

Future Challenges of Islamic Insurance (Takaful) in Malaysia

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Abstract: This paper aims to bring to attention of the future challenge of Islamic insurance (Takaful) in Malaysia. Malaysian takaful industry has experienced rapid growth and transformation since it was first introduced 20 years ago. From an industry that has only one takaful operator with limited basic products, it is now growing to be a viable industry that has been integrated into the mainstream the financial system. This had been achieved through the intensive efforts of the Bank and takaful operators in developing the industry dynamic, resilient and efficient.

Keywords: Takaful, Future Challenger, Islamic Insurance, Etiqa Takaful Berhad.

1. INTRODUCTION

Insurance has existed for many centuries. Some historians trace the origin of insurance to 215 CE, when the Roman government was required by military supplies to accept all risks arising from enemy attacks, storms, and other natural disaster for supplies carried on their ships (Omar Fisher, 2009). In other words, there is a need for human to prepare for the loss. The modern insurance can be traced its beginning on the 1600's, when British merchants and ship owners began to meet a coffeehouse near Lombard Street in London. The coffeehouse was called Llyod's, there they made an agreement to mutually share in the profits and losses of sea voyages (Omar Fisher, 2009). However, there is a need for muslim to join and insured themselves in islamic way. As the result, emerged the first Islamic insurance in Sudan in 1979.

Islamic insurance or takaful is a concept of mutual cooperation to guarantee mutual protection of the members (Mortuza Ali, 2006). Takaful is derived from the Arabic word "kafalah", which is a pact that guarantees individuals in a group against loss or damage sustained by anyone of them (Mohamad Salihudin Ahmad, ICMIF). The development of takaful in modern times was initially undertaken in Sudan in 1979 and Malaysia in 1984. As the result of the 1985 fiqh Academy, ruling declaring that conventional insurance was haram (forbidden), while insurance based on cooperative principles, sharia compliance, and charitable donations are acceptable. The birth of takaful industry in Malaysia was shown by Takaful Act 1984 in November 1984.

Takaful Definitions: The word Takaful is derived from the Arabic verb "kafala" which simply means to take care of one's need. Therefore, the pact between at least two parties agreeing to jointly guarantee one another in the event of a loss, as a consequent of being afflicted by a calamity defines the term "Takaful". Likewise, the joint-guarantee as embedded in the concept of Takaful can be translated into practical operation in the form of business or commercial transaction within the "t'ijari" or private sector as one of the Islamic financial players in a market economy.

First World Fatwa Council was convened in Cairo, Egypt in 1960 alone to discuss regarding Insurance / Conventional. The unanimous decision is ILLEGAL for being involved with three elements, namely: -

- i. Gharar.
- ii. Maisir.
- iii. Riba.

Second World Fatwa Council convenes again in Mecca, Saudi Arabia in 1965 and the results remain the same. On June 16, 1972, The World Fatwa Council of the 5th, was convened in Kuala Lumpur to discuss the same issue. STILL LIFE INSURANCE formula is very.

The Malaysian government is trying to implement Islamic values in the administration and important affairs of Muslims. Therefore, the government has been increasing Islamic instruments such as Bank Islam and Bank Muamalat (Islamic Banking), Islamic pawn and the most important is Islamic insurance (Takaful).

Then, the Malaysian Government has established the Takaful Act 1984, in which the National Bank ordered the Bank to create a company known as Takaful with Syarikat Takaful Malaysia Sdn Bhd in 1984 by using system tables / counters.

The goal of the government to all Muslims sheltering under Takaful lacklustre. Therefore, there is the urge to create another Takaful system 'wakallah' @ Representative. YPEIM come to meet with Bank Islam but Islamic Bank own Takaful Company. Then YPEIM submit this proposal to the Tabung Haji, also not interested. Similarly, the Bank (Malaysia). Therefore, YPEIM approached a wholly owned Bumiputera company which Saham Nasional Berhad (PNB) to obtain initial capital of 35 million to qualify for the establishment of the National Bank Takaful. PNB interested then directs its subsidiary, MNI Holdings to manufacture such capital.

On October 15, 1993, MNI Takaful Sdn Bhd has triggered a capital partnership YPEIM MNI 80% and 20%. On December 8, 1998, MNI Takaful Sdn Bhd was renamed the Takaful Nasional Sdn Bhd with the management and administration of the new. On 15 November 2007, Takaful Nasional Sdn Bhd has changed its name to Etiqa Takaful with new management and administration (Maybank).

Takaful Nasional Sdn Berhad - a provider of products and services Takaful Malaysia's premier, was established on June 7, 1993 as MNI Takaful with an authorized capital of RM50 million and paid up capital of RM25 juta. Establishment this is the result of cooperation between Malaysia National Insurance Berhad (MNIB) and the Malaysian Islamic Economic Development Foundation and in 1998, in a rebranding effort, MNI Takaful has turned to the Takaful Nasional Sdn Bhd (TN) until now.

On December 15, 2005, MNI and TN was taken over by the Group and is currently a member of the group Mayban Fortis Holdings Berhad. Presently 1999, the results of which are shown outstanding performance and great support from our customers, the authorized capital of the TN has increased to RM500 million and paid-up capital to RM35 million. In 2004, in a move to become more competitive, paid-up capital of the Company was increased to RM100 million.

2. TAKAFUL IN MALAYSIA : AN OVERVIEW

In June 15, 1972, an announcement on exploration and studies made on the conventional insurance contract where the National Fatwa Council of Malaysia in its fifth conference has decided that life insurance as run by the insurance companies that exist at the time was a muamalah fasid (broken / illegal) and not in accordance with the principle / principles of Islam in terms akadnya because it contains elements gharar (uncertainty), gambling (gambling) and riba (interest).

The scholars have agreed Takaful as a substitute for conventional insurance. Basic 'Tabarru be the core build Takaful axis. The first Takaful operator in Malaysia was established in 1984. In line with the parliament passed Act 312, which was named Act 1984.

Since the establishment of the first takaful company until now, the takaful industry has grown rapidly. According to records of the Central Bank of Malaysia, there are 8 companies in 2016, including the Takaful Operator.

<u>No.</u>	<u>Name</u>
1	Etiqa Takaful Berhad
2	HSBC Amanah Takaful (Malaysia) Berhad
3	Hong Leong MSIG Takaful Berhad
4	Prudential BSN Takaful Berhad
5	Sun Life Malaysia Takaful Berhad
6	Syarikat Takaful Malaysia Berhad
7	Takaful Ikhlas Berhad
8	Zurich Takaful Malaysia Berhad

In developing the takaful industry in Malaysia, Bank Negara Malaysia has adopted gradual approach which is divided into three phases:

- Phase I (1984-1992) began with the drafting of regulatory laws that specifically Act 1984 and the establishment of the first takaful operator in 1984. The main focus during this period was the provision of basic infrastructure for the industry. Act still this use has been enacted to regulate the operation of takaful business and requires takaful operators registered. It also provides for the establishment of the Committee for ensure that the takaful operator's business operations comply with Shariah principles at all time.
- Phase II (1993-2000) the introduction of competition with the entry of another takaful operator. This period also saw increased cooperation among operators Takaful in the region, including the establishment of the ASEAN Takaful Group in 1995 and the establishment of the ASEAN International (L) Ltd. in 1997. This has facilitated setting retakaful (reinsurance) among takaful operators in Malaysia and in region, namely Brunei, Indonesia and Singapore.
- Phase III (2001-2010) began with the introduction of the Financial Sector Masterplan (FSMP) in 2001 with the objective, among others, to improve and strengthen the ability of takaful the legal framework, Shariah and regulatory. Part FSMP related Islamic banking and takaful is a roadmap towards realizing Malaysia to become an international center for Islamic finance. So far, this period has seen increased levels of growth and competition with the licenses of the three operators new. To further promote the development of the takaful industry, Malaysian Takaful Association (PTM), an association of takaful operators was established in 2002. PTM aims to improve the uniformity of industry self-regulatory and market practices promoting cooperation on a higher level among takaful operators in order develop takaful industry.

Operating on a commercial basis takaful conducted in Malaysia had contributed significantly to the success of the industry. This approach emphasizes the provision of return affordable to participants, takaful operators and shareholders. It differs from the concept takaful cooperation in several other countries is carried out solely by the takaful scheme for social purposes.

In addition, the role of government and its continued support in developing the industry Takaful is an important factor to promote the growth of the Malaysian takaful industry. Kingdom has been able to create a conducive environment and charting a clear course for the development of this industry.

3. IMPORTANT COMPONENTS OF THE ISLAMIC FINANCIAL SYSTEM

In developing the Islamic financial system, Malaysia take a comprehensive approach by providing equal emphasis on all the core components of The overall Islamic financial system, Islamic banking namely, takaful and Islamic capital and money markets. Development core components regularly create synergies, thereby provide a conducive environment for system Islamic finance is mobilizing resources efficiently and provide financing for productive economic activity.

This allows takaful operators to keep pace with the conventional companies in providing competitive products, approved by Shariah. Comprehensive structure also enhances the durability and robustness of the system Islamic finance to withstand financial shocks and contribute towards improving the overall stability of the Islamic financial system in Malaysia.

4. THE CATALYST TAKAFUL GLOBALLY

Globally, the Malaysian takaful operator has taken additional measures to promote and support the development of the global takaful. Success encourages domestic and acceptance area of control takaful model has facilitated Malaysian takaful operators start collaboration across sea through equity participation and management as well sharing of technical knowledge and expertise.

In line with the spirit of international cooperation, Malaysia signed a Memorandum of Understanding (MoU) with Bank Islamic Development to encourage investment among countries of the Organization of Islamic Conference (OIC), including the development of takaful and retakaful. Below This MoU, Malaysia has agreed to lead an initiative to promote the establishment and development of takaful and takaful industry re-takaful among OIC member countries.

Malaysia also took the initiative to help the group of Eight Developing Islamic Countries (D-8) to set up a company takaful in member countries. To this end, Malaysia organized several seminars and workshops on takaful as part of efforts to share experiences and expertise with member countries. To improve global takaful infrastructure, ASEAN International (L) Ltd. has been identified as one of the means to add retakaful arrangements among takaful operators in member countries.

5. CONCLUSION AND SUGGESTION

Despite the significant growth in the takaful industry in Malaysia, there still many challenges faced by takaful company, as Malaysia Takaful Association (MTA) chairman Encik Zainudin Ishak explains to Islamic Finance news the takaful market's current and future outlooks, along with some of the challenges in the unique segment faces in Malaysia.

The family takaful business in Malaysia is coming from the urban market and middle income group, but looking at the Muslim demography, the main market segment is the rural areas. Therefore, one challenge for MTA is to develop and enhance micro takaful to provide for the needs of the rural market. Another challenge faced by the industry of takaful is the lack of knowledgeable and qualified people in the industry. Even though the educational structure in Malaysia has supported the development of Islamic finance, the challenge now is to persuade those who has the capability to join the takaful industry. The re-takaful industry needs a number of takaful operators to operate effectively. In Malaysia case, several operators do not include the re-takaful members although there some major operators have joined to become member. Here is the challenges for the industry to be overcome; convincing these few Malaysian operators which are still using the conventional capacity. At last, product features innovations are also seen to be the future challenges for the takaful industry. To attract more customers, especially non-Muslim customers, the takaful industry has to come up with innovative product features which based on shariah principle.

Finally, Introducing takaful system is as an alternative to the conventional insurance. A conventional insurance contradict the shariah due to elements of Gharar (excessive uncertainty), Riba (interest), and Maysir (gambling). Clearly, the application of the takaful system has avoided those elements and provide a transparency as well as fair contract.

As an industry, Malaysia has more experience in developing the takaful. One advantage that make takaful industry Malaysia to grow successfully is the involvement of the Bank Negara Malaysia (the central bank of Malaysia) to provide a separate regulatory body, exclusively responsible for the regulation and monitoring the takaful industry. It remarkable grow has reach a 30 per cent growth during the past few years. However, there still many challenges in the future for the takaful industry to grow nationally and internationally. And future research focused on those challenges would help for the best performance of Islamic insurance.

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