

Suhaimi Ali: Transcending boundaries - advancing Takaful for sustainable growth

Keynote address by Mr Suhaimi Ali, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Value-Based Intermediation Takaful Conference 2024, Asian Institute of Chartered Bankers, Kuala Lumpur, 15 October 2024.

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This year is particularly momentous as we commemorate four decades of takaful since the enactment of the Takaful Act 1984. From a modest beginning, the size of takaful contribution has expanded nearly three times compared to a decade ago. Players have become more diverse and products have expanded to address different needs of households and businesses. The industry has also demonstrated resilience against challenging economic and financial conditions, while continuing to scale up and improving efficiency in delivering financial protection. This progress is imperative to respond to the higher expectations that stakeholders have on the industry to better serve the protection needs of society. Ahead of us, challenges remain significant – climate risk, ageing nation, cost of living pressures, advancement of technologies – all of which requires the industry to continue to innovate and be responsive to these needs. The adoption of VBIT principles is crucial to better align and guide the industry's efforts to catalyse growth while contributing meaningfully to society.

Distinguished guests, ladies and gentlemen,

I am certainly pleased to be here, to see progress in the Value-Based Intermediation Takaful (VBIT) journey that began five years ago in 2019. I am delighted to be part of this important occasion and witness the collective commitment by industry players to foster a more ethical and impactful approach to takaful.

Advancing value-based with clear demonstration of impactful outcomes

As today's conference is focused on Shariah values and measurements, I would like to highlight three imperatives that should guide industry's efforts to implement the VBIT framework:

- First, is the diversity and inclusivity of protection solutions, with alignment to national strategies and aspirations;
- Second, is improvements to quality of services and conduct that reflects the fundamental values of Shariah; and
- Third, is impact reporting guided by clear outcomes.

Diversity and inclusivity of protection solutions

Ladies and gentlemen,

We acknowledge the ongoing exemplary efforts by takaful operators to improve financial well-being and inclusion. For example, expansion in the range of microtakaful

products catering to the underprivileged segments, has been flourishing in the recent years. In 2023, these affordable and accessible protections have provided coverage to almost 970,000 individuals.

We are also pleased to observe developments within the industry that support Bank Negara Malaysia's Financial Sector Blueprint 2022-2026 vision to mainstream social finance, which now has use cases in the takaful sector. Before this, it is predominantly use cases in the banking sector. The innovative offerings of social blended takaful products enables a confluence of private and social funds where participants have the option to use their takaful benefits to contribute towards creation of a sustainable community.¹

We hope to see more synergistic collaborations where philanthropic capital blends with commercial funding to develop impactful protection solutions. These efforts would ensure continuous protection for vulnerable segments, including micro-entrepreneurs, gig workers, and the ageing population.

Limited access to insurance and takaful for climate adaptation and resilience poses a significant challenge for Malaysian businesses, particularly SMEs. This limitation hinders their ability to effectively manage flood risks-Malaysia's most frequent natural disaster- and slows recovery efforts, as insurance payouts are a crucial source of funding. Furthermore, common obstacles such as lengthy payout processes, inadequate product offerings, and insufficient coverage exacerbate the problem.²

At our end, Bank Negara Malaysia remains committed to providing an enabling environment for the industry to test and introduce innovations. Industry players are urged to embrace the aspirations of the recently issued Exposure Draft on Broader Application of Ta`awun in Takaful. This provides a facilitative framework for industry players to explore new takaful models in promoting social cohesion and wealth distribution. For areas that may require regulatory flexibility, we welcome interest in tapping the Financial Technology Regulatory Sandbox. This allows innovations to be piloted and refined, thus accelerating the integration of VBIT in product solutioning. You may be interested to note that the Sandbox now incorporates a Green Lane. This accelerated track offers a simpler and quicker path for financial institutions with a strong track record in risk management to test innovative solutions that are facing regulatory impediments.

For industry players aspiring to drive greater market competition via digitalisation, the formal application window to carry digital takaful business will be open on 2 January 2025 until 31 December 2026. We welcome prior consultation for those interested.

Improvements to quality of services and conduct

Efforts to diversify products and solutions must be paired with improvements in service quality and responsible conduct by market players and their intermediaries. The Customer Satisfaction Survey 2022 for the takaful and insurance industry revealed that while 74% of customers provided positive feedback on their experience, 23% expressed concerns, particularly on inefficiencies in claims processes and poor response from industry players and agents when reached for assistance.³ In Malaysia,

the motor, medical and health segments have seen progress on this front through the roll out of digital roadside assistance solutions and the work to establish a central medical claims data platform, respectively. Malaysia's experience in these two sectors illustrates that there is much to benefit from leveraging on technology.

With technology, not only will the end-to-end experience of consumers – from securing access to takaful cover to the claims and settlement process – be elevated, but digital takaful solutions can go a long way towards increasing consumer trust on the value of takaful protection, enhancing product affordability through better risk pricing and expediting purchasing and claims experiences.

Advancing impact reporting

The VBIT value proposition through exemplary industry practice, is best showcased through meaningful disclosure, and this brings me to my next point, our aspirations for the Maqasid Shariah Scorecard (MSS), that will be launched today.

I am encouraged to witness the industry's efforts in developing the MSS, which I believe supports the Bank's call for better impact creation through meaningful disclosures. While the scorecard is a measurement tool to demonstrate and validate VBIT based on Maqasid al-Shariah, it ultimately seeks to drive positive change in behaviour and measure broader outcomes to the community served by the takaful industry.

Globally, impact-based reporting has grown in importance as more stakeholders demand for greater transparency in assessing performance beyond financial reporting. Impact reporting is most commonly demonstrated in the climate and sustainability space, where such reporting serves to demonstrate how companies and financial institutions support the broader ESG goals and SDG agenda.

So given its pivotal role in the operationalisation of VBIT, it is crucial for the MSS to be well executed with clear alignment to operators' business plans and operations. The successful implementation of MSS will facilitate ambitions for it to play a larger and deeper role, with the goal of elevating MSS as the benchmark reference for impact reporting, domestically and globally. As the next step, we urge the industry to consider what needs to be done for the MSS to be effectively implemented, commencing with strategies to ensure firm understanding of its objectives and measurement methodology by each industry player.

Ladies and gentlemen,

Before I conclude, may I remind ourselves that in implementing VBIT and MSS, the issues of skills and professionalism must be addressed. It is, therefore, critical for the industry to diligently build up expertise, thereby unlocking the full potential of its contribution towards amplifying social and economic impact. We commend efforts such as the VBIT Training Module launched today and hope that MTA and members continue to exert energy to address talent gaps towards building a highly capable and adaptable workforce.

I trust the industry will maintain the momentum to continue accelerating the development of the takaful and retakaful industry through VBIT. May we all be guided

by Surah An- Najm, verses 39 and 40, which mean: "And that man shall have nothing but what he strives for, and that his effort will soon be seen."

With that, I wish you a successful conference ahead. Thank you.

[1](#) The Interim Report for Takaful FSB Programme 2023, Malaysian Takaful Association

[2](#) Flood Risk Management: Leveraging Finance for Business Resilience in Malaysia (worldbank.org) - World Bank and Bank Negara Report, March 2024

[3](#) Malaysia Insurance & Takaful Customer Satisfaction Survey 2022 - Consumer Marketing Insights, NielsenIQ (Malaysia) Sdn. Bhd., Malaysian Takaful Association, Life Insurance Association of Malaysia and Persatuan Insurans Am Malaysia