework has been introduced, whilst significant enhancements have been made to the regulatory framework in the area of accounting and financial disclosure requirements, corporate governance practices and consumer protection infrastructure. In addition, the regulatory requirements relating to bancatakaful have been introduced to promote and leverage on bancatakaful as an important means to reach customers, complementing the existing distribution channels of the industry. The Bank has also embarked on a rigorous Risk-based Supervisory Framework that places greater emphasis on the effectiveness of the board and senior management of a takaful operator in managing and controlling risk exposures to an acceptable level which commensurate with the strength of its capital. Under this framework, the overall risk profile of a takaful operator will be monitored by the Bank on an ongoing basis and more efforts will be focused on the risk areas.

With strengthened infrastructures underpinning its further development, the takaful industry is in a better position to complement its conventional counterpart to hasten the increase of the current insurance market penetration rate of 43%, of which takaful contributed 5.1%. There remains tremendous potential for both the takaful and insurance sectors to effectively serve the needs of the nation in terms of achieving financial security and improvement in the economic well-being. The ongoing efforts to raise the financial literacy of the public via activities under the Consumer Education Programme and other major events on Islamic finance is vital to the endeavour to increase market penetration. This therefore needs to be vigorously pursued by the industry going forward.

In charting a new chapter of development that advances the takaful industry towards new levels of dynamism, the prerequisites continue to be the unwavering commitment and combined efforts of all relevant parties to build on the progress already made and drive performance to effectively meet the challenges of the new business environment. Ultimately, it is our actions that will take us forward in our quest to develop a competitive, dynamic and resilient takaful industry within the comprehensive Islamic financial system that contributes significantly towards the overall development of our economy. Indeed, this would contribute towards enhancing the prospects to secure balanced development and greater shared prosperity.

Zeti Akhtar Aziz
Governor
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