BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Governor's Statement

The takaful industry continued to demonstrate resilience and robust performance in the year 2005, amidst the increasingly more challenging and competitive financial environment. Competitive elements confronting the industry arising from financial liberalisation, technological advancement and greater consumer expectations were the catalysts towards the development of innovative products, effective services and improved efficiencies in operational processes. The effective use of distribution channels, dynamic investment strategy and increased public awareness on takaful provided an impetus for further growth of the takaful industry. The takaful industry recorded remarkable growth of 18.8% for combined contribution income, the highest growth in three years with a further expansion of 16.9% in total assets, reinforcing further its potential as a competitive form of financial intermediation.

In this rapidly evolving financial environment, the industry needs to have the ability to shift to new areas of comparative advantage in response to changing conditions and thereby swiftly capitalise on the new emerging opportunities. As is evident now, takaful operators made great strides in offering more innovative products and in adopting dynamic multi-channel distribution strategies in the effort to further drive the business growth. The industry has also made meaningful headway towards complementing conventional insurance in enlarging market penetration by intensifying promotional activities and consumer awareness programmes on the importance of takaful coverage in the overall financial planning and wealth management. This needs to be further enhanced for the takaful industry to sustain the growth momentum going forward. Embracing smart collaborative or strategic alliance with local or foreign partners and building stronger customer allegiance and retention would reinforce the efforts to achieve this objective.

On the regulatory front, the policy measures in 2005 continued to emphasise on enhancing the resilience of the takaful sector by improving the institutional infrastructure and operational efficiency, strengthening corporate governance and risk management as well as ensuring effective supervisory oversight and surveillance. Four new takaful licences were issued to joint ventures or consortiums of local and foreign financial institutions with expertise and experience in Islamic banking, takaful or insurance business. The move is aimed at promoting the development of strong, competitive and dynamic players that have the capacity to capitalise on expanded business opportunities, locally and abroad, thereby further reinforcing the robustness of the Malaysian takaful industry. It wold also strengthen linkages with the international market. Regulation and supervision of takaful intermediaries were further strengthened to support the effective functioning of the takaful operators as well as to ensure its soundness and stability.

Policy initiatives of the Bank were essentially directed at enhancing the effectiveness of the internal control structures within the takaful operators, specifically in the areas of corporate governance and risk management practices. Towards this end, the Bank further enhanced the overall information systems to strengthen the governance and continued to supervise the implementation of the Shariah governance framework. A set of qualifying criteria for the appointment of auditors was introduced to instill professionalism in the audit of takaful operators. Efforts were also directed towards strengthening the capabilities of the takaful industry to effectively manage the risks associated with the overall operational process. These initiatives were complemented with the implementation of the enhanced risk-based supervisory framework to further enhance its assessment of the institutional risk profiles and risk management practices of takaful operators. In addition to the internal control measures, the Bank also introduced measures to improve the operational efficiencies of the takaful operators to enhance the potential performance of the industry.

Moving ahead, the industry can expect a more competitive environment. In this challenging environment, innovation will be one of the key factors in securing the competitive advantage. Greater attention needs to be accorded to enhance the capacity for innovation in the areas of product development, services and the overall operational efficiencies. The support of intellectual capital will be one of the crucial factors that is able to drive innovation and further contribute to the organisation's long-term success. The availability of specialist with the technical expertise to underwrite various takaful risks, including complex and specialised risk, will allow the takaful operators to further expand their business and thus maximise the retention. Thus, efforts towards continuous development and training of the expertise in the related areas are essential. Indeed, the industry can capitalise on the recent establishment of the International Centre for Education in Islamic Finance (INCEIF) to develop professionals and specialists in takaful. Human capital development is vital to strengthening the capability and capacity of the industry.

The endeavor to develop the takaful industry that is competitive, dynamic and resilient at the domestic and global fronts will be the result of the combined commitment and collaborative effort of the regulators, industry and market participants. The aim is to create progressive world-class takaful operators that are able to successfully position themselves as leaders in the area of takaful and thereby promoting the development of Malaysia as the international Islamic financial centre.

Zeti Akhtar Aziz
Governor

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