Takaful widens reach

by Elaine Boey

The way a product is distributed evolves as customers mature. This can be seen in the takaful industry, which has been growing at a rapid pace. Takaful assets and contributions increased at an average rate of 21% and 29% respectively in the four-year period ended Dec 31, 2008. According to the Ernst & Young World Takaful Report 2010, the global takaful industry will surpass US$88.8 billion (RM28.15 billion) in contributions this year while Malaysia and Saudi Arabia, with contributions of US$900 million and US$2.9 billion respectively in 2008, are the two-biggest takaful markets in the world.

Evolving distribution channels
Much like the conventional insurance industry, takaful operators use a variety of different distribution channels. The commonly used channels are branches, agents and Islamic banks known as bancataful. The main difference between conventional insurance and takaful is the way these products are distributed. “The manner in which takaful is distributed must be syariah-compliant. Distribution channels must also avoid misrepresenting the idea of takaful, which is different from conventional insurance,” says Datuk Syed Moheeb Syed Kamarulzaman, president and CEO of Takaful Ikhlas Sdn Bhd.

Takaful Malaysia has changed its mix of distribution channels to grow its business. The company uses various distribution channels such as retail and corporate agents, bancataful, brokers, branches and direct dealings with corporations. “Previously, we used more branch distribution but have moved to replace this channel with commission-based agents. Moving forward, we will continue to expand our retail agency to grow both family and general takaful product lines,” says Datuk Mohamed Hassan Kamil, group managing director of Syarikat Takaful Malaysia Bhd.

Agents are also seen as a way to penetrate the non-Muslim market. Takaful Ikhlas is looking at gaining an operational advantage by using non-bumiputera agents as all of its 5,000 family agents are currently Muslim. “Non-Muslim general agents account for about 5% of our total agency force and they contribute approximately 4% to the business generated by agents. We find that non-Muslim agents are able to promote takaful because of its transparent nature and underlying concepts. Having non-Muslim agents to promote takaful products to non-Muslim consumers will increases the chances of having non-Muslim consumers as participants,” says Syed Moheeb.

Bancataful is another distribution channel that is expected to continue playing an important role in the distribution of takaful as it provides economies of scale. Takaful Ikhlas uses family agents (those who promote family insurance), general agents (those who promote general insurance) and bancataful to distribute their products.

The company has found its current mix of channels, with a higher percentage of agents, to be effective. “This mix of different channels will continue to drive our revenue but we are exploring other avenues such as direct marketing. This should enable us to promote our products at a lower cost. Internet sales and bancataful are likely to become increasingly important to the industry in the coming years,” says Syed Moheeb.

HSBC, a global financial institution, distributes its takaful products to clients through its own Islamic banking division, HSBC Amanah Takaful, which was set up in 1998. “We leverage our banking presence and our main channel is the local HSBC branches. We also use HSBC’s call centre for telemarketing activities and occasionally use direct marketing and online campaign initiatives,” says Zainudin Ishak, executive director, HSBC Amanah Takaful Malaysia.