

COMPATIBILITY AND MARKET PENETRATION OF FAMILY TAKAFUL PRODUCTS: A COMPARATIVE STUDY

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Abstract

This study aims to address the issue of low market penetration of family takaful products by assessing its compatibility in relation to their conventional competitors. Using comparative case studies approach, this study focuses on the Individual Family Takaful vis-à-vis Individual Life Insurance products. The purpose is to identify similarities and differences in product features, attributes and benefits. Based on this exploratory study, it can be concluded that in terms of product concepts, both takaful and the conventional products are quite compatible. However, the conventional products are more competitive, as they are able to provide varieties to the value added features. This study also concludes that takaful products need to be more competitive and innovative in order to cater for the increasingly sophisticated customers who demand more innovative products rather than the generic insurance products.

Keywords: Takaful, Islamic Insurance, Market Penetration, Comparative studies

INTRODUCTION

Since its introduction in 1985, the Islamic insurance or takaful sector has emerged as a fast growing sector within the Malaysian insurance industry. It has proven to be a viable alternative in providing insurance coverage against misfortunes, particularly for the Muslim community. From only one takaful operator providing only general takaful products, the industry (as at June 2004) has four takaful operators, namely Syarikat Takaful Malaysia Berhad (STMB), Takaful National Sdn Bhd (MNI Takaful), Mayban Takaful Berhad and the latest, Takaful Ikhlas Bhd. These takaful operators offer a wide range of family and general plans and compete aggressively with the conventional insurance operators.

After nearly 20 years in the market, Malaysia's takaful sector has recorded a commendable growth. According to Takaful Annual Report 2003, total combined assets of both family and general takaful has reached RM4.43 billion in 2003, constituting 5.6% of total assets in the insurance sector. Total contributions has increased by a staggering compound rate of 43.1 % from RM1.6 million in 1986 to RM1.014 billion in 2003, with the family takaful plan remained as the major income generator for the takaful industry.

Despite the commendable growth, there is always the issue of low penetration rate compared to its conventional counterparts. As described in Bank Negara Malaysia Takaful Annual Report 2003, market penetration as measured by the number of certificates in force to the total population of the year under studied was far below overall industry average. Over the period of 1991 to 2001, the combined market penetration rate for conventional insurance and takaful has increased from 13.5% to 34.3%. As at the end of 2001, based on the total population of 22 million, market penetration rate for takaful operators was only 2.8% as compared to 31.5% for the conventional insurers. Statistics have shown that out of the 32% of the insurance buying public in Malaysia, only five to ten percent is Muslim. Therefore, since the main objective of takaful is to fulfill the insurance needs among the Muslim, takaful operators should direct its focus on this segment.

The low penetration level on one hand indicates that there is a large potential market that remains untapped and a significant component of this untapped market comprises of Malaysian Muslims. On the other hand, it may also indicate the ineffectiveness of the efforts to attract the public to become

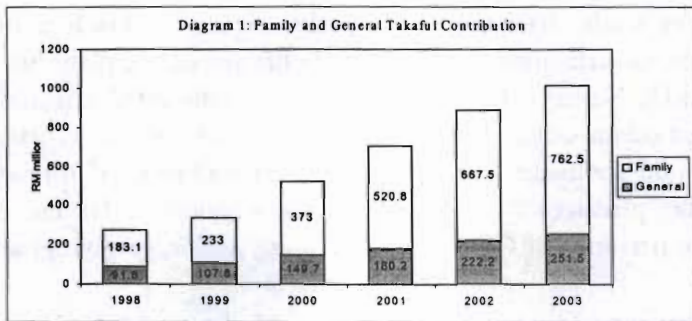
insured. Few studies have been conducted to explain the low level of public acceptance towards insurance, especially life insurance plan. Studies by Khamsiah Hj. Nawawi (1999) and Rubayah Yaakub (2002) concluded that religion and culture beliefs contribute to Muslim less interest in insurance plan, particularly life insurance. Muslims generally reject all types of insurance plan because they perceived the insurance practice is against the Islamic teaching, due to the presence of *Gharar* (uncertainties), *Maisir* (gambling) and *Riba* (interest).

The less interest in insurance among the Muslim could also be attributed to the fact that majority of insurance agents are non-Muslim. These agents are less conversant with the takaful principal, thereby unable to fully penetrate the potential Muslim market. A study by Suziyana Ibrahim (1999) suggested that more Muslim should be involved in insurance consultancy profession, as language barriers often exist because majority of the insurance agents are non-Muslim. Agents fluency problems often leads to ineffective dissemination of important information, especially so when dealing with potential Muslim customers.

In view of the above scenario, this paper will address the low level of penetration issue by focusing on the family takaful business, as it is the industry's main income generator. Factors such as product awareness, public's understanding and the perception on takaful, incompatible products and as well as uncompetitive service quality may have influenced the low penetration rate. This study however aims at looking at the compatibility of the products in relation to their conventional competitors in addressing the above issue. The structure of this article is as follows. After this introductory section, the family takaful business performance is discussed, followed by the methodology. The next section analyses the compatibility between takaful and conventional insurance products. The paper concludes with a discussion and conclusion on the findings.

FAMILY TAKAFUL BUSINESS PERFORMANCE

Family takaful business sector has recorded a stable and strong growth over more than a decade, from the year 1989 to 2003. The family plan, a voluntary scheme has remained the main income generator for the takaful industry. As indicated in Diagram 1, family takaful business has contributed more than 65% of the industry's income for the past six years, since 1998.



Source: Bank Negara Malaysia: Takaful Annual Report, various issues

Family takaful business sector recorded a strong growth each year, with total new contributions growth of 13%, reaching RM511 million in 2003. All plans under the family takaful business, namely individual, mortgage, group, ordinary family, annuity and investment-linked plans, trended upwards with mortgage takaful plans continued to dominate the family takaful business. This is attributable to the Islamic house financing facility offered by the Government to the civil servants¹. Market penetration of family takaful business expanded to 4.5% in 2003. Table 1 describes the market penetration and asset fund of family takaful business for the past three years.

Table 1:
Market Penetration and Asset Fund of Family Takaful Business

	2001	2002	2003
Market Penetration	3.2 (%)	3.8 (%)	4.5 (%)
Assets of Family Takaful Fund	RM2,039.6	RM3,162.8	RM3,861Mil.

Source: Figures derived from Takaful Annual Report 2001, 2002 and 2003

METHODOLOGY

In an attempt to determine whether family takaful products and conventional life insurance products are compatible, we utilized a case study method (Yin, 1989; Easterby-Smith, Thorpe & Lowe, 1991). In this study four companies

¹ Bank Negara Malaysia (2004): Takaful Annual Report 2003

are selected, two in the conventional insurance and two takaful operators. The two conventional companies are selected because they are locally based and represent major players in the local markets. On the other hand, during the year under studied, there are only two takaful operators that offer a wide range of family takaful plans.

Data relating to the companies profile and their products are collected from companies' publications, annual reports, brochures and companies' websites. These are then analysed using the content analysis approach (Easterby-Smith, Thorpe & Lowe, 1991: 105-108) and pattern-matching technique (Yin, 1989: 109-113). The conclusions are drawn based on the grounded theory (Easterby-Smith, Thorpe & Lowe, 1991: 108-112) and explanation building (Yin, 1989: 113-115).

Syarikat Takaful Malaysia Berhad (STMB)

Syarikat Takaful Malaysia Berhad was incorporated on 29 November 1984, and became a public quoted company since 31 July 1996. The company has authorized capital of RM500 million and a paid up capital of RM100 million. STMB, the pioneer takaful company and is presently the largest operating in Malaysia and also a leading operator in the Asian Region. As a subsidiary company of BIMB Holdings Berhad, 74.25% of its equity is held by the BIMB Holdings. STMB also ventures internationally and has, among others, a subsidiary in Indonesia, PT Syarikat Takaful Indonesia.

The operation of takaful is licensed and regulated by the Takaful Act, 1984, which enables it to provide the Family and General Takaful Business. Under the Family Takaful Business, there are various plans designed for both individuals and corporate bodies. The products for individual plans are as follows²:

- | | |
|------------------------|--------------------------|
| 1. Family Takaful Plan | 8. Takaful Siswa |
| 2. Takaful Rawat | 9. Takaful Waqaf |
| 3. Takaful Mortgage | 10. Takaful Dana Pekerja |
| 4. Takaful Keyman | 11. Takaful Ziarah |
| 5. Takaful Ma'asyi | 12. Takaful Hawa |

² Refer STMB's website at <http://www.takaful-malaysia.com> for product information, January 2003.

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|-------------------------------|---------------------------------------|
| 6. Takaful Sihat | 13. Takaful Wiladah (Malay only) |
| 7. EPF Takaful Annuity Scheme | 14. Family Takaful Plan For Education |

Takaful Nasional Sdn Bhd

Takaful Nasional, the second company granted takaful license in Malaysia, was incorporated on 15th October, 1993 with authorized capital of RM50 million. Previously known as MNI Takaful, a subsidiary Malaysian National Insurance Bhd (MNI), a conventional insurer and also the largest Malaysian composite insurer. As a second takaful operator, Takaful Nasional provide both Family and General Takaful. Takaful Nasional's Individual Family Takaful are namely³:

- | | |
|---------------------------|--------------------------|
| 1. Takaful Ehsan Plan | 5. Takaful Remaja Plan |
| 2. Takaful Sejahtera Plan | 6. Takaful MEDIC Plan |
| 3. Takaful Mesra Plan | 7. Takaful Mortgage Plan |
| 4. Takaful Iqra' Plan | 8. Takaful Jariah Plan |

Malaysian National Insurance Berhad (MNI)

MNI was incorporated on 28 April 1970. Presently, MNI is the largest Malaysian composite insurer with group assets totaling RM5.5 billion and shareholders' fund of over RM910 million. MNI wholly owns MNI Offshore Insurance (L) Ltd, MNI Life International (L) Ltd, both based in Federal Territory of Labuan. It also holds an 80% share of Takaful Nasional Sdn Bhd. Takaful Nasional is principally involved in takaful insurance, under the syariah principles. MNI offers both general and life insurance designed to cover business, individuals, properties and assets.

MNI's individual life insurance products are as below⁴:

- | | |
|-----------------------|------------------------------|
| 1. Affin Executive | 12. Megacash |
| 2. MNI Suri | 13. Teras Malaysia |
| 3. Whole Life Network | 14. Premier Convertible Term |

³ Refer Takaful Nasional's website at <http://www.takafulnasional.com.my> for product information, January 2003.

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|-------------------------|--------------------------|
| 4. Double Care | 15. Affin Advance Plan |
| 5. Bonus Extra Enhanced | 16. Cash Save Plan |
| 6. Danamas | 17. MNI Flexigrowth Plan |
| 7. MNI Twins Special | 18. Crisis Care Plus |
| 8. Major Medilife | 19. Medilife Plus |
| 9. Sihat Malaysia | 20. Affin Junior Plan |
| 10. Along Graduan | 21. Eduplus |
| 11. MNI Education Plan | |

Malaysian Assurance Alliance Berhad (MAA)

MAA was incorporated in September 2, 1968 and became a public listed company in December 1970. As a leading Malaysian controlled insurance company, its strength and success lies on its ability to operate life and general insurance and actively managing its investments. With shareholders' fund over RM187 million, and an asset base of over RM 1.5 billion MAA Assurance is currently the largest capitalized Malaysian insurance company. MAA's individual life insurance products are namely⁵:

- | | |
|---|------------------------------|
| 1. Child Super Saving Plan (CSSP) | 9. Smart Life |
| 2. Education 320i [E320i] | 10. Teras Malaysia |
| 3. Enhanced Education/
Executive 200 | 11. Maaster Education |
| 4. FINANCIAL 220I [F220i] | 12. Maaster Life |
| 5. Financial 325i [F325i] | 13. Maaster Wanita |
| 6. MAA Fixed Dividend
Endowment Plan (FDE) | 14. New Executive Elite Plan |
| 7. MAA protect All (PA 300) | 15. Prolife 36 Super |
| 8. Sihat Perdana | 16. Sihat Malaysia |

⁴ Refer MNI's website at <http://www.mni.com.my> for product information, January 2003.

⁵ Refer MAA's website at : <http://www.maa.com.my> for product information, January 2003.

COMPATIBILITY OF INDIVIDUAL FAMILY TAKAFUL AND CONVENTIONAL INDIVIDUAL LIFE PRODUCTS

To assess the compatibility among the products of family takaful and conventional life insurance, the products will firstly be divided into three categories based on product concepts (Peter & Olson, 2001) and product development. Products from Syarikat Takaful Malaysia Bhd and Takaful Nasional Sdn Bhd represent the Islamic insurance products, while products from Malaysian Assurance Alliance (MAA) and Malaysian National Insurance (MNI) represent conventional products. The products are being compared based on the concept, features, and benefits, which are compatible to a large extent. The three product categories are as follows:

1. Basic Products
 - Whole Life Policies
 - Temporary Life Policies
2. Market Oriented Products
 - Endowment Policies
3. Customer Oriented Products
 - Medical & Health Insurance
 - Investment Linked Policies
 - 'Special' Policies

Comparisons of Takaful And Conventional Insurance Product

Basically there are two types of basic life insurance, namely whole life policies and term life policies. The nature of these policies is such that it focuses on death protection, whereby it is designed to provide financial protection (benefit) to the deceased dependents only upon the death of the life assured during a specified period.

As shown in Table 1, it appears that in the basic product category, takaful products are quite weak in terms of products offering. Although takaful operators provide equal products in temporary policies, particularly for credit insurance, but none of the takaful companies offered whole life policies. However, there is a reasonable explanation as to why takaful operators did not carry pure whole life policies.

As mentioned above, the nature of pure life protection plan (whole life and term life policy) is it will only pay the sum assured, including any bonuses, upon the death of the insured during a specified period. If the insured survives the term, then nothing is payable. The situation where one party (insurer) gains all the profits (premium payment), when the other party

(insured) receives none, creates the element of uncertainty or 'gharar' which is against the Shari'ah ruling. As defined by Ibn Taimiyyah, 'gharar' exists in a contract when only one party gains the profit, and the other is left with none. Due to the clear Islamic rules, thus, it is understandable why takaful operators did not offer pure whole life policies.

Table 1:
Basic / Generic Products

Product Category	Islamic Insurance Products	Conventional Insurance Products
1. Temporary Policies a. Credit Insurance	1. Mortgage Takaful 2. Takaful Mortgage	MRTA Products
b. Life	1. Takaful Ehsan	1. Affin Executive Term 2. Premier Convertible 3. Danamas
2. Whole Life Policies	No compatible product	1. Child Super Saving Plan (CSSP) 2. New Executive Elite Plan (E39) 3. Smart Life 4. Megacash 5. Whole Life High Networth

As indicated in table 2, both takaful operators and the conventional insurers provide several number of endowment policies. Although quite compatible in terms of product concept and benefits, it appears that takaful products still loose count to its conventional counterparts in terms of product offering. The Islamic insurance offers nine endowment plans (four education plans and five other endowment plans) as compared to 15 plans by the conventional insurers (seven education plans and eight other endowment plans).

Education plan provided by both counterparts are quite compatible in terms of basic product coverage and benefits. Besides covering education cost, both child and the payor are covered upon death or total and permanent disability (TPD). The policies, however, differ in terms of products competitiveness, as the conventional policies are able to provide

additional supplementary coverage and benefits to the basic plan. Other endowment plans provided are relatively compatible as both takaful and conventional insurance companies are able to develop plans that provide comprehensive protection benefits with attractive returns.

Table 2:
Market Oriented Products

Product Category	Islamic Insurance Products	Conventional Insurance Products
3. Endowment Policies a. Education Plan	<ol style="list-style-type: none"> 1. Takaful Iqra' 2. Takaful Remaja 3. Family Takaful 4. Takaful Siswa 	<ol style="list-style-type: none"> 1. Education 320i [320i] 2. Maaster Education 3. Enhanced Education / Plan for Education Executive 200 4. Affin Junior Plan 5. Along Graduan 6. Eduplus 7. MNI Education Plan
b. Others	<ol style="list-style-type: none"> 1. Takaful Sejahtera 2. Takaful Mesra 3. Family Takaful Plan 4. Takaful Ma'asyi 5. Takaful Dana Pekerja 	<ol style="list-style-type: none"> 1. FINANCIAL 220i (F220i) 2. Financial 325i (F325i) 3. MAA Fixed Dividend Endowment Plan (FDE) 4. Teras Malaysia 5. Affin Advance Plan 6. Bonus Extra Enhanced 7. Cash Saver Plan 8. MNI Twin Special

With the increasing healthcare and medical treatment cost, health insurance becomes a necessity in today's world. Based on table 3 above, both takaful and conventional insurance companies under reviewed, provide medical and health insurance plan. Basically, a health insurance plan includes two products, which are hospital or surgical plan and critical illness (dread diseases) coverage. The former plan provides financial benefit on a reimbursement basis, while the latter provides lump sum payment upon diagnosed of specified critical illness.

Typically the health insurance plans have to be renewed yearly in order to keep it in force. However, in addition to the usual plans, Syarikat Takaful Malaysia Bhd (STMB) and Malaysian National Insurance (MNI) each provides term health insurance. In terms of product competitiveness, both takaful and conventional health insurance products provide comprehensive medical and health coverage. Two companies in this study, STMB and MNI each develop a healthcare plan that offers additional features that distinguished them from other plans. Such products are Takaful Hawa, developed by STMB and Medilife Plus, developed by MNI. Takaful Hawa a health insurance designed specifically for women that provide them financial benefits upon being diagnosed of cancer. Medilife Plus, a plan developed by MNI, covers three special cases, which are organ transplant, outpatient cancer treatment and outpatient kidney dialysis, on a fixed reimbursement basis.

Table 3:
Customer Oriented Products

Product Category	Islamic Insurance Products	Conventional Insurance Products
4. Medical & Health	1. Takaful MEDIC 2. Takaful Rawat 3. Takaful HAWA 4. Takaful Sihat	1. Prolife 36 Super 2. Sihat Malaysia 3. Sihat Perdana 4. Crisis Care plus 5. Major Medilife 6. Medilife Plus 7. MNI Suri
5. Investment Linked Policies	No compatible product	1. Maaster Life 2. Maaster Wanita 3. MNI Flexigrowth Plan
6. Special Policies	1. Takaful Keyman 2. Takaful Waqaf 3. Takaful Wiladah 4. Takaful Ziarah 5. EPF Takaful Annuity Scheme 6. Takaful Jariah	1. MAA Protect All 2. Double Care

As indicated in table 3, none of the takaful operators offered investment-linked policies, while the conventional insurers offered three such plans. Investment-linked policies are insurance plans that provide the insured

a mix of life insurance protection and an investment plan in one account, with the flexibility to change the mix. This concept is no different than the 'Family Takaful Fund', practiced under takaful family business.

Under takaful plan, participants are required to pay regular takaful installments, which are then credited, into the Family Takaful Fund⁶. The installments will then be divided into two separate accounts, namely the Participant Account (PA) and the Participants' Special Accounts (PSA). Major proportion of the installments will be credited into the PA, with the sole purpose for savings and investments. The balance will later be credited into the PSA as *tabarru'* (donation). The *tabarru'* funds are for the takaful companies to pay the benefits to the participant's heir, should the participant dies before the maturity period⁷. Thus, the PA serves to accumulate savings and investments, while the PSA creates a form of mutual fund payable on death or disability.

Based on this study, special policies comprise of various types of unique policies, which catered for specific purposes. For Islamic Insurance policies, there is Takaful Keyman, a life insurance plan that covers a business firm for the loss of services or earnings due to the death or disability of a key officer, whose service is crucial to a particular company. Takaful Waqaf, is a plan designed to enable individual to save regularly with the objective to accumulate fund which will be left as donation under the waqaf system, a deed highly valued in Islam. Takaful Wiladah, a long term endowment plan, specially designed for Malays, to cover cost associated with maternity. Takaful Ziarah, a savings plan that conveniently facilitates withdrawal once in every five years, so that the participant would be able to plan his holiday or to perform *umrah*. The last in the special policy for Islamic Insurance is Takaful Jariah, a protection plan specially designed for senior citizens who are still healthy, but are not able to undertake any protection plan due to the age factor. For conventional policies, there are two special policies, namely MAA Protect All and Double Care. MAA Protect All is a 20-year stand-alone

⁶ The participant determines the amount of takaful installments made for takaful plan themselves. Such amount however should be within the financial means of the participants.

⁷ BIMB Institute of Research & Training Sdn. Bhd. (1996): *Takaful, Concept and Operational System From the Practitioner's Perspective*.

Personal Accident policy, which covers the insured upon death, partial and total permanent disablement due to accident. Double Care, is a Joint Life insurance for both husband and wife in one plan. It offers long-term savings, death and disability benefits for both the insured.

Based on the analysis above, it is in the customer oriented product category that takaful products are more superior than the conventional products. However, potential market for special insurance policies might be small as the policies are catered for a very specific purpose and some can be considered as a social purpose for the insurer.

DISCUSSION AND CONCLUSION

This study attempts to understand the low penetration rate of Family Takaful products, particularly individual plan. Using the case study method by comparing product concepts between the conventional life insurance products and family takaful products it hoped to understand the poor relative performance of takaful products from the product compatibility perspective. The superiority of conventional products is analysed from its on the assumption that the companies ability to respond to the competitive needs, that they are able to attain superior growth in revenues. The study has found that in terms of product concept and features, the takaful products are relatively compatible to its conventional counterparts. However, it appears that the Islamic insurance products are weaker in terms of product line. Conventional life insurance seems to have more superior product dispersion and product mix as it provides extensive line of products with additional value added features.

It also can be concluded that while in some area, the takaful products are weaker, such as in the market oriented and customer oriented products, it seems superior in the special policies product category. Therefore the study would suggest that takaful operators should develop further in special policies and ought to increase the product line to cater the increasingly sophisticated customers.

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