

CHAPTER 4

DATA ANALYSIS AND DISCUSSIONS

This chapter consists of three sections. The first section presents the research result of the bivariate analysis: test of difference for pricing of both general and life policies. The second section discusses comparative analysis between *takaful* and conventional insurance. The third section, on the other hand analyzes descriptively the overall performance of *takaful* industry as compared to conventional insurance industry in Malaysia.

4.1 Test of Difference

4.1.1 General Policies

As mentioned earlier, STMB differs from conventional insurers, as far as premium pricing is concerned, in its motor policy. This is due to the application of its own rates or tariff which is different from PIAM – devised tariff. Hence, a statistical analysis to identify the significant difference between *takaful* and conventional insurance pricing has been done exclusively to motor policy.

For this purpose, several types of vehicle under different categories of engine capacity have been chosen as a sample. Premium payments and *takaful* contributions for comprehensive type policy, within ten consecutive years (with decreasing sum insured) are then determined. Within the period, a policyholder is assumed to renew his policy with only one company and there is no claim incurred, which subsequently entitles him for no claim discount.

Table 4.1a shows the analysis for gross premium and gross contribution. These figures represent the amount that a policyholder must pay for a specific sum insured without discount and *mudharabah* profit. Table 4.1b, on the other hand, shows the analysis for total premium and real total contribution. These figures

represent the actual amount that a policyholder must bear should he continuously renew his policy under one company for ten years period, provided that there is no claim incurred.

Notice that real total contribution is used instead of total contribution. This is mainly because real total contribution has taken into account the *mudharabah* profit which is reimbursed to the policyholder when the policy matured. For the research purpose, the *mudharabah* rate is assumed to be fixed at 35% annually, although in reality it varies from month to month, depends upon general *takaful* fund surplus. The figure (35%) is simply an average of STMB monthly-announced *mudharabah* rate for the past 4 years from 1998 to August 2001. (Please refer to **Appendix V**). Thus, it is more accurate to represent the actual disbursement. As mentioned in Chapter 3, the *t*-test for difference of means (Paired Sample T-Test under the SPSS software) has been used to analyze the data.

Table 4.1a
Paired Samples Statistics and Tests for Gross Contribution
and Gross Premium

		Mean (RM)	N	Std. Deviation	T	df	Sig. (2- tailed)
Pair 1	STMBGrossContri.Kriss	325.14	10	34.93	38.83	9	.000
	KurniaGrossPremi.Kriss	217.92	10	26.19			
Pair 2	STMBGrossContri.TZM	455.35	10	68.75	20.95	9	.000
	KurniaGrossPremi.TZM	341.51	10	51.56			
Pair 3	STMBGrossContri.Kancil	1169.05	10	213.67	23.41	9	.000
	KurniaGrossPremi.Kancil	749.20	10	157.43			
Pair 4	STMBGrossContri.Wira	1547.36	10	300.44	20.07	9	.000
	KurniaGrossPremi.Wira	1006.40	10	215.47			
Pair 5	STMBGrossContri.Waja	2318.63	10	407.63	20.31	9	.000
	KurniaGrossPremi.Waja	1523.91	10	284.35			
Pair 6	STMBGrossContri.Serena	4378.00	10	715.46	20.25	9	.000
	KurniaGrossPremi.Serena	2316.90	10	393.59			

From Table 4.1a, we can see that pair 1 up to pair 6 show that there are very significant differences in premium or contribution pricing between the two systems. At the 95% confidence interval for the means, the analyses show very

significant values of 0.000 for all pairs. The means and standard deviations for yearly STMB contribution show higher values than yearly Kurnia Insurance premium. For example, the means of pair 1 for STMB contribution and Kurnia Insurance premium are RM325.14 and RM217.92 respectively, while the standard deviations of the same pair are RM34.93 and RM26.19 respectively. Based on the findings, we can conclude that we can reject the null hypothesis in Chapter 3, and we can say that there are significance differences in premium or contribution pricing between the two systems. In other words, *takaful* contribution is more costly than conventional insurance premium.

Table 4.1b
Paired Samples Statistics and Tests for Real Contribution
and Total Premium

		Mean (RM)	N	Std. Deviation	T	df	Sig. (2- tailed)
Pair 1	STMBRealContri.Kriss	172.22	10	46.24	-.102	9	.921
	KurniaTotalPremi.Kriss	172.55	10	40.29			
Pair 2	STMBRealContri.TZM	235.93	10	56.22	-13.309	9	.000
	KurniaTotalPremi.TZM	272.21	10	64.84			
Pair 3	STMBRealContri.Kancil	477.57	10	239.65	.472	9	.648
	KurniaTotalPremi.Kancil	475.07	10	236.77			
Pair 4	STMBRealContri.Wira	634.37	10	326.53	-.192	9	.852
	KurniaTotalPremi.Wira	635.81	10	322.32			
Pair 5	STMBRealContri.Waja	942.62	10	453.46	-.555	9	.592
	KurniaTotalPremi.Waja	948.92	10	445.17			
Pair 6	STMBGrossContri.Serena	1780.76	10	863.51	5.791	9	.000
	KurniaGrossPremi.Serena	1427.77	10	680.34			

However, if we refer to Table 14.1b, we can see that the results are mixed. Pair 2 and Pair 6 show that there are very significant differences at 95% confidence interval for the means, while the other pairs show that there are no significant differences. For all pairs, except Pair 3 and Pair 6, the means for STMB contribution show lower values than that of Kurnia. On the contrary, the means for STMB contribution in Pair 3 and Pair 6 show higher values than Kurnia premium. This means that for several classes of vehicle, a policyholder will find that the actual disbursement under *takaful* policy is cheaper than conventional one. For some other classes, the opposite is true. However, only few classes will

show significant difference as noted in the table. Therefore, we can conclude, as far as *mudharabah* profit is concerned, that we failed to reject the null hypothesis in Chapter 3, and we can say that there are no significant differences in premium or contribution pricing between the two systems. However, this conclusion is not convincing enough since the *mudharabah* profit fluctuates from time to time, depends upon the fund surplus.

For other types of general policies, there are no significant differences in terms of contribution or premium pricing between STMB and Kurnia. This is due to the application of standard PIAM tariff as well as market rates in order to arrive at the gross premium and contribution. However, if we include the *mudharabah* profit that will be reimbursed to the policyholder when the policy matured, there will be significant differences. For example in a basic fire policy, under the revised tariff, owner of a non-detached home with a sum insured of RM200 000 will have to pay annual premium of RM212. This figure would be the same for both Kurnia Insurance and STMB. However, if STMB announced a *mudharabah* profit of 35% at the maturity of the policy, the policyholder or participant will get back RM74.20 provided there is no claim made during the period. Thus, the actual disbursement under *takaful* fire policy is RM137.80, which is RM74.20 cheaper than conventional one.

4.1.2 Life Policies

For life or family *takaful* policy, two types of policies have been used as a sample for conducting a statistical analysis, i.e. mortgage reducing term policy and annuity. As mentioned in Chapter 3, all life or family *takaful* policies pricing are largely depend upon the mortality table as well as the forecasted investment return (interest). Thus, the two samples are considered to be representative for other types of life and family *takaful* policies and can be used to identify the significant difference between the two systems. Furthermore, according to Encik Azman Ismail, these two products are the only relevant pairs for conducting

statistical test (test of difference) since other policies cannot be equally matched for such test. Table 4.1c and 4.1d show the analysis for mortgage reducing term policy, while Table 4.1e shows the analysis for annuity.

Table 4.1c
Paired Samples Statistics and Tests for 15 Years Single Premium
Mortgage Reducing Term Assurance

		Mean (RM)	N	Std. Deviation	T	df	Sig. (2- tailed)
Pair 1	MRTA 4%STMB	35.12	31	19.13	-25.99	30	.000
	MRTA 4%MAA	35.24		19.54			
Pair 2	MRTA 6%STMB	33.87	31	19.75	-25.32	30	.000
	MRTA 6%MAA	36.03		20.18			
Pair 3	MRTA 9%STMB	34.93	31	20.63	-24.51	30	.000
	MRTA 9%MAA	37.16		21.09			
Pair 4	MRTA 10%STMB	35.28	31	20.92	-24.30	30	.000
	MRTA 10%MAA	37.53		21.39			
Pair 5	MRTA 11%STMB	35.62	31	21.16	-22.41	30	.000
	MRTA 11%MAA	37.87		21.66			
Pair 6	MRTA 12%STMB	35.94	31	21.44	-23.22	30	.000
	MRTA 12%MAA	38.21		21.94			
Pair 7	MRTA 13%STMB	36.24	31	21.71	-23.63	30	.000
	MRTA 13%MAA	38.54		22.21			
Pair 8	MRTA 15%STMB	36.84	31	22.20	-23.20	30	.000
	MRTA 15%MAA	39.17		22.72			

Table 4.1d
Paired Samples Statistics and Tests for 20 Years Single Premium
Mortgage Reducing Term Assurance

		Mean (RM)	N	Std. Deviation	T	df	Sig. (2- tailed)
Pair 1	MRTA 4%STMB	35.82	26	15.95	-43.14	25	.000
	MRTA 4%MAA	38.27	26	16.14			
Pair 2	MRTA 6%STMB	36.83	26	16.69	-41.40	25	.000
	MRTA 6%MAA	39.34	26	16.90			
Pair 3	MRTA 9%STMB	38.30	26	17.71	-39.09	25	.000
	MRTA 9%MAA	40.87	26	17.95			
Pair 4	MRTA 10%STMB	38.72	26	18.03	-38.34	25	.000
	MRTA 10%MAA	41.34	26	18.29			
Pair 5	MRTA 11%STMB	39.31	26	18.24	-25.17	25	.000
	MRTA 11%MAA	41.80	26	18.60			
Pair 6	MRTA 12%STMB	39.56	26	18.63	-37.07	25	.000
	MRTA 12%MAA	42.24	26	18.91			
Pair 7	MRTA 13%STMB	39.96	26	18.92	-36.42	25	.000
	MRTA 13%MAA	42.66	26	19.21			
Pair 8	MRTA 15%STMB	40.79	26	19.46	-35.51	25	.000
	MRTA 15%MAA	43.46	26	19.76			

From both Table 4.1c and 4.1d, we can see that Pair 1 up to Pair 8 show that there are very significant differences in MRTA single premium between the two systems. At the 95% confidence interval for the means, the analyses show very significant values of 0.000 for all pairs. The means and standard deviations for premium rates meant for different interest or profit rate under STMB show lower values than MAA. For example, the means of Pair 1 under 15 years 4% MRTA for STMB and MAA are RM33.12 and RM35.24 respectively, while the standard deviations of the same pair are RM19.12 and RM19.54 respectively. The trend is consistent for all pairs in Table 4.1c and Table 4.1d.

Based on the findings, we can conclude that we can reject the null hypothesis in Chapter 3 and we can say that there are significant differences in contribution or premium pricing between the two systems. In other words, the contribution or premium pricing in STMB's MRTA, for the same interest or profit rate, is cheaper than MAA's MRTA. The slightly lower values of standard deviations show that STMB's MRTA pricing for different age groups tend to vary less than MAA's MRTA.

Table 4.1e
Paired Samples Statistics and Tests for Takaful Annuity
and Conventional Annuity Scheme

		Mean (RM)	N	Std. Deviation	T	df	Sig. (2-tailed)
Pair 1	TakafulAnnuityMale	9577.13	55	5688.35	-12.514	54	.000
	ConventAnnuityMale	11426.13	55	4743.24			
Pair 2	Takaful AnnuityFemale	10464.38	55	6302.61	-13.765	54	.000
	ConventAnnuityFemale	12714.87	55	5255.53			

The same analysis has been done to annuity scheme for STMB and MAA. Results are shown in Table 4.1f. At the 95% confidence interval for the means, the analyses show very significant values of 0.000 for all 2 pairs. The means for premium rates for one unit of annuity worth RM1200 per year under STMB show lower values than MAA. However, the standard deviations show higher values.

For example, the means of Pair 1 (male) for STMB and MAA are RM9577.13 and RM11426.13 respectively. But the standard deviations of the same pair are RM5688.35 and 4743.58 respectively.

Based on the findings, we can conclude that we can reject the null hypothesis in Chapter 3 and we can say that there are significant differences in contribution or premium pricing between the two systems. In other words, the contribution or premium pricing in STMB, for the same amount of annuity payment, is cheaper than MAA. However, the higher values of standard deviations show that STMB annuity pricing for different age groups tend to vary much more than MAA annuity.

As a general conclusion for the statistical analysis in premium or contribution pricing, STMB seems to charge higher contribution rates for its motor policy while charges the same rates as other conventional insurance companies for other types of general policies. This is mainly due to the usage of its own tariff or rates in calculating the contribution amount for its motor policy. However, for family *takaful* policies, STMB appears to charge lower rates than its equivalent in conventional life insurance company. This is due to its practice, which does not incorporate agent's commission in determining the contribution or premium for its family policies, as it is claimed to be not in favor of the *mudharabah* contract. It might be also caused by the application of different mortality table as well as the forecasted investment return.

4.2 Comparative Analysis

4.2.1 Similarities

At first glance there does not appear too much difference between the two systems. Indeed in terms of basic concept, there is no difference because both use the concept of the common pool where the fortunate many help the

unfortunate few. Furthermore, both insurance and *takaful* take into cognizance the basic principles of insurance as discussed in the Chapter 2. Both systems also adopt similar procedures or processes in their operation. This means that the insured and participant need to undergo various processes from the stage of underwriting until the stage of settling a claim.

In both insurance and *takaful* businesses, underwriting plays an important role. Underwriting is a management process to determine what risk to accept and how to insure them. It is also the process of ensuring that the principle of equity is being applied and upheld. It is obvious that risk selection is absolutely essential to the success of an insurance and *takaful* company's operation. If it is not done properly, the number and size of the company's loss payments will be too great relative to its income and the company may be ruined.

In the event of defined loss, which leads to a claim, the participant is required to notify the company immediately and provide full particulars within a stipulated period. It is essential that the company be notified as soon as possible in order that a full investigation of the circumstances can be made. In almost every case a claim form is sent to the claimant for completion. In brief, the onus is on the participant to prove that he suffered a loss due to an event against which he is covered.

The other obvious similarity is related to the premium or contribution payments that have to be made by the insured or participant in order to qualify for the compensation. Under life insurance and family *takaful* products, the payments or installments can be made on lump sum or within specific period i.e. monthly, quarterly, semiannually or annually. On the other hand, general insurance and general *takaful* products' installments are normally made on a yearly basis.

Probably both systems seem to be technically similar. However a few differences exist, as we will discuss in the next section.

4.2.2 Differences

There are several differences between conventional insurance system and Islamic insurance system (*takaful*). These differences are in the following aspects:

4.2.2.1 Philosophy

The Islamic insurance system is part of Islam and it binds all activities under the Islamic principles. The Islamic system is dedicated to human brotherhood accompanied by social and economic justice and equitable distribution of income, and to individual freedom within the context of social welfare. This dedication is spiritually oriented within the context of social and economic norms. Therefore the freedom of running any business and transaction in Islamic financial system must not only be based on bottom line considerations but also to uphold the societal needs of the people.

In contrary, the conventional insurance system is based on the concept of modern capitalism. In short modern capitalism has separated the function of religion in managing the other aspects of human life. The conventional insurance system encourages that any underwriting decision should be based on bottom line considerations. Each individual has the full right on his/her wealth and he/she has the full right to do whatever he/she likes about the wealth. This principle is surrounded on the basis of the personal achievement and the individual profit making without having much concern about the whole society unless it will benefit his/her personal goal.

4.2.2.2 Nature of Contract

The conventional insurance contract is a contract of buying and selling, whereby the insurance company sales different types of policy to the insured in

consideration for compensation in the case of loss or disaster. As mentioned before, this nature of contract leads insurance to be associated with such objectionable elements as *riba*, *gharar* and *maysir*. On the contrary the *takaful* is a contract of donation with a condition of compensation based on the principle of *tabarru'* and *al-mudharabah*.

Tabarru' which means to donate, to contribute, or to give away, actually Islamises the insurance contract as it removes the objectionable elements. This shift in paradigm brings about a change in behavior where the participant would not only be thinking of his own protection but also helping fellow members as well. In fact, the spirit of donation or *tabarru'* when paying the premium or contribution is the fundamental difference between *takaful* and insurance. *Al-mudharabah* on the other hand is the commercial profit sharing contract between the provider or providers of fund for a business venture and the entrepreneur.

4.2.2.3 Act

The activities of the conventional insurance companies in the country were brought under the supervision of the Central Bank of Malaysia through the Insurance Act 1967 which was amended recently to become Insurance Act 1996.

In Malaysia, separate Islamic legal provision and *takaful* regulations exist side by side with those for the conventional insurance system. The legal basis for the introduction of insurance products along Islamic principles was the *Takaful* Act 1984. The Act provides the Central Bank with power to supervise and regulate Islamic insurance, similar to the case of other insurance companies. So far, Malaysia is the only country in the world, which has a written statute regarding *takaful*, passed by its Parliament

4.2.2.4 Supervisory Board

The operation of *takaful* practices is generally supervised by an independent body called *Shari'ah* Supervisory Board. The board's duty is to advise the *takaful* operator on its operations, for the purpose of ensuring that no disapproved elements by the *Shari'ah* principles, involved in its operation.

4.2.2.5 Sources of Law

The sources of conventional insurance under Common Law are basically the judicial precedents (case laws), relevant statutory provisions, or the Acts of Parliament, customs, relevant literature and specifically the laws relating to contracts and liabilities. On the other hand, the sources of Islamic insurance law are the Holy *Qur'an*, the Prophetic sanctions, *Ijtihad*, analogical sources, the doctrine of *al-Masalih al-Mursalah*, *fiqh* and also relevant literature, statutes, cases, decrees, rules and juristic opinions (*fatawa*). In other words, the principle of insurance under Islamic law are absolutely subject to the approval by the Divine *Shari'ah* sanctions.

4.2.2.6 Contractual Relationship

Under the conventional insurance system, an insurance company acts as an insurer whereas its client as the insured. The insurer undertakes, in return for the agreed consideration called the premium, to pay the insured a sum of money or its equivalent on the happening of a specified event. However, under the Islamic insurance system, the participants act as the insurer as well as the insured since the members of the group or participants mutually agree to make contribution to a defined fund which will be used for compensating any unlucky member. The company (*takaful* operator) that runs the scheme is not the insurer but is merely an institution that provides the entrepreneurial and administrative skills required to bring the participants together, to collect and invest the contribution and to process the claims

4.2.2.7 Distribution Channel

The system of agency as a form of marketing outlet, universally practiced by conventional insurers is not applied in STMB. This practice is claimed to be not in line with the contract of *takaful*. As outlined earlier, *takaful* is based on the Islamic transaction of profit sharing contract under the principle of *mudharabah*. Under the agency system, a certain proportion will be deducted from the premium received as remuneration to agent. On the contrary, under the contract of *takaful* the gross *takaful* contribution paid by the participant shall be entered into the agreement (Takaful Certificate) of which such amount shall be the basis of the profit sharing. Therefore, should this system be adopted under *takaful*, the actual amount of *takaful* contribution received by the *takaful* company would be in fact less from the figure stated in the agreement as a certain proportion has been deducted to remunerate the agent.

4.2.2.8 Fund Management

In *takaful* business, the company would maintain three separate and distinct accounts i.e. General *Takaful* Fund, Family *Takaful* Fund and Shareholders Fund.

In General *Takaful* Business, the *takaful* contributions paid by the participant are credited into the General *Takaful* Fund as *tabarru'* or donation. The fund will be invested and all profits will be pooled back into the fund. It is from this fund that mutual compensation would be paid to any participant who suffers a defined loss or damage arising from a catastrophe or disaster affecting his property or belonging. Other operational costs for managing the General *Takaful* Business such as the cost for arranging *retakaful* program and setting up of reserve shall also be deducted from the fund. If the fund registers a surplus (after deducting claims and operational cost), then it will be shared between the participants and the *takaful* operator at an agreed ratio such as 40:60, 50:50, and so on. Currently

the ratio is 40:60 for the participants and the company respectively. See **Appendix VI** for General *Takaful* Operation Flowchart.

Under Family *Takaful* Business, each installment paid by the participant will be credited into the Family *Takaful* Fund and shall then be divided and credited into two separate accounts, namely the Participant's Account (PA) and the Participants' Special Accounts (PSA). A substantial proportion of the installments up to 98% are credited into the PA solely for the purpose of savings and investment. The balance of the installments is credited into the PSA as *tabarru'* for the *takaful* operator to pay the *takaful* benefits to the heir(s) of any participant who may die before his maturity of the Family *Takaful* Plan. The *tabarru'* proportion increases with the length of maturity as well as with the age of participant at entry. The table below shows the different rates of *tabarru'*:

Table 4.2a
Ratios of *Tabarru'* Proportion Credited

Age	Maturity Period													
	10		15		20		25		30		35		40	
	D (%)	D+ PTD	D (%)	D+ PTD	D (%)	D+ PTD	D (%)	D+ PTD	D (%)	D+ PTD	D (%)	D+ PTD	D (%)	D+ PTD
18 – 25	2.0	2.2	3.5	3.9	5.0	5.5	5.5	6.1	7.5	8.3	9.5	10.5	12.5	13.8
26 – 30	2.0	2.2	3.5	3.9	5.0	5.5	6.5	7.2	9.0	9.9	12.5	13.8		
31 – 35	2.5	2.8	4.5	5.0	6.5	7.2	9.0	9.9	12.5	13.8				
36 – 40	3.5	3.9	6.0	6.6	9.0	9.9	12.5	13.8						
41 – 45	5.0	5.5	8.5	9.4	12.5	13.8								
46 – 50	7.0	7.7	12.5	13.8										
51 – 55	12.5	13.8												

D – Death only

D+PTD – Death and permanent total disability

Both PA and PSA accounts which fall under Family *Takaful* Fund will be invested and the profit will be shared accordingly between the participants and *takaful* operator on an agreed ratio, say 70:30. The operation of Family *Takaful* Plan is illustrated in **Appendix VII**.

In addition to these funds, the company has its own fund as reflected in the Shareholder's Fund which was originally funded wholly by the paid up capital. The company's income that derived from share of profits from both the Family *Takaful* Business and the General *Takaful* Business, in accordance with the profit sharing agreement of *al-Mudharabah* will be credited into this account. However, the management expenses of the company will be deducted from this account

Under the conventional insurance system, however, there is no such account treatment. This means that all premiums collected are regarded as the company's income. Therefore, any profit from investment activities will be credited into the shareholders' account. Except in the participating policies, the insureds have no right to share in the earnings of the company.

4.2.2.9 Investment

Takaful operators are only allowed to invest in investment which is in compliance with principle of *Shari'ah*, i.e. companies or certificates that are free from interest (*riba*), gambling (*maysir*), alcoholic beverages and other non-halal products. Such investments include certain *halal* counters of shares quoted on the KLSE, Malaysian Government investment certificates, Islamic Accepted Bills, etc. In general, the investment activities allowed are as per list basis. On the other hand, conventional insurance companies are free to invest in any company or other assets as long as it is deemed profitable.

4.2.2.10 Accounting Method

In *takaful*, income is accounted for on cash basis. Profit can only be shared and distributed only if income is actually realized. Unrealized income is deferred and receipts in advance are treated as liabilities in the balance sheet. The reason behind this is that profit can only be shared and distributed only if income is

actually realized. However, for all insurance companies in Malaysia, since 1991, income is recognized on accrual basis.

4.2.2.11 Minimum Age

The minimum age of a person to buy an insurance policy required by the Common Law principles ranges from 16 and above. Nevertheless, a minor between the ages of 10 and 16 has the right to hold a policy provided that a written consent from the guardian is obtained. However under Section 64 of the *Takaful* Act, no one regardless of sex under the age of 18 years can be able to enter into a contract of *takaful*. Based on this section, the minimum age for one to be able to buy a *takaful* policy is 18 years old.

4.2.2.12 Nominee

The nominee in a conventional life policy under the Common Law is treated as an absolute beneficiary over the policy, without sharing with the legal heirs of the insured. In contrast under the family *takaful* plan, the nominee in a policy is treated as a mere trustee over the policy, who is under an obligation to receive the benefits over the policy for the right beneficiaries of the participant according to the principle of *Fara'id* as if the benefits over the policy are part of the legitimate estate of the participant. However if the participant instead of nominating someone as an executor wishes to nominate someone as a donee in which the benefits over the policy are in advance given away as *hibah* (gift) in favor of the donee, the donee is an absolute beneficiary over the policy, according to the principle of *al-hibah*, provided that, the donee's minimum age is 18 years. Also if the participant is a non-Muslim, the nominee could be regarded as an absolute beneficiary.

4.2.2.13 Forfeiture of Paid Premium

Under the conventional insurance contract, there are circumstances whereby the paid premiums may be forfeited, for instances, in case of breach of utmost good faith by the insured. Under the *takaful* contract, on the other hand, the paid contributions especially in the PA account cannot be forfeited even for a breach of utmost of good faith. This is because, it is a financial transaction in which the paid contributions are the property of the participant. If the policyholder or the operator commits a breach of good faith or any other offence, he may be tried according to the law for the offence, but it does not mean that, the legitimate property in the financial transaction should be forfeited because of his wrongful acts.

4.3 Analysis of *Takaful* Industry's Performance

This section will analyze the overall *takaful* industry's performance in relation to insurance industry in Malaysia. Four different measures of performance have been chosen in the analysis: the growth of assets; the growth of contribution income; underwriting experience; and market penetration rate.

Over the past six years, with the admission of the second *takaful* operator (*Takaful Nasional*), the Malaysian *takaful* industry proceeded to record commendable growth, with assets and contribution income expanding at average rates of 46% and 43% respectively. The figures are shown in Table 4.3a and 4.3b below. The onset of the unprecedented regional financial crisis in mid 1997 has not stifled the growth momentum of the Malaysian *takaful* industry. While the conventional insurance sector wrestled to regain eroded market positions, the *takaful* sub-sector in Malaysia continued to maintain strong double digit growth.

Table 4.3a
Combined Asset of Insurance and Takaful

Year	Insurance		Takaful	
	RM (million)	% change	RM (million)	% change
1995	25493.2	21.9%	183.3	49.9%

1996	30926.4	21.3%	295.6	61.3%
1997	34958.7	13.0%	441.3	49.3%
1998	39324.5	12.5%	554.6	25.7%
1999	45397.3	15.4%	834.4	50.5%
2000	50336.0	10.9%	1168.2	40.1%
	Average	16.0%	Average	46.0%

In the midst of the crisis, the total assets of the *takaful* funds continued to expand at 49.3% and 25.7% in 1997 and 1998 respectively. Following the improved economic conditions in the country as well as in the region, *takaful* industry has recorded a 50.5% and 40.1% growth in its total assets in 1999 and 2000 respectively. These growth figures have definitely outperformed the insurance industry, which recorded an average of 16% of annual growth in its total asset for the same six years period.

Table 4.3b
Combined Premium and Contribution Income of
Insurance and *Takaful* Industry

Year	Insurance		Takaful	
	RM (million)	% change	RM (million)	% change
1995	7808.1	20.1	83.4	81.3
1996	9480.6	21.4	145.6	74.6
1997	11132.3	17.4	196.4	34.9
1998	10902.9	-2.1	274.6	40.0
1999	11829.9	8.5	340.8	24.0
2000	12481.0	5.5	444.7	30.5
	Average	14.6	Average	43.0

The combined contribution income of both family and general *takaful* business also increased by 40% in 1998, higher than the growth rate of 34.9% recorded in 1997. These growth rates indicate that *takaful* industry is not much affected by the bad economic situations compared to insurance industry which recorded a negative growth of 2.1% in 1998. However, the *takaful* industry's growth has slowed down to 22.9% in 1999 while regained its momentum in 2000 with 30.5% increase in total contributions. Still, these figures are undoubtedly higher than those recorded by conventional insurance industry at the same period which

averaged at 14.6% annually. In conclusion, *takaful* industry has constantly recorded higher growth rates for both assets and contribution/premium income than insurance industry

Table 4.3c
Underwriting Performance of Insurance and *Takaful* Industry

Year	Insurance				Takaful			
	Earned Premium Income	Net Claims Incurred	Commission and Expenses	Under-Writing Margin	Earned Contribution Income	Net Claims Incurred	Commission and Expenses	Under-Writing Margin
	RM million				RM million			
1995	3276.5	1827.7	987.2	461.6	36.6	13.6	0.4	22.6
1996	4133.0	2332.3	1256.0	544.7	50.9	17.6	1.7	31.5
1997	4885.2	2833.6	1431.7	619.9	66.6	24.8	3.8	38.1
1998	4886.0	3130.0	1472.1	284.0	76.3	27.5	4.6	44.3
1999	4614.1	2939.6	1524.4	150.1	96.5	36.8	5.5	54.2
2000	4826.3	3127.4	1612.0	87.7	114.1	44.0	10.5	59.6
	% of earned premium income				% of earned contribution income			
1995	100.0	55.8	30.2	14.1	100.0	37.2	1.1	61.7
1996	100.0	56.4	30.4	13.2	100.0	34.5	3.4	61.9
1997	100.0	58.0	29.3	12.7	100.0	37.2	5.8	57.2
1998	100.0	64.1	30.1	5.8	100.0	36.0	6.0	58.1
1999	100.0	63.7	33.1	3.3	100.0	38.1	5.7	56.2
2000	100.0	64.8	33.4	1.8	100.0	38.6	9.2	52.2

In terms of underwriting experience, *takaful* industry has maintained its outstanding performance with underwriting margin stood at an average of 57% of earned contribution income for the past six years. As shown in Table 4.3c, *takaful* has managed to achieve this by sustaining a lower degree of expenses as well as net claims. On the contrary, insurance industry has revealed a deteriorating performance with underwriting margin averaged at only 8% of earned contribution income. In the year 2000, the figure has worsened with only 1.8% of earned premium income left as the industry's margin. This is mainly caused by the soaring claims incurred as well as the expenses faced by the industry during the six years period.

Table 4.3d
Combined Asset and Contribution of *Takaful*
As a Percentage of Total Insurance Industry

Year	Combined Asset	Combined Contribution
1995	0.7%	1.1%
1996	0.9%	1.5%
1997	1.3%	1.8%
1998	1.4%	2.5%
1999	1.8%	3.1%
2000	2.2%	3.8%

Although the *takaful* industry has made its mark and the growth has been significant so far, the industry remains small relative to conventional insurance. In Table 4.3d, we can see that at the end of 2000, *takaful* contributions in Malaysia represented only 3.8% of conventional insurance premium, while *takaful* assets stood at only 2.2% of total conventional insurance assets. Nevertheless, these figures are constantly on the rise from year to year. Furthermore, these figures should be deemed as satisfactory since there are only two players in the *takaful* industry, compared with 58 players in the insurance industry.

Likewise, the market penetration of family *takaful* continues to be small relative to conventional life insurance. As shown in Table 4.3e, at the end of 2000, the market penetration rate is only 1.9% of the total Malaysian population, while the conventional insurance industry recorded a 31.2% penetration. This figure however, has increased more than four times since 1995.

Table 4.3e
Market Penetration of Life and Family *Takaful* Policies

Year	Population	Policy's Unit / Market Penetration Rate	
		Life Insurance	Family Takaful
1995	20 700 000	4 977 203 / 24.0%	55 035 / 0.3%
1996	21 200 000	5 358 028 / 25.3%	76393 / 0.4%
1997	21 700 000	5 926 324 / 27.3%	112 605 / 0.5%
1998	22 200 000	6 318 992 / 28.5%	160 944 / 0.7%
1999	22 700 000	7 038 691 / 31.0%	279 491 / 1.2%
2000	23 200 000	7 240 355 / 31.2%	439 822 / 1.9%

Nevertheless, the potential for the Malaysian *takaful* industry to grow is tremendous. This can be attributed to two major factors, namely the low level of conventional life insurance penetration among the Muslim population and the overall low penetration rate of 31% in Malaysia. Should *takaful* operators are able to convince this untapped market, the penetration rate of *takaful* would be higher than 31%.

As previously mentioned, most Muslims in Malaysia are very sensitive to life insurance since it is associated with *riba'*, *maysir* and against the *Shari'ah* principles. If *takaful* operators manage to clarify the concept of *takaful*, while at the same time educate the majority Muslims the importance of joining *takaful* plans, more and more Muslims that are previously shying away from life policies will definitely participate in the plans.

Outside Malaysia, there is also an enormous growth potential for the *takaful* industry given that there are nearly 1.7 billion Muslims worldwide, more than a quarter of the world's population. With Islam being the second largest religion in the world, this number is expected to grow at a rapid pace. These factors, coupled with an increasing Islamic consciousness among Muslims, will not only sustain the present momentum but has the capacity to propel the *takaful* industry to new phase of development and achievement.