

# Governor's Statement



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

The takaful industry showed much dynamism and resilience in the year 2003, as evidenced by enhanced ability to compete, sustain growth and profitability. Combined with reinforced institutional capabilities, the foundations are well in place for the industry to strengthen its competitive positioning and evolve in the face of a highly challenging financial environment. Since its introduction in the Malaysian financial market less than two decades ago, the takaful industry has emerged as a viable sector within the prism of broader financial services against a background of balanced and sustainable economic growth. Leveraging on these fundamentals, the takaful industry can be expected to play its important role with greater significance, both as a viable provider of financial security and risk transfer mechanism for the general public and businesses, as well as an important institutional investor in the economy.

In an environment of greater competition and changing dynamics in the domestic takaful industry, the forward momentum in terms of growth in net contributions has been sustained, growing at the rate of 14.0% for the year 2003. New market entrants have increased the number of players to four. The contributions growth expanded the market share of the takaful industry to 5.4% of the net contributions of the insurance sector. Meanwhile, the total assets of the industry recorded a significant growth of 22.1%, constituting 5.6% of the total assets of the insurance sector. The industry has also now exhibited steady return on equity averaging at 23.3% for a 5-year period.

The takaful industry had made significant progress in broadening and deepening its product mix in the market, matching those offered by its conventional counterpart to meet the diverse needs of customers. The introduction of takaful investment-linked products is the most recent manifestation of the industry's ability to adapt to the changing demands of customers in order to remain competitive. The takaful industry has also deployed a more focused business strategy to increase market penetration by addressing the specific takaful needs of niche market. Such customer-centric and strategic focus could be pursued as a key competitive advantage for the industry.

The challenges confronting the takaful industry in the pursuit towards intensifying market penetration to further entrench its development underscore the importance of enhancing the productivity and efficiency of distribution capabilities. The deployment of multi-channel distribution capabilities through formation of alliances with other service providers, as well as the progressive strengthening of sales forces particularly in the area of education and training are all part of the strides taken by the industry towards maximising the effectiveness of its distribution capabilities.

To better complement and support sound business expansion, the takaful industry has been reinforcing the necessary institutional capabilities via investment in information and communications technology (ICT). Major spending on ICT was evident in the area of operational and transactional capabilities, data management and warehousing as well as financial reporting. This positive move supports the Bank's own efforts in developing the on-line financial and statistical submission system for the takaful industry to improve the

effectiveness of financial condition surveillance over the industry through greater clarity and timeliness of financial reporting. With such enhanced business capabilities within the industry that bring about distinctive competitive advantage, the takaful industry players would be well positioned to respond effectively to the changing customer needs. These attributes are amongst the competitive imperatives for the industry to become a world-class financial services provider and contribute in making its presence felt in the global financial landscape. In this respect, the dynamism and viability of the takaful industry in Malaysia have already drawn significant attention and recognition on the international front. The sustainability of this dynamism would serve as an important link towards positioning Malaysia as a regional Islamic financial center.

Increasing efforts are also being made to increase public awareness on takaful. This is of particular importance to the takaful industry as the market penetration of the total population is still low at 4.5% compared to 36.7% of the conventional insurance. Active participation in activities such as the Consumer Education Programme and the Islamic Banking and Takaful Week, jointly organised by the Bank and the industry, provided an effective platform to promote takaful as a viable instrument on savings and risk protection. These important endeavors toward enhancing consumer education should continue to be pursued.

The Bank will ensure an orderly and sustainable development of the industry through effective and robust supervisory and regulatory infrastructure. The focus would be on strengthening the financial soundness of the takaful industry through the solvency margin framework and overseeing the increase of the minimum paid-up capital to RM100 million. Integral to these important efforts is the ongoing review of the Takaful Act 1984 that is intended to strengthen the effectiveness of the legal framework governing the takaful industry. To complement these initiatives, the takaful industry through its newly set up association needs to step up positive collaboration to identify and work on critical issues affecting the industry.

The quest to develop a resilient and sound takaful industry within the sphere of a comprehensive and progressive Islamic financial system as reflected in the Financial Sector Masterplan is challenging indeed. The task ahead, as we enter 2004, is to continue our vigilance and relentless commitment towards securing balanced development and growth.



Zeti Akhtar Aziz  
Governor  
14 April 2004