



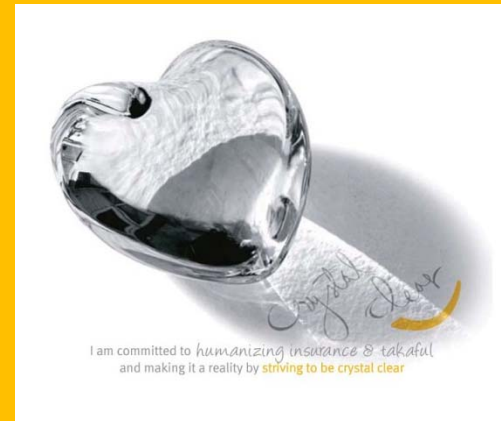
# Investment-linked Product

Evolution and the Way Forward  
- The Malaysia Experience

# Contents Page/Agenda

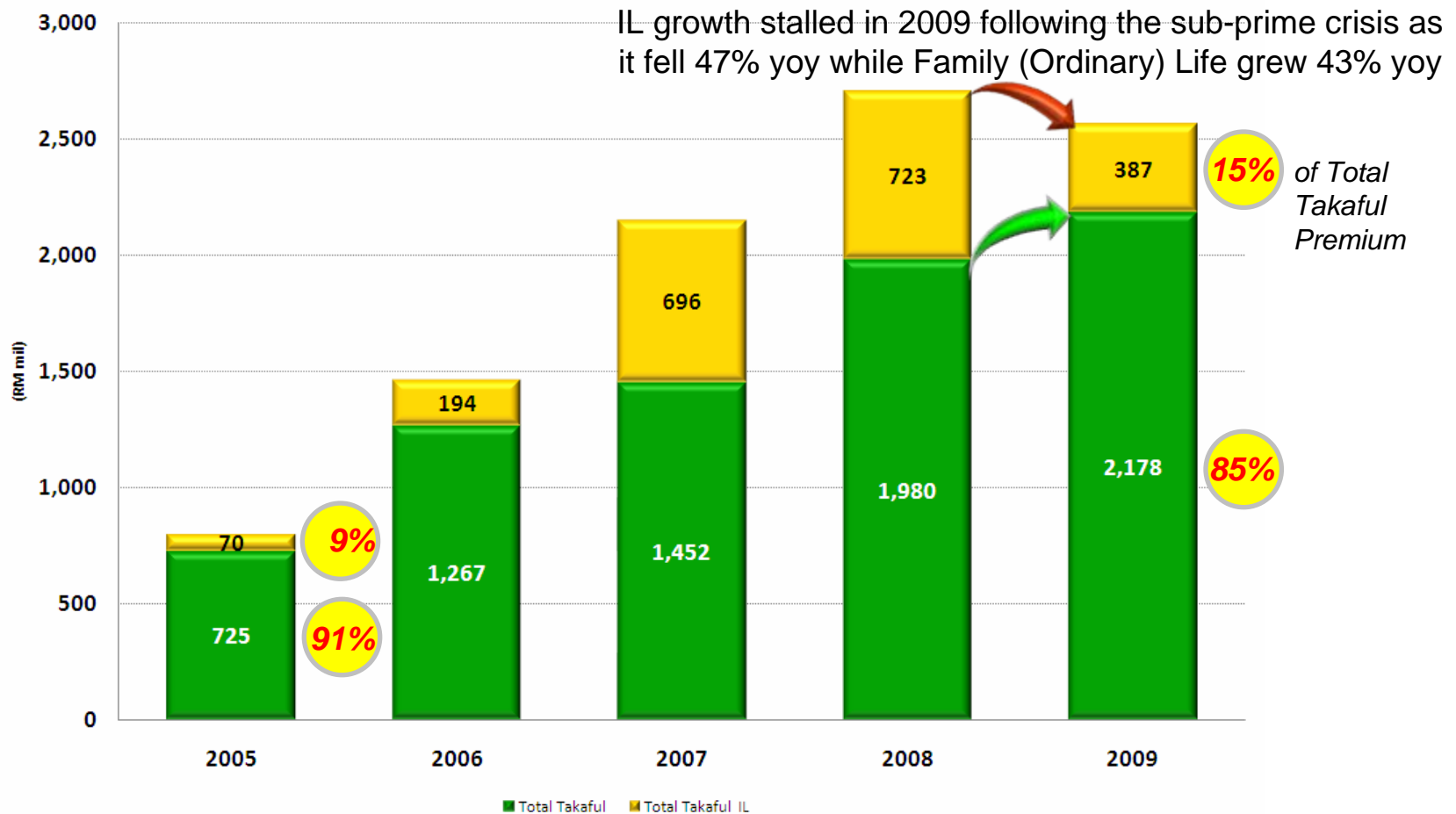
- Industry overview
- Etiqa experience
- What are Investment-linked products?
  - Regulatory guidelines
  - Processes
  - Product structure
  - Innovation
- Case study: Takaful Capital Protection and Al-Waqi
- Challenges moving forward

# Industry overview



# Demand for Takaful Investment-linked Products (ILP)

*Takaful IL grew by 452% to RM 387 mil from 2005*



Source: Insurance Services Malaysia Berhad (ISM)

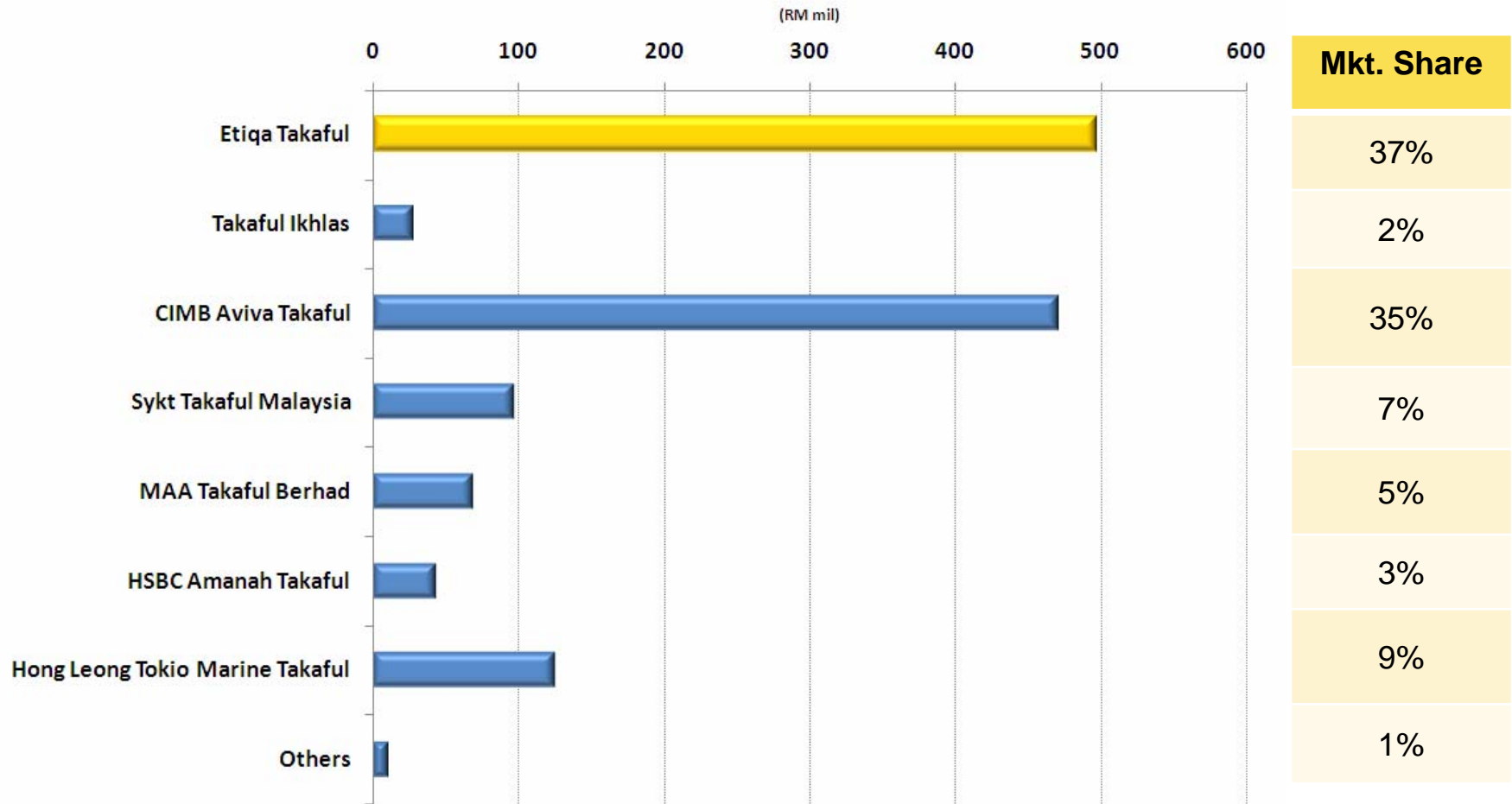
# The Case for Takaful ILP

*Complements existing portfolio*

- **The growth is expected to continue supported by:**
  - Growing awareness among Muslims.
  - The profit sharing concept of Takaful.
  - Increase in the number of Takaful operators.
- **Greater stability and resilience – Fund performance less affected by the sub-prime credit crisis due to absence of conventional finance assets.**
- **Transparency**

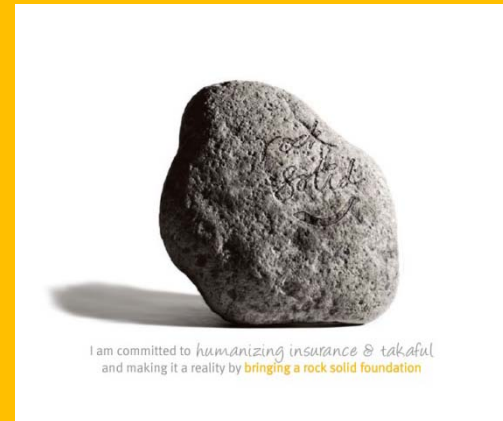
# Takaful IL Market Share

*Etiqua is the leader in Single Contribution/Premium (2005-2009)*



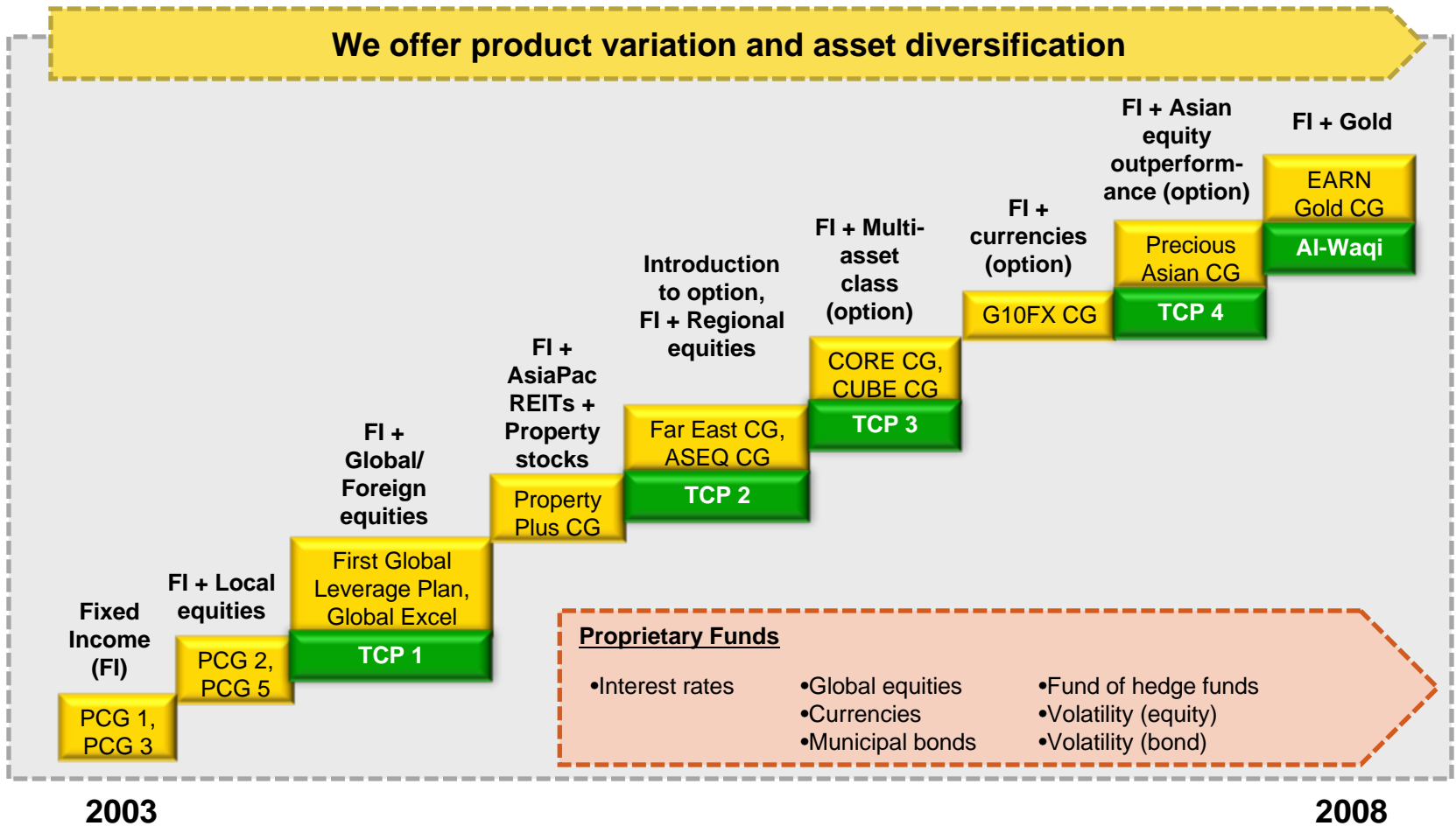
Source: Insurance Services Malaysia Berhad (ISM)

# Etiqua experience



# Product Innovation

## Types of ILP launched



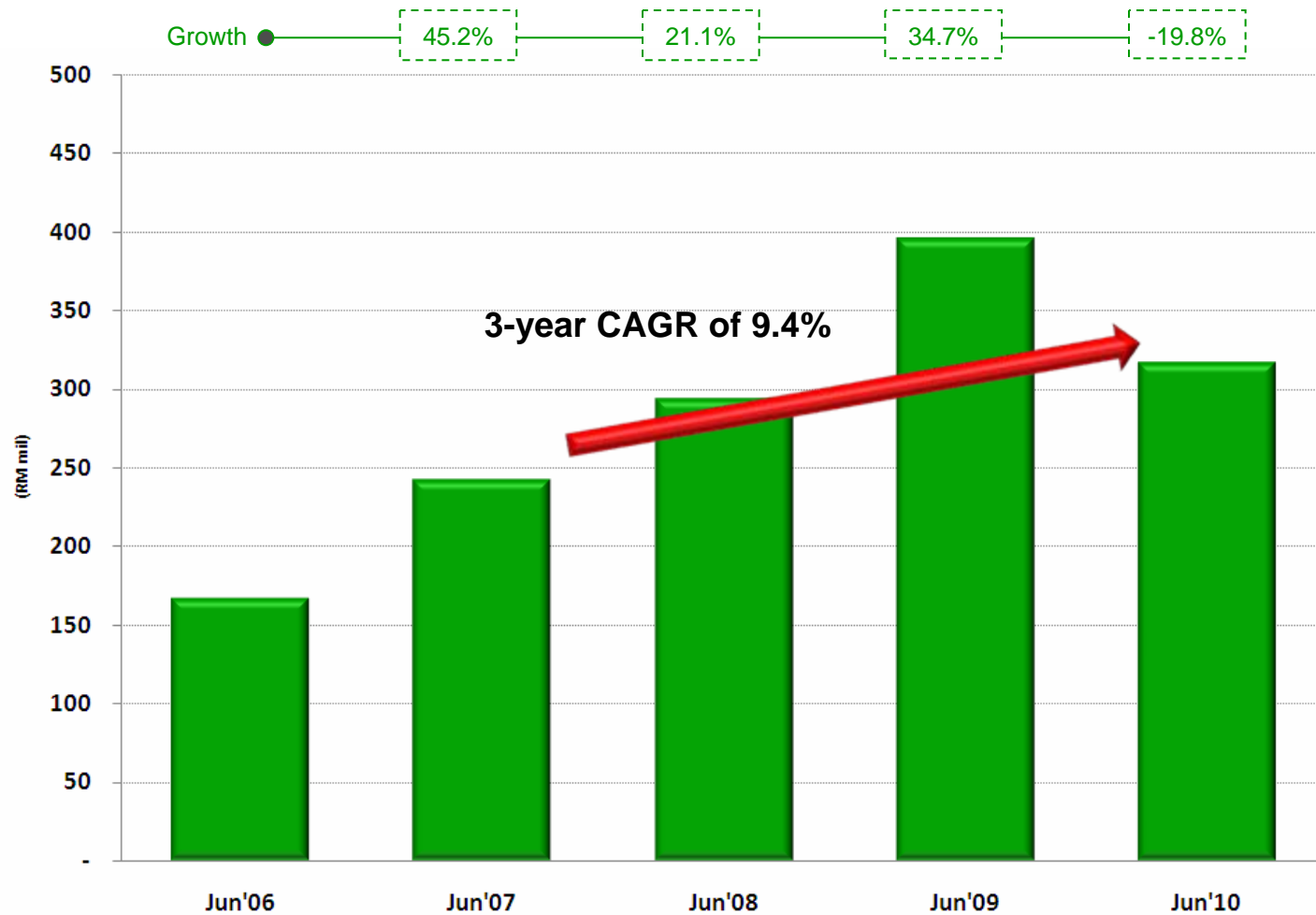
2003

2008

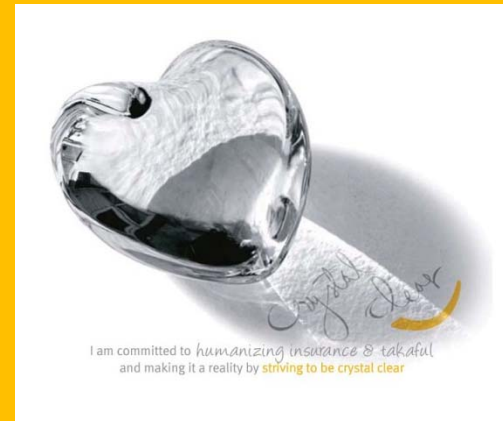


# Takaful IL Fund Size (Asset Under Mgmt – AUM)

*Takaful IL growth stalled in 2009 following the sub-prime crisis*

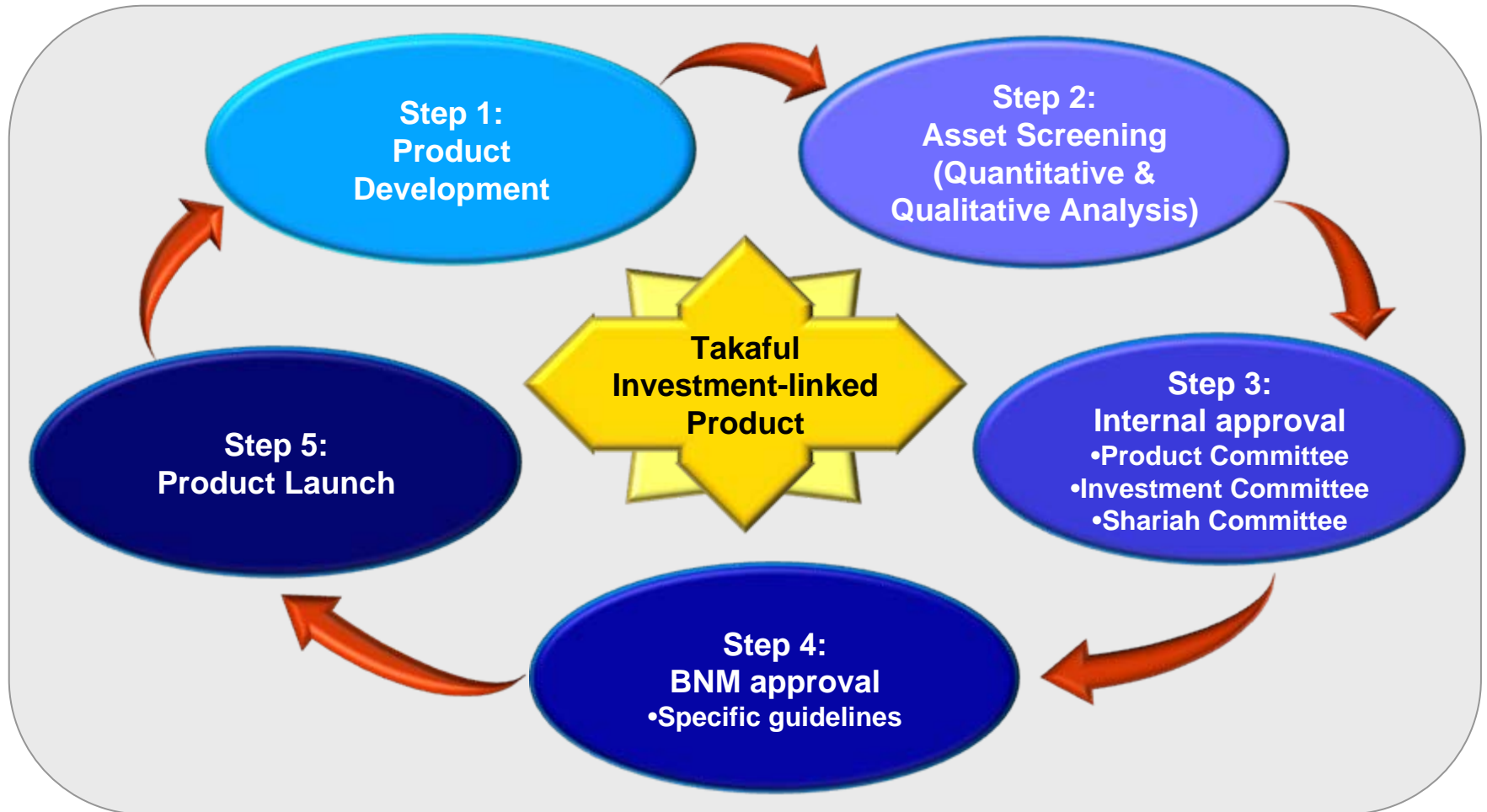


# About Takaful Investment-linked



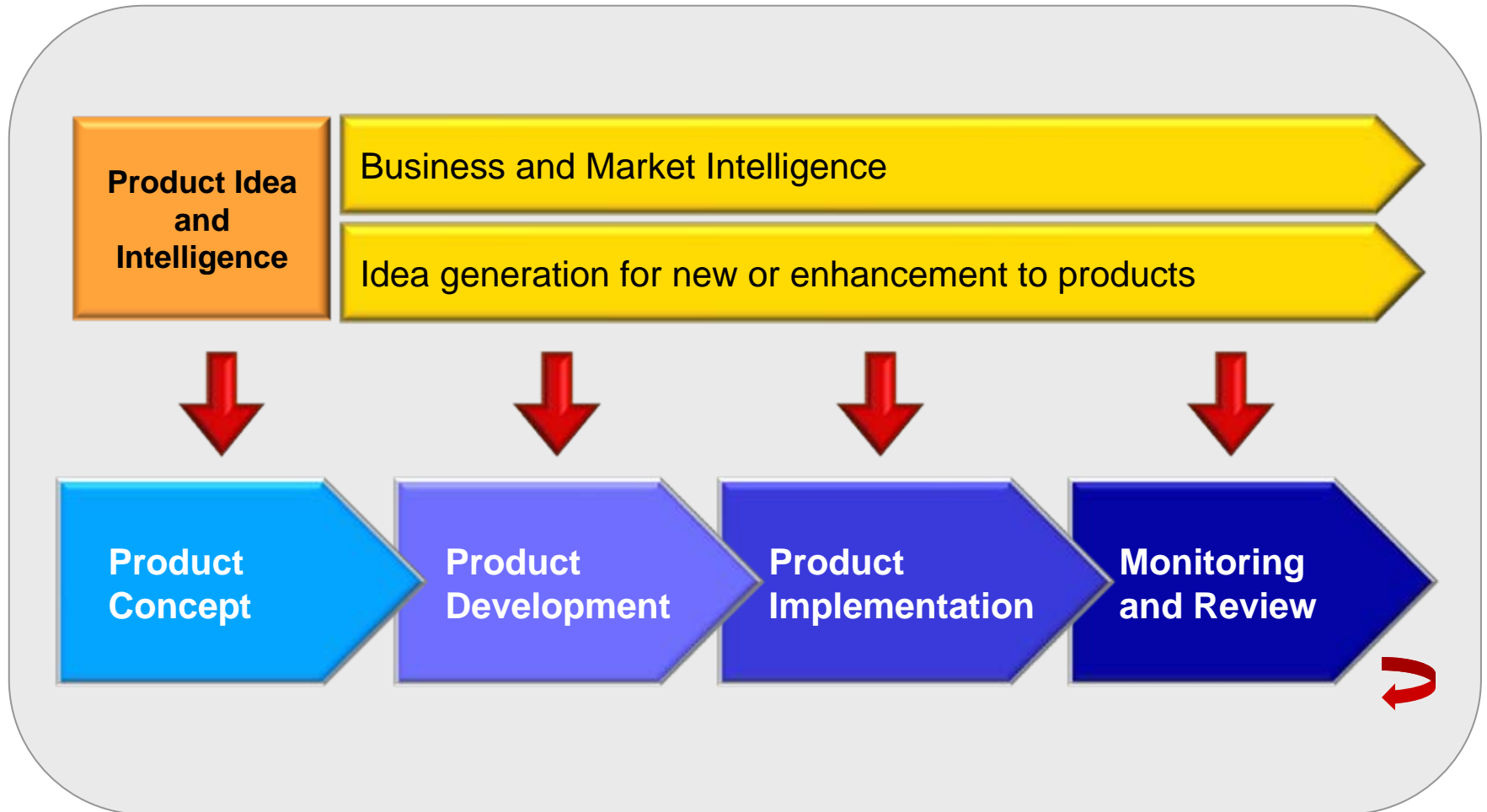
# Investment-linked Process

*Digestion period of min 3 months from concept to launch*



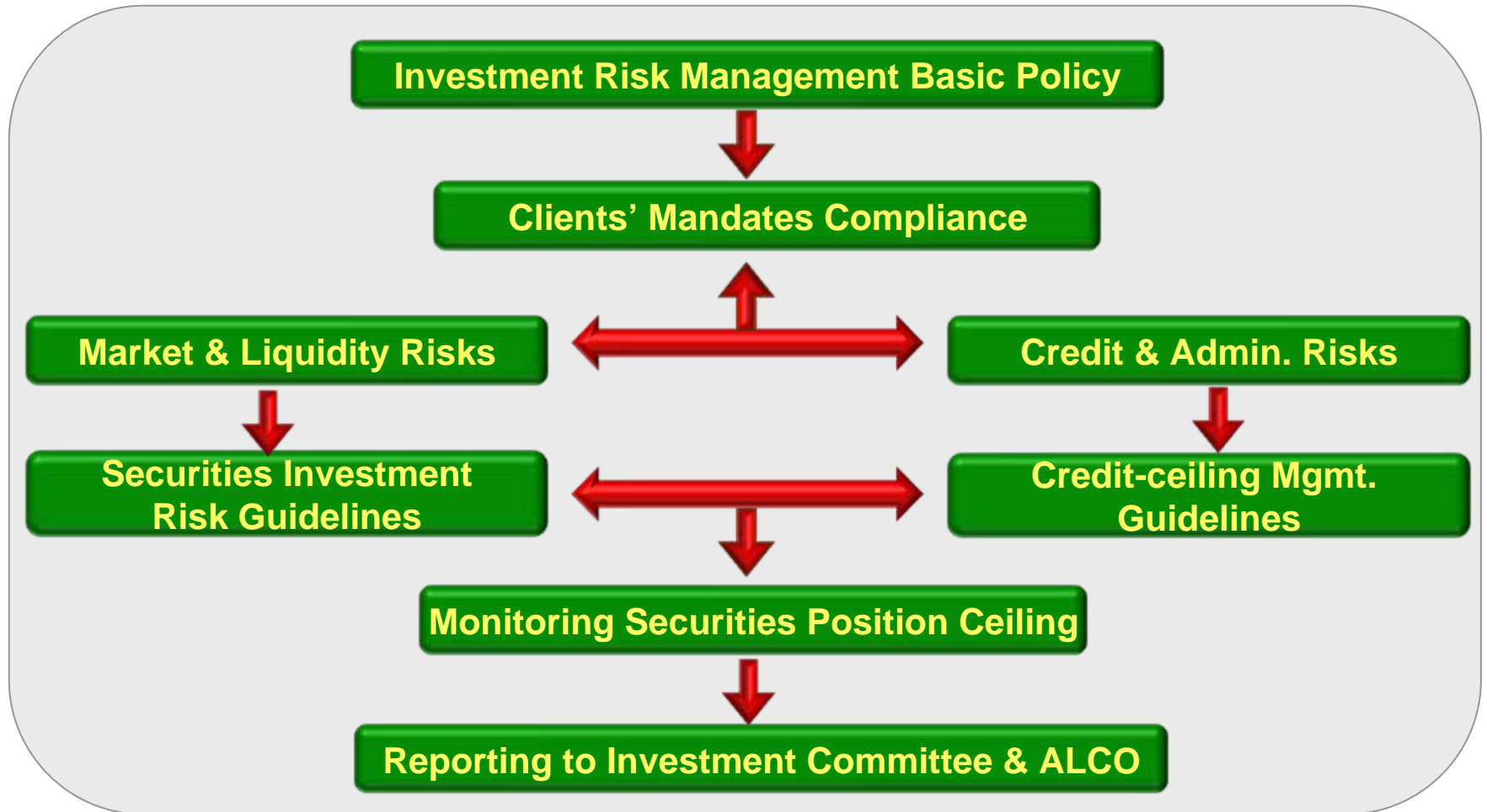
# Product Process Flow

*Concept, Development, Implementation, Monitoring Work*



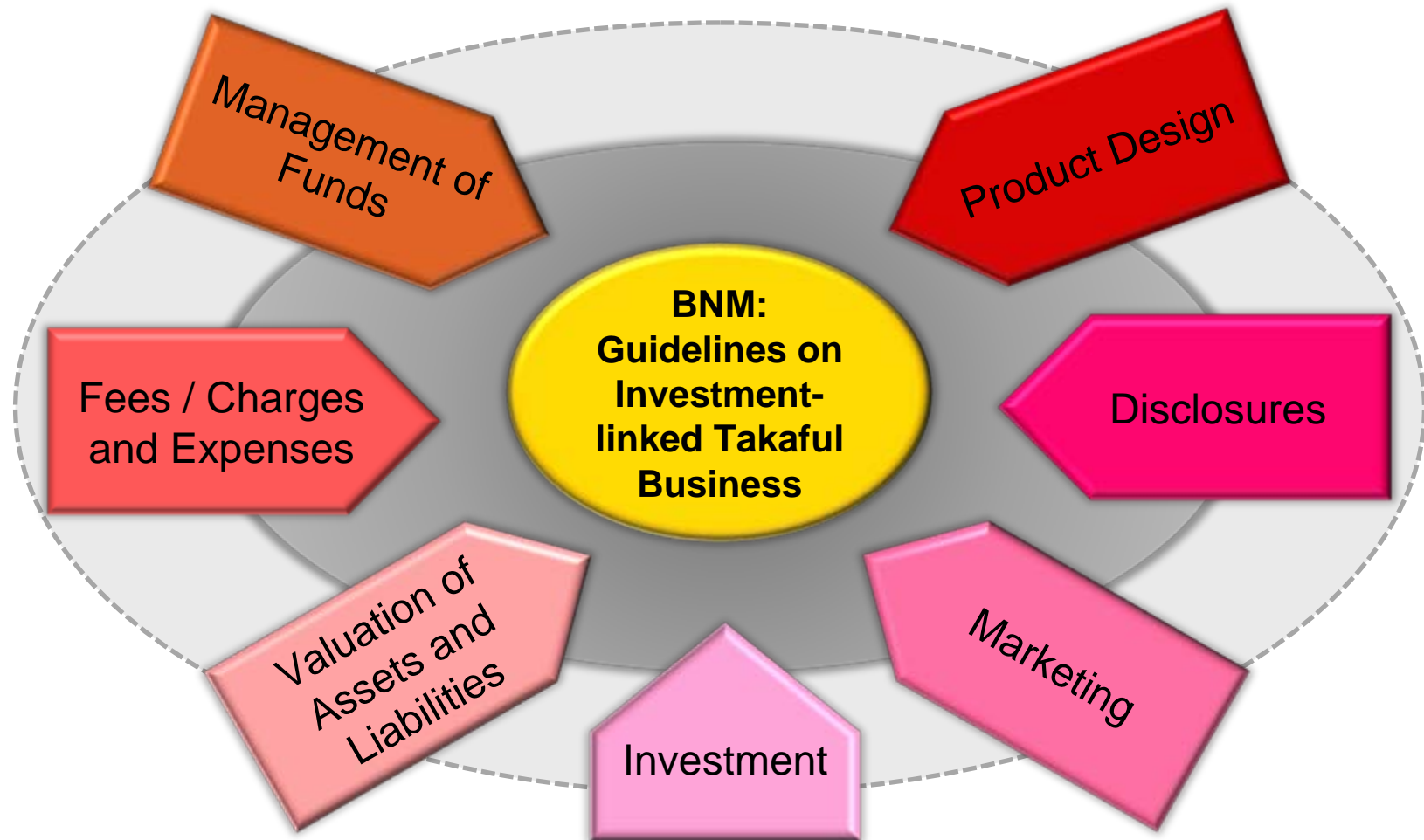
# Risk Management Framework

*Established control mechanism*



# Local Policymaker Set the Direction – Regulated Business

*BNM addresses basic requirements and customer protection*



Source: Bank Negara Malaysia (BNM/RH/GL 010-15)

# What is Takaful Investment-Linked Product?

*vs. an Ordinary Family Takaful plan*

## Ordinary Family Takaful

- Investment strategy is decided by the Takaful provider.
- Profit earned is divided on Mudharabah basis (profit sharing).



## Investment-Linked Takaful

- FLEXIBILITY!
  1. Participants have full control over their investments - Which fund ? When to invest? When to sell back?
  2. Participants can choose coverage level.
- Profits earned fully belong to Participants.
- The Takaful provider charges nominal fee for selling of units and management of the fund.

# Typical Takaful ILP Feature

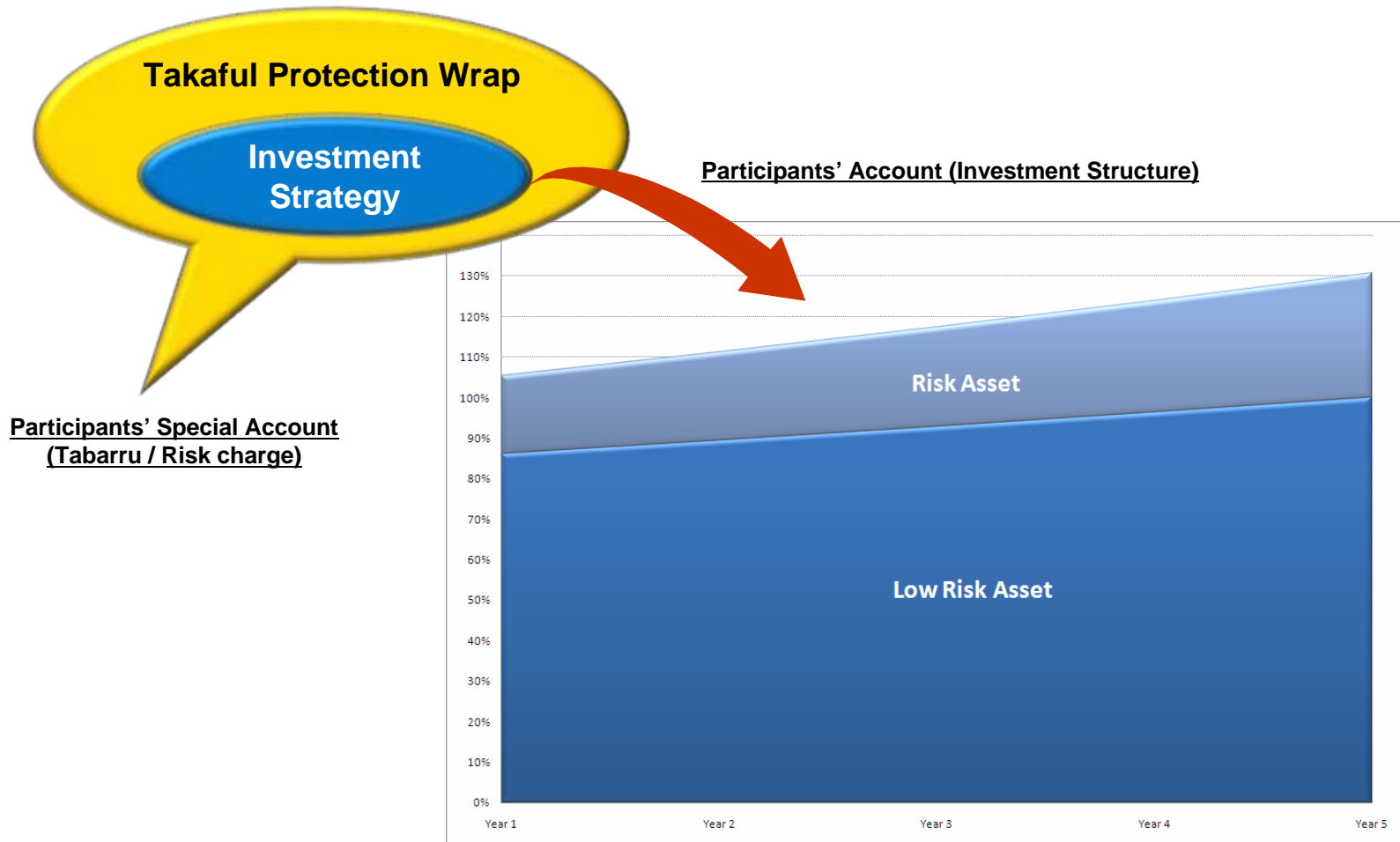
## *Low risk investment alternative*

- Single Contribution (Premium) with Principal Protection:
  - Low risk.
  - Malaysian public prefer 100% capital protection.
  - May cover less than 100% to further improve potential returns depending on customer profile/risk appetite.
  - Capital protection only when held till maturity.
- Potential to enhance return on otherwise low-yielding assets.
- Opportunity to tap into global markets and different asset classes with low initial investment.
- Minimal charges.
- Daily NAV, benchmarking possible = Transparency.



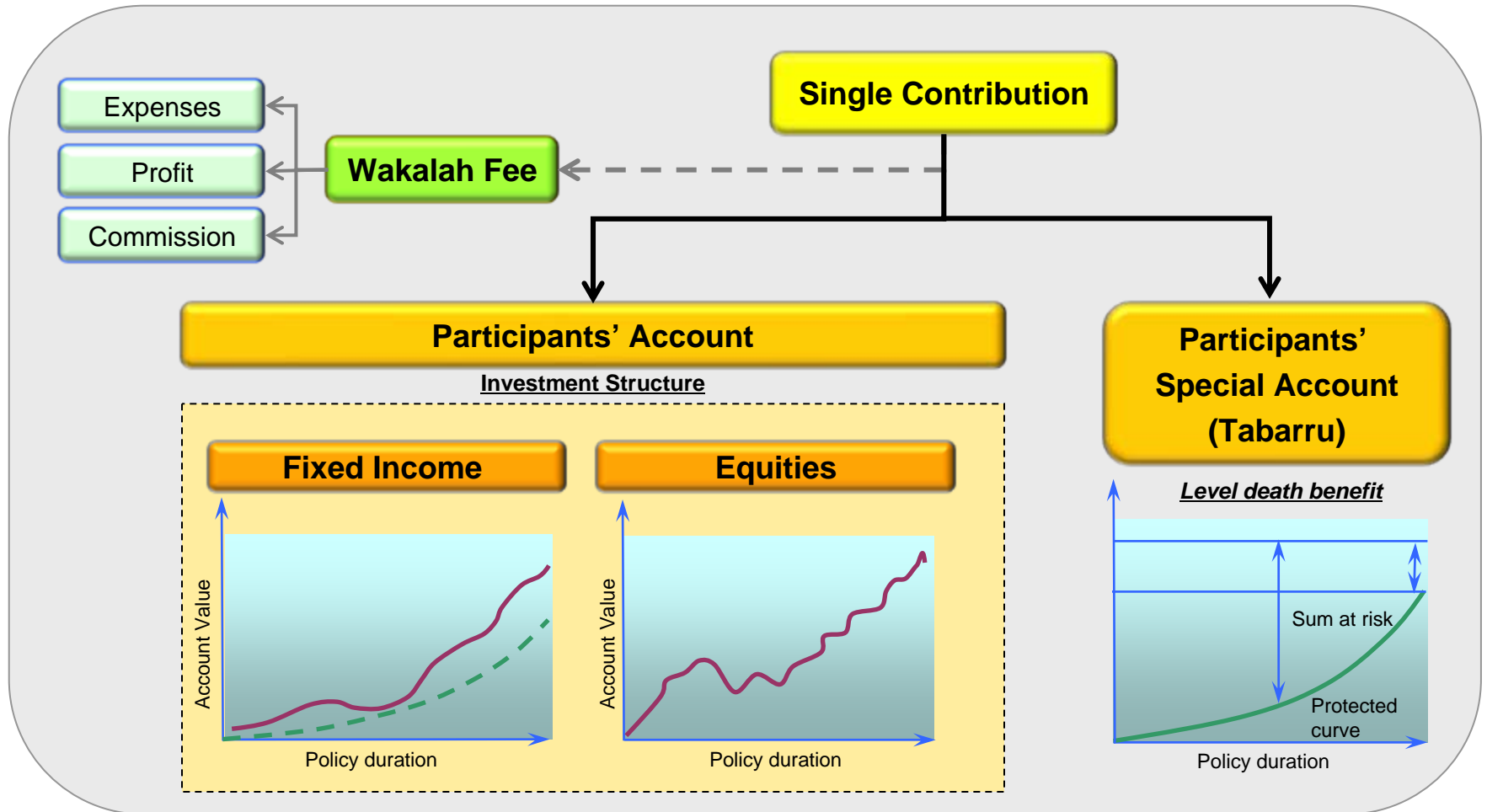
# Takaful Investment-linked Model

*Takaful protection + investment strategy*



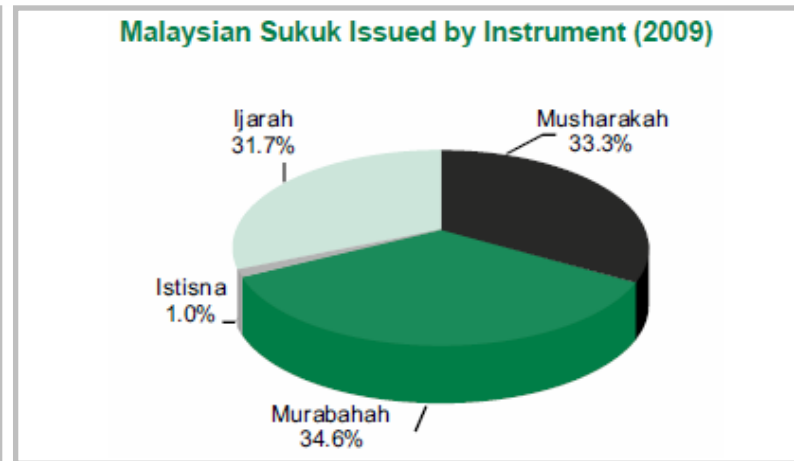
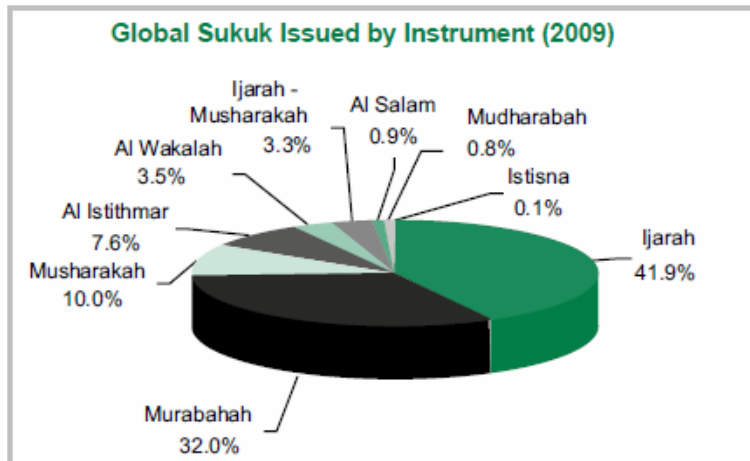
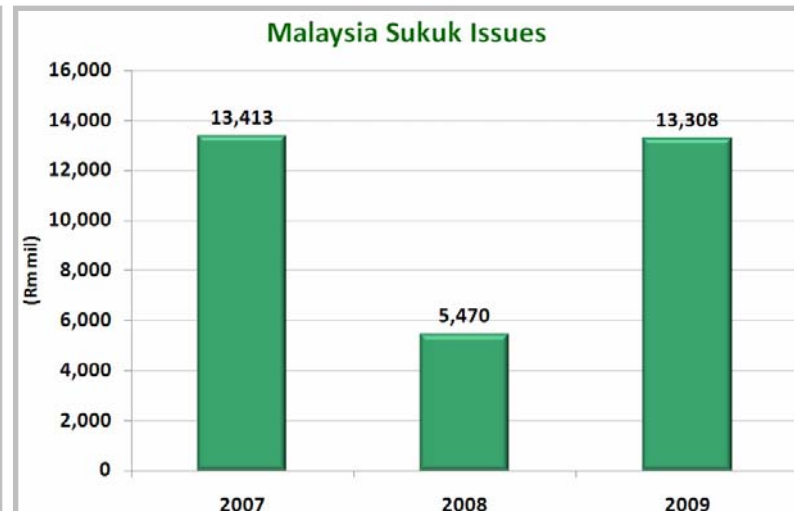
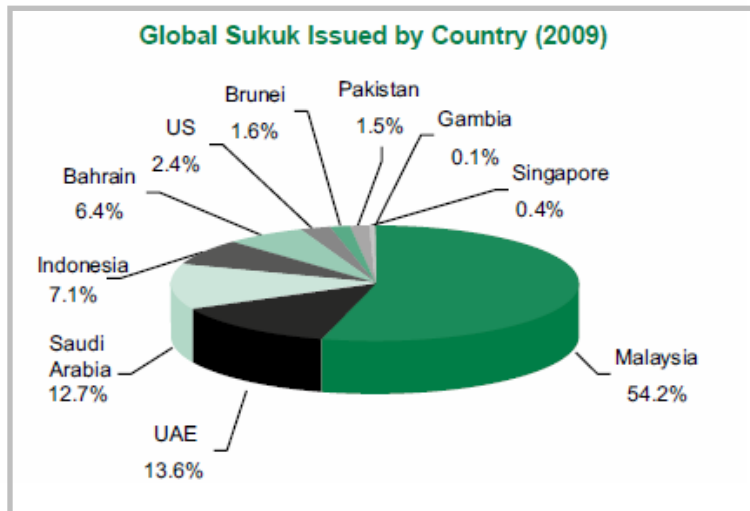
# Takaful Investment-linked Model

## Product structure



# Fixed Income

*Provide capital protection and return protection (if any)*



Source: Zawya, KFHR

# Underlying Assets

*Provide additional potential upside*

## EQUITY

- FBM Shariah Index
- Dow Jones Islamic Market (DJIM) Indices
- Proprietary indices based on DJIM



## BONDS

Global Sukuk issues



## COMMODITIES

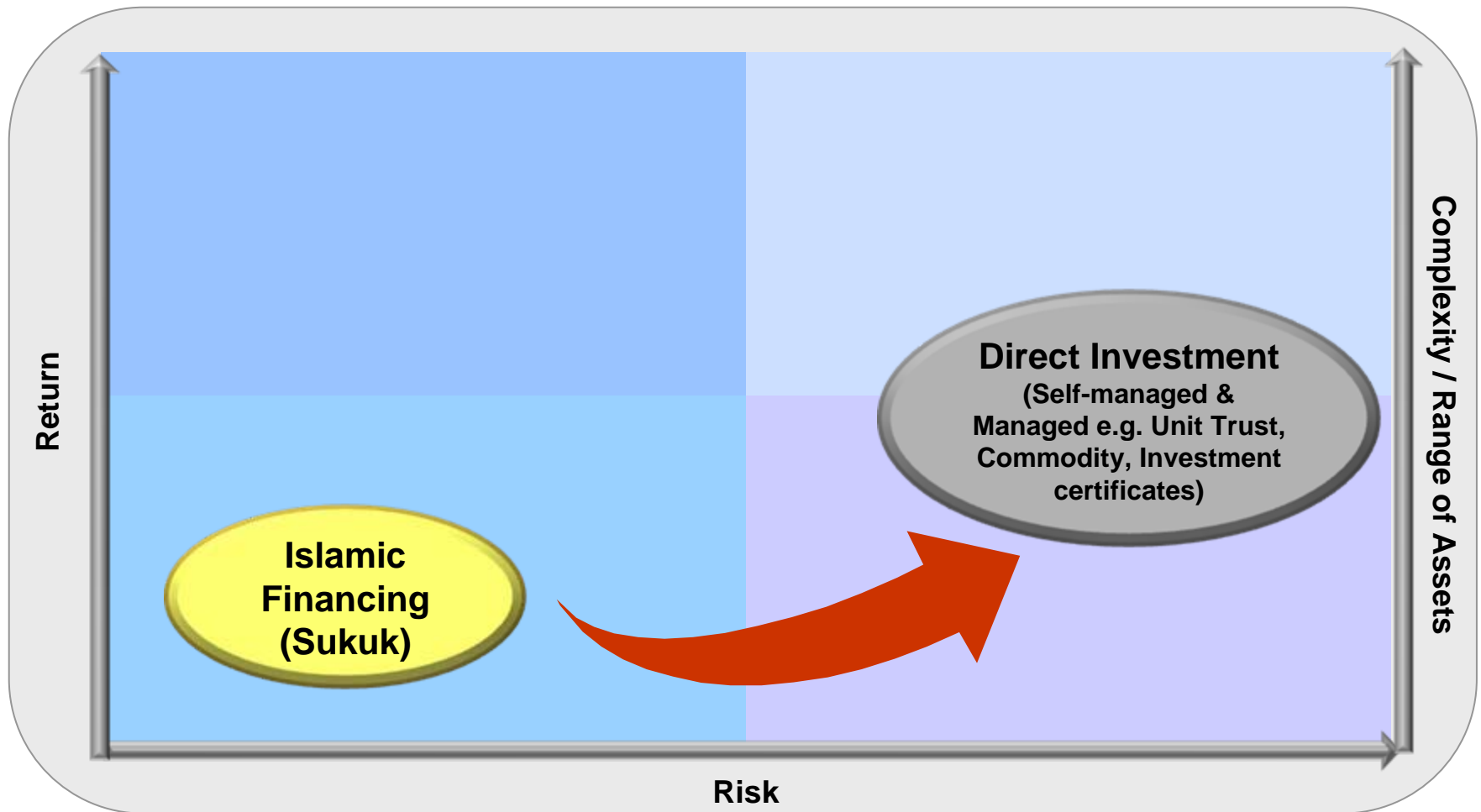
- Shariah compliant resources e.g. Agriculture, Mining, etc.
- Customised proprietary indices.



\* FTSE Bursa Malaysia Shariah Index

# Investment Strategy

*Options allows access to greater asset choice, enhance returns*



NOTE: Shariah investments naturally bear less risk by virtue of not invest in conventional finance, alcohol, tobacco, pornography, armaments and gambling related businesses.

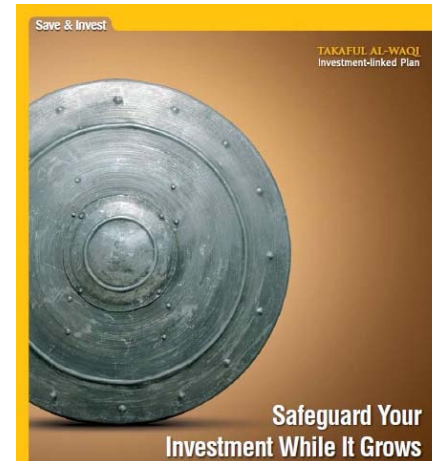
# Case Study



I am committed to humanizing insurance & takaful  
and making it a reality by offering performance with conscience

# Etiqa has launched five Single Contribution Takaful ILP

... with different exposure



## Product Feature

Fund Name	Launch Date	NAV (RM)	Risk Rating	Asset Allocation
TCP 1	May-05	106.10	Low Risk	Shariah Fixed Income Instruments + Global Equity
TCP 2	Apr-06	109.30	Low Risk	Shariah Fixed Income Instruments + Global Equity
TCP 3	Nov-06	102.20	Low Risk	Shariah Fixed Income Instruments + Global Equity
TCP 4	Feb-08	99.60	Low Risk	Shariah Fixed Income Instruments + Global Equity
Al-Waqi	Aug-08	98.30	Low Risk	Shariah Structured Deposit with a Multi-Commodity Index as the underlying asset

\* The investment structure of the funds above aims to at least refund the initial contribution at maturity with minimal risk.

# Case Study 1: Takaful Capital Protection (TCP) Plan

## *Takaful ILP with investment into Global Equities*

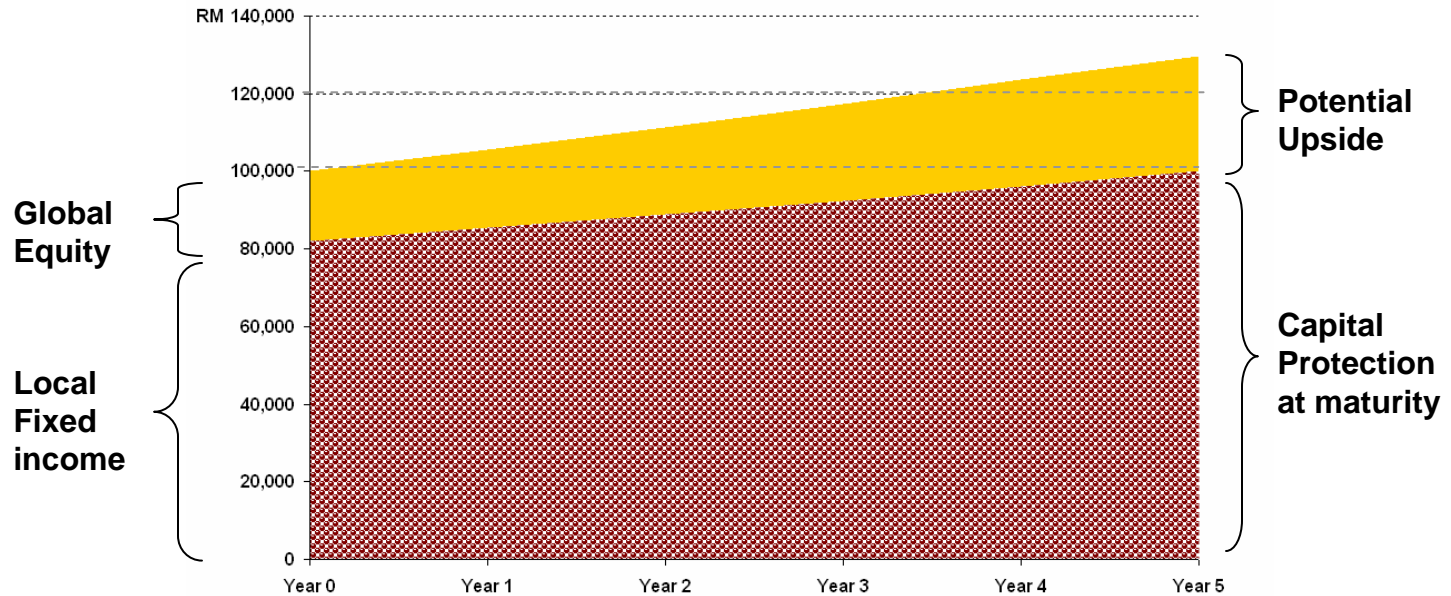
Product Feature	
<b>Tenure</b>	5 years
<b>Death Benefits*</b>	25% of the single contribution or up to RM 10,000 (Double Indemnity for accidental death)
<b>Minimum Amount</b>	RM 15,000
<b>Maximum Amount</b>	RM 5 mil
<b>Eligibility</b>	18 – 70 years old (next birthday)
<b>Wakalah Fee</b>	1-1.5% p.a.
<b>Tabarru</b>	<ul style="list-style-type: none"> <li>• Monthly Tabarru' amount for Takaful cover depending on age and sum at risk.</li> <li>• The Tabarru' amount will be credited in PSA fund from which the benefits are paid.</li> </ul>
<b>Hassle Free Application</b>	Automatic approval <ul style="list-style-type: none"> <li>• All proposals will be accepted</li> <li>• No health questions</li> <li>• No underwriting</li> <li>• No loading</li> </ul>

\* This Takaful plan does not cover any pre-existing medical and health impairment, which existed 12 months prior to the plan application date.



# Investment Strategy

*Minimise risk, maximise potential return*



Asset Class	Securities	Exposure		Purpose
Fixed Income	Syariah-compliant Bonds or Money Market Instruments e.g. Negotiable Islamic Deposits (NID)	At least 70%	Local	100% Capital Protection at maturity
Equity	Islamic Global Index	Up to 30%	Foreign	Potential Upside

# Case Study 2: Takaful Al-Waqi Plan

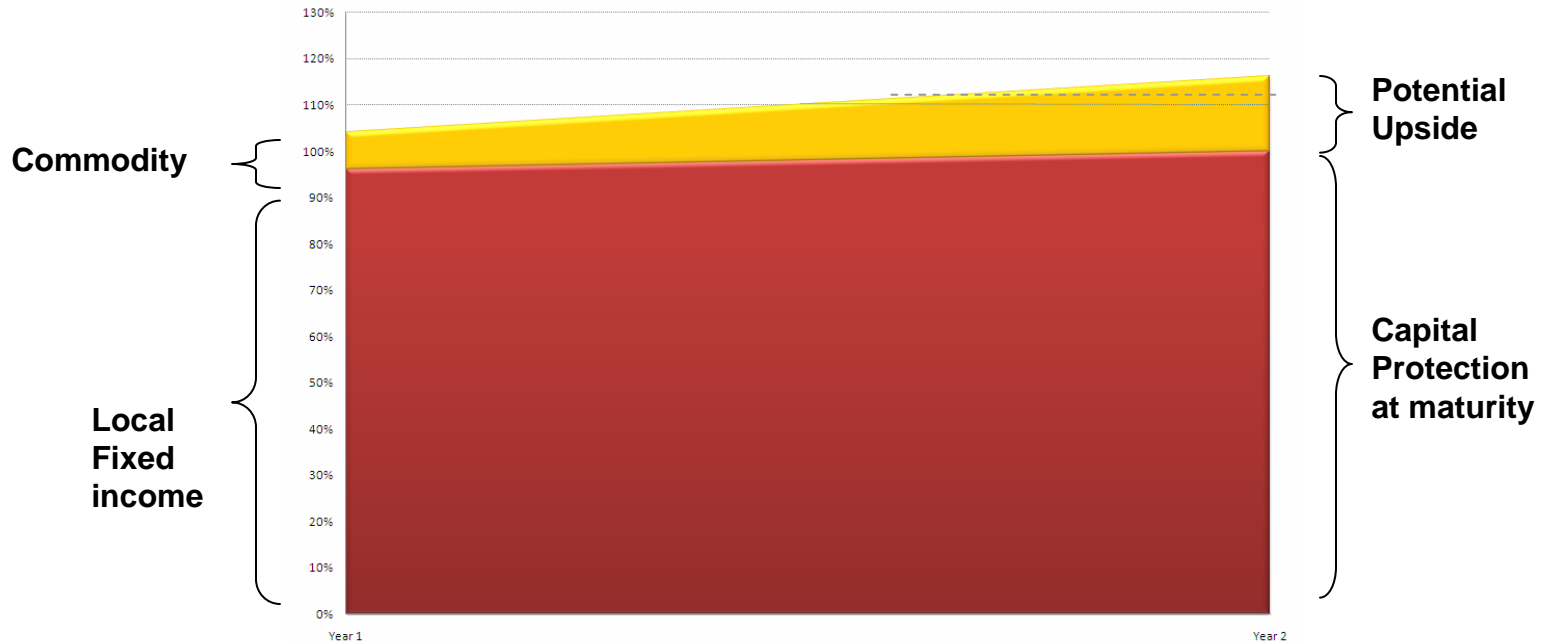
## *Takaful ILP with investment into Commodities*

Product Feature	
<b>Tenure</b>	2 years
<b>Death Benefits*</b>	25% of the Single Contribution or up to RM 10,000 (Double Indemnity for accidental death)
<b>Minimum Amount</b>	RM 20,000
<b>Maximum Amount</b>	Unlimited
<b>Eligibility</b>	18 – 70 years old (next birthday)
<b>Bid-Offer Spread (Initial Charge)</b>	2% of Single Contribution
<b>Wakalah Fee</b>	0.5% p.a.
<b>Tabarru</b>	<ul style="list-style-type: none"> <li>• Monthly Tabarru' amount for Takaful cover depending on age and sum at risk.</li> <li>• The Tabarru' amount will be credited in PSA fund from which the benefits are paid.</li> </ul>
<b>Hassle Free Application</b>	Automatic approval <ul style="list-style-type: none"> <li>• All proposals will be accepted</li> <li>• No health questions</li> </ul> <ul style="list-style-type: none"> <li>• No underwriting</li> <li>• No loading</li> </ul>

\* This Takaful plan does not cover any pre-existing medical and health impairment, which existed 12 months prior to the plan application date.

# Investment Strategy

*Minimise risk, maximise potential return*



Asset Class	Securities	Exposure		Purpose
Fixed Income	Syariah-compliant Bonds or Money Market Instruments e.g. Negotiable Islamic Deposits (NID)	At least 95%	Local	100% Capital Protection at maturity
Commodity	Optimized Commodity Index (Energy, Ind. & Precious Metals, Agriculture)	Up to 5%	Foreign	Potential Upside

# Wakalah and Tabarru'

*(Annual Management Fee and Risk Charge)*

## **Wakalah**

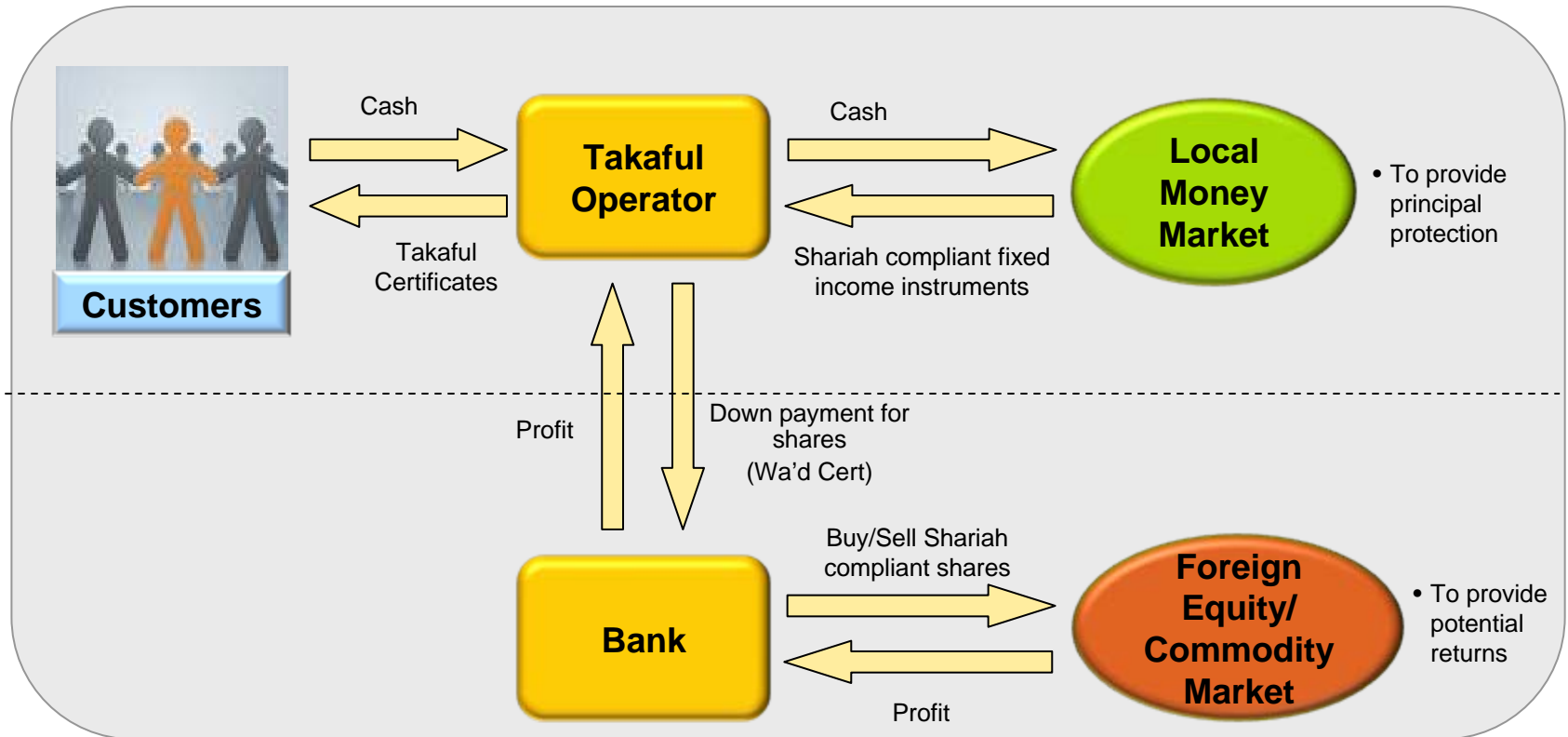
- Wakalah is a contract whereby one party nominates another (as '*Wakil*') to act on his/her behalf.
- In the context of a Investment-linked Takaful product, the participant nominates Etiqa Takaful Berhad to manage the Takaful Fund on their behalf.
- Participants will be charged an Annual Wakalah Fee, akin to Annual Management Fee in conventional insurance, of the total Fund Value.

## **Tabarru**

- Participants will contribute (Tabarru') a fixed amount of the initial capital/contribution, upfront, and placed in the Participants' Special Account. It is akin to the risk charge in conventional insurance, where in this case it is for the Takaful cover e.g. 0.275% of the Single Contribution.

# Wa'd Investment Structure

## *Investing in global equity*



- Wa'd is a unilateral *promise* given by the Investor (in this case the Takaful Operator) to sell an asset or basket of asset on deferred basis at a predefined price.

\* Wa'd means 'Promise' in Arabic

# Challenges moving forward

The graphic features the text 'The Etiqa Way' in a light yellow font. 'The Etiqa' is in a clean, sans-serif font, while 'Way' is in a large, elegant script font. Below 'Way' is a white, stylized smile-like curve. The text is set against a yellow background with horizontal lines.

Insurance is about helping people.  
Helping them to protect  
their assets, maintain their lifestyle  
and build a better future.

In everything we do, we keep  
things as simple as possible,  
we deliver on our promise and  
we place people over policies.  
That's how we humanize insurance.

In doing so, we act with  
professionalism, empathy,  
courage and integrity.  
We make a difference,  
by doing it the Etiqa Way.

# Keeping Up with Conventional Finance

*Shariah capital market is still far behind its conventional counterpart*

- Investment strategies which aim to deliver absolute return under all market condition have risen in popularity and appeal.
- Nonetheless, there is limited supply of such Islamic financial/investment instruments.
- As a result, the increasing demand still depends largely on conventional strategies.
- Plenty of work needs to be done to engineer new Islamic instruments to satisfy the diverse risk/return needs and profiles of Islamic investors.

# Market Development

*The overall outlook points to plenty of room for further growth*

1. Increase accessibility because of:
  - An increase in the number of bancassurance partnerships resulting from the lifting of prohibition on foreign insurers to tie-up with more than one bank.
  - There were 4 new JVs (foreign+local) formed this year alone.
  - Internet access.
2. Growing demand for protection (medical and other health-related plan) and long-term savings (annuity/retirement plan) amidst uncertainty in the global market.
3. Low penetration rate estimated at 3% of GDP vs. Asia (5.95%), America (7.29%) and Europe (7.46%).



# Market Development

*The overall outlook points to plenty of room for further growth*

4. Increase of affluent (middle/upper-middle) class who are well invested in investments but remain underinvested in professionally managed insurance/takaful funds.
5. Protection awareness of the need for protection plans among:
  - Private corporations which view insurance/takaful as a key risk management tool.
  - Municipal councils / government related agencies as one of community welfare tools.

# Thank you

