

**IFN 2013 Asia Issuers & Investors Forum**

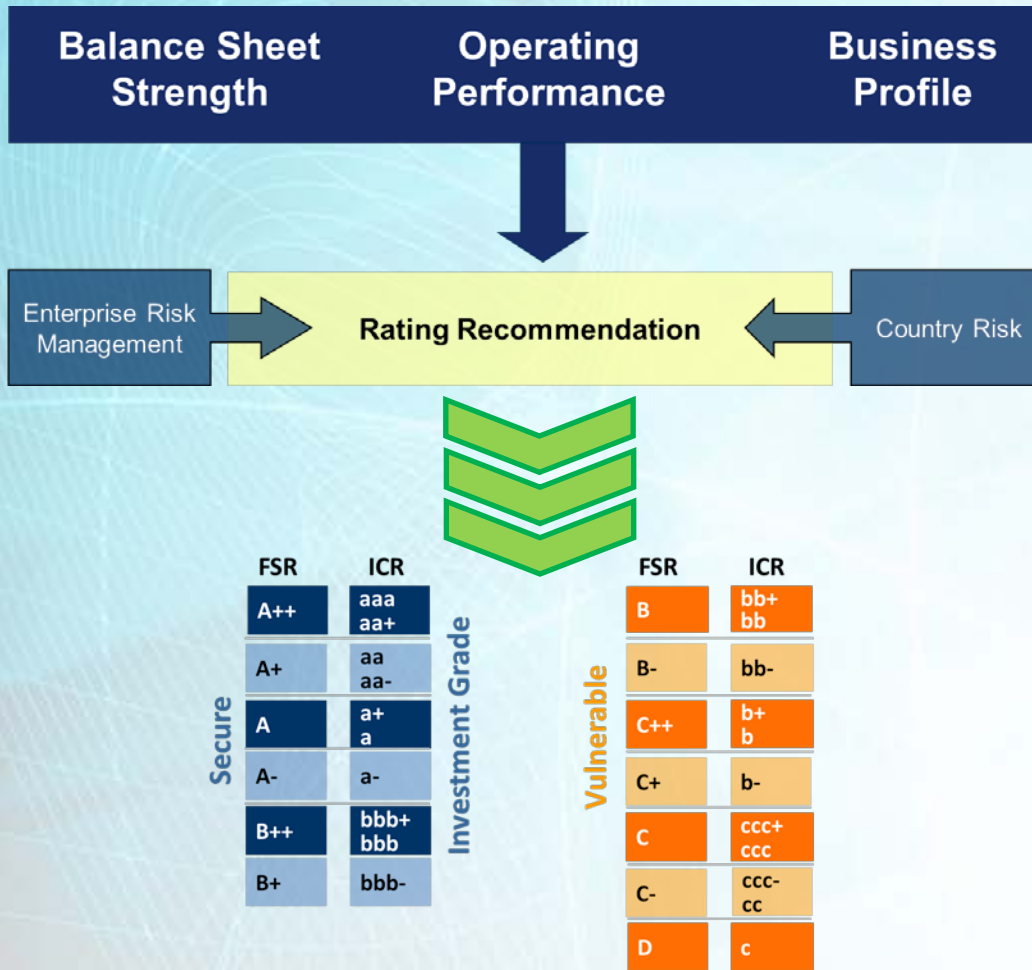
# **Takaful in Asia: Potential Growth and Challenges Ahead**

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**A.M. Best Asia-Pacific Ltd**

**22 OCTOBER 2013**  
**Kuala Lumpur Convention Centre**



# A.M. Best's rating evaluation



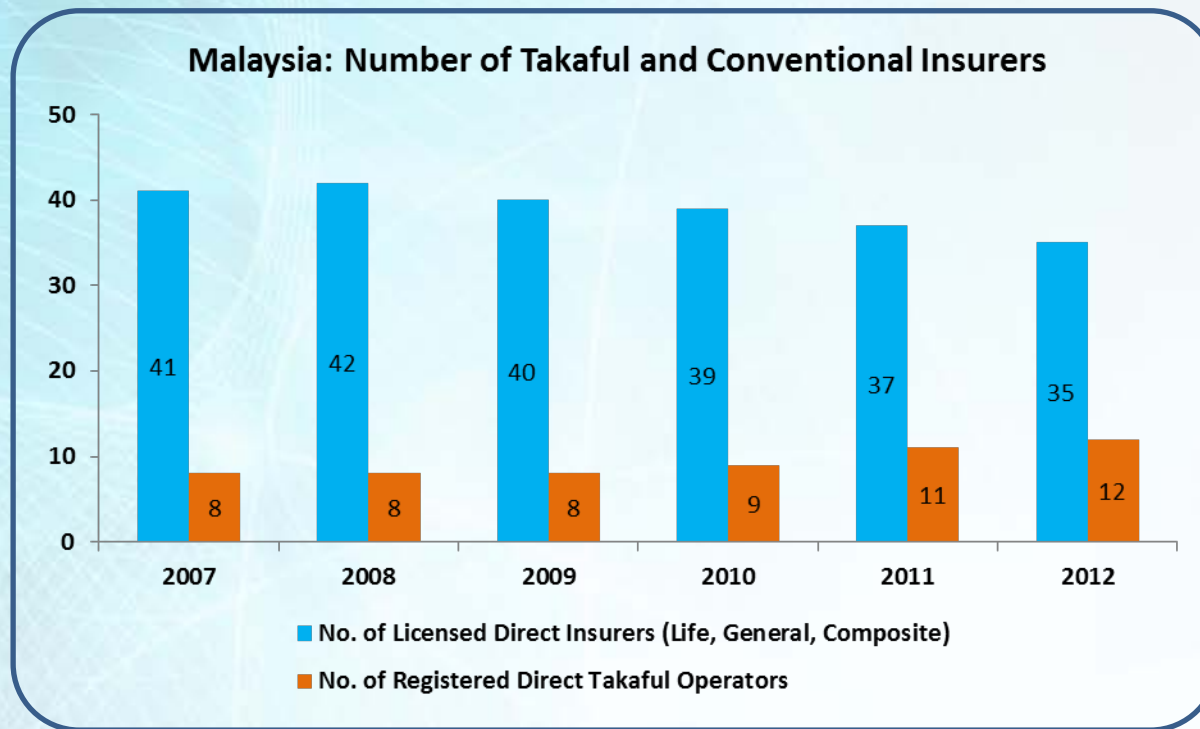
FSR = Financial Strength Rating  
ICR = Issuer Credit Rating

E = under regulatory supervision  
F = in liquidation

## Today's agenda

- ❖ Case study – conventional insurance and takaful markets in Malaysia
- ❖ Opportunities and challenges for takaful operators from a rating evaluation perspective
  1. Market profile
  2. Operating performance
  3. Balance sheet strength

# (1) Market profile: number of takaful operators and conventional insurers in Malaysia



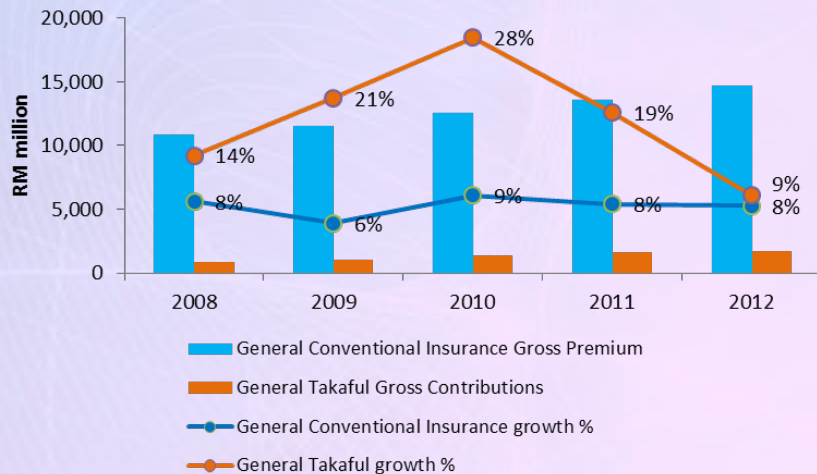
Source: Bank Negara Malaysia

- Conventional insurance: mergers and acquisitions continued
- Takaful: new players coming in between 2009 and 2012

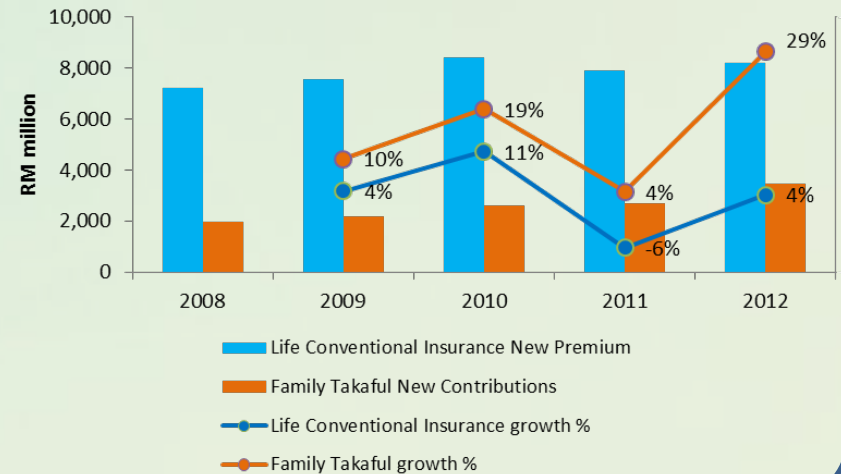
# (1) Market profile: premium and contribution volumes, growth rates



Malaysia General Insurance & General Takaful: Financial Year Gross Premium and Gross Contributions



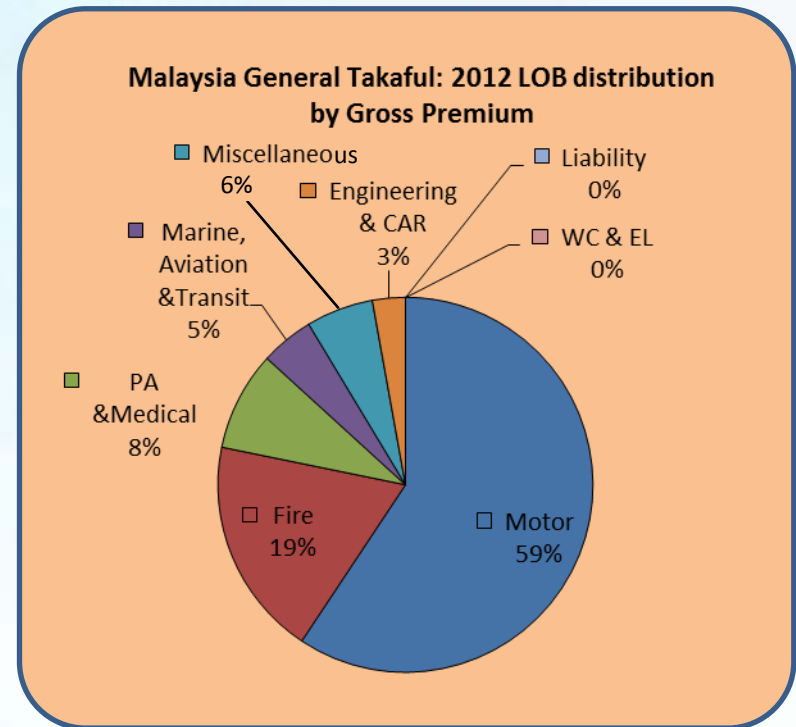
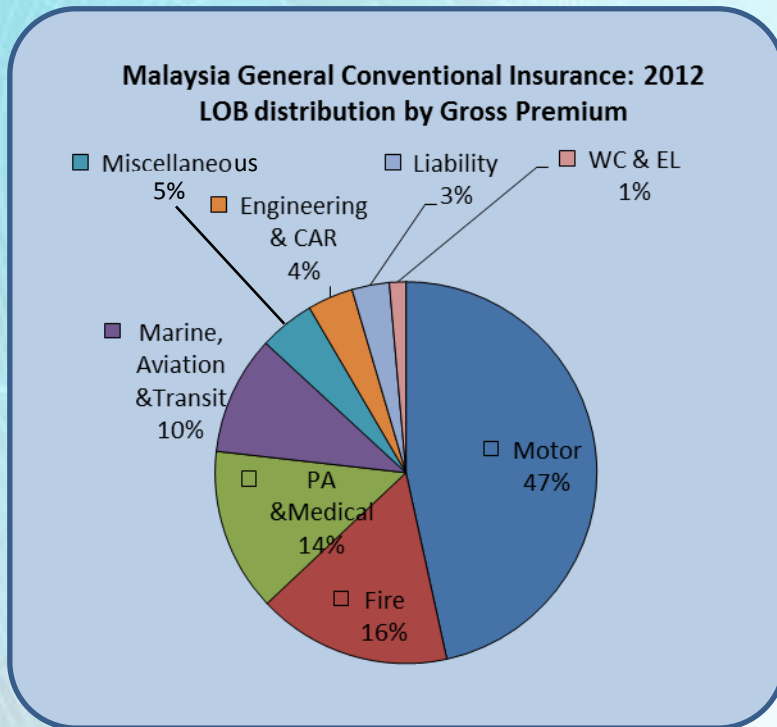
Malaysia Life Insurance & Family Takaful: Financial Year New Premium and New Contributions



Source: Bank Negara Malaysia

- Strong growth in both general takaful and family takaful, although general takaful's growth has slowed down recently
- Family takaful had much higher penetration relative to general takaful

# (1) Market profile: general business segments breakdown



Source: Bank Negara Malaysia

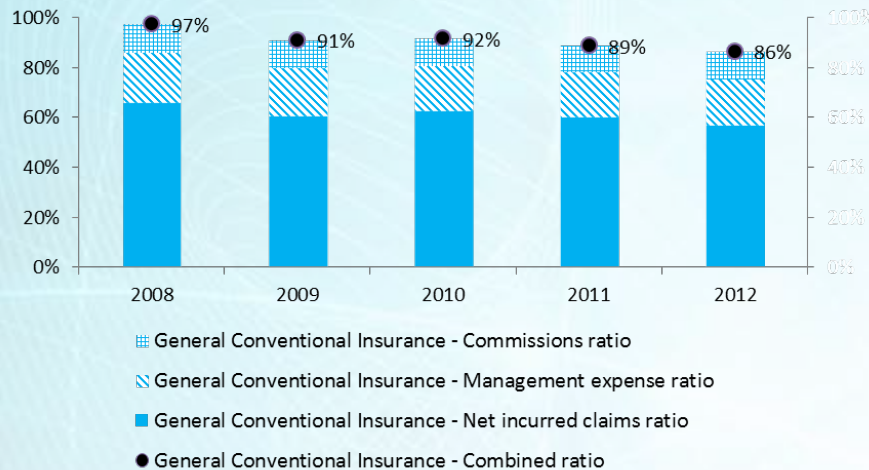
- General takaful: higher proportion in motor and fire relative to conventional
- General Takaful has lower penetration into marine, aviation and transit



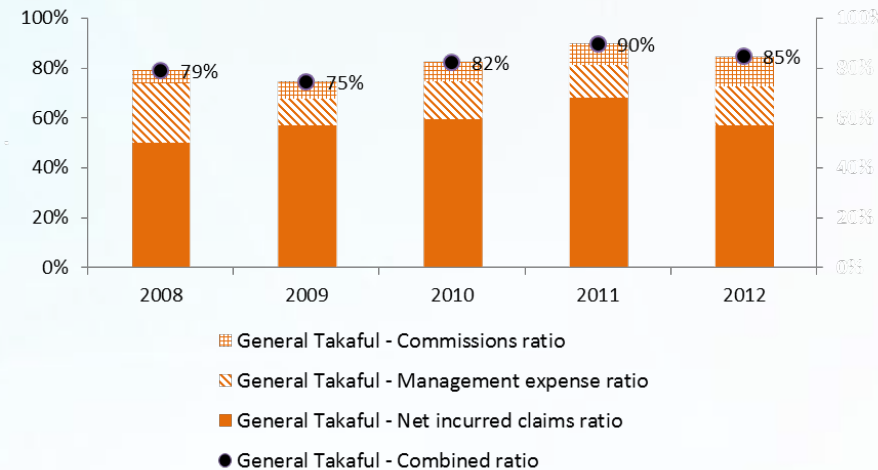
## (2) Operating performance: general business underwriting ratios



Malaysia General Conventional Insurance: Underwriting ratios



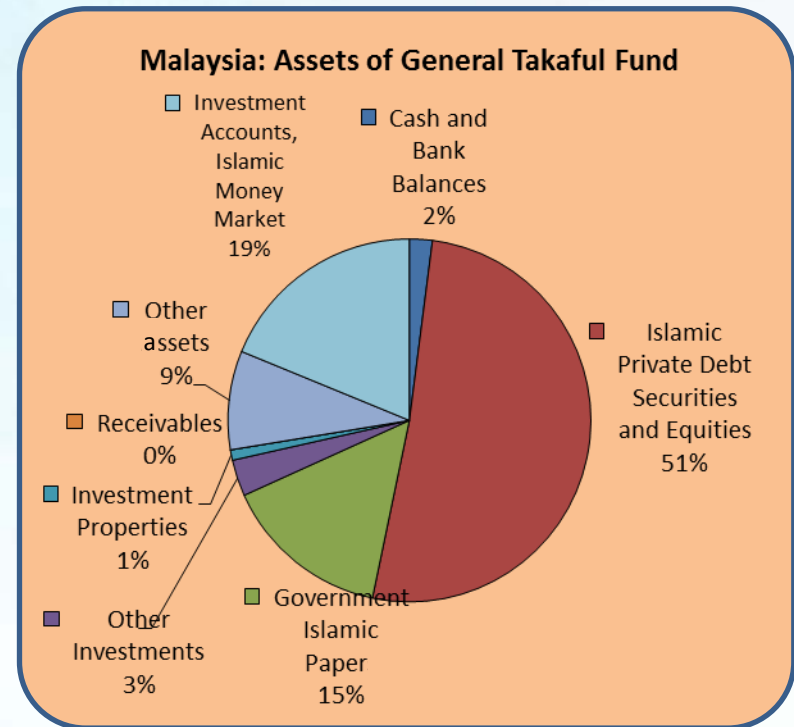
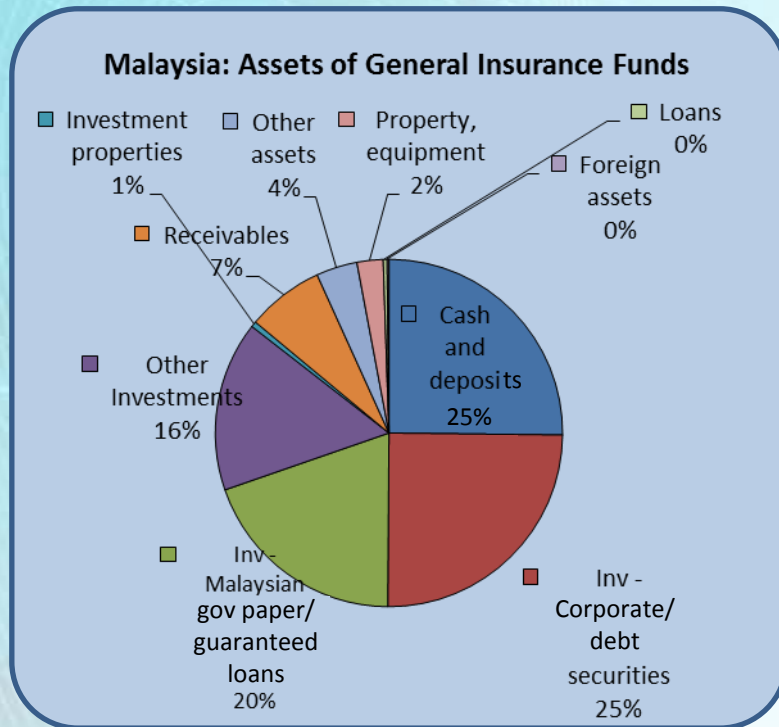
Malaysia General Takaful: Underwriting ratios



Source: Bank Negara Malaysia

- General conventional: improving trend in combined ratio between 2008 and 2012
- General takaful: favorable historical combined ratio. However not showing the same trend as performance of general conventional market

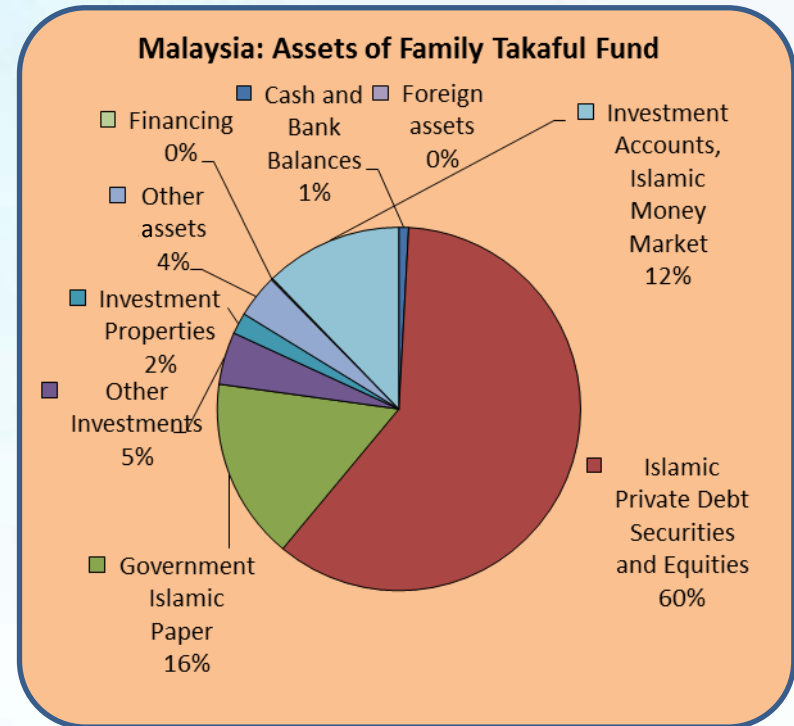
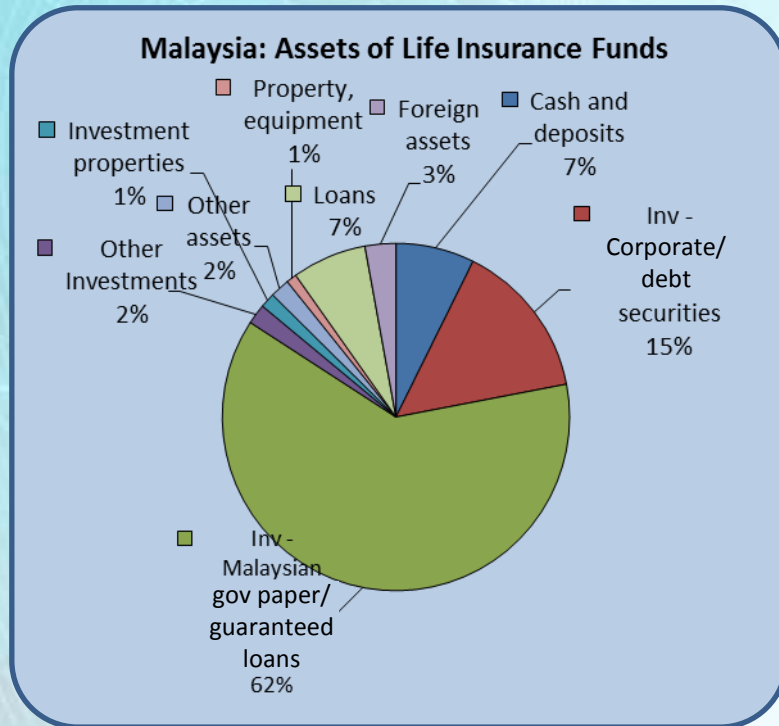
### (3) Balance sheet strength: invested assets of general insurance funds and takaful funds



Source: Bank Negara Malaysia

- Takaful operators: comparatively restricted investment policy may imply:
  - Geographical concentration of investment?
  - Higher than average proportion of stocks?

### (3) Balance sheet strength: invested assets of life insurance funds and takaful funds



Source: Bank Negara Malaysia

- Asset liability management is a key concern in both life insurers' and family takaful operators' investment allocation strategies



# Summary



- Opportunities and challenges for takaful operators from a rating evaluation perspective:

## Balance Sheet Strength

- ❖ Investment risk management is important ...
- ❖ ... due to restricted investment policy and limited supply of Shari'a-compliant investment products

## Operating Performance

- ❖ Suitable balance of profit distribution between policyholders' fund and operator's fund

## Business Profile

- ❖ Competitive market environment
- ❖ Relative concentration on a few lines of business

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**Thank you**

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