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# Insuring financial discipline



by  
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**S**yarikat Takaful Malaysia Keluarga Bhd (STMK) has been on a bullish streak since the beginning of 2019. The country's first takaful provider has seen its share price skyrocket 69.7% from RM3.80 (Jan 3) to RM6.45 (Oct 20).

Market observers have opined that such movements are unsurprising given the lack of Islamic financial stocks on Bursa Malaysia. But with moderating economic growth and sector headwinds, these punters are also questioning the sustainability of STMK's run on the bourse.

## In search of robust growth

STMK group CEO Datuk Seri Mohamed Hassan Kamil believes the group boasts sound fundamentals and is poised to capture long-term growth.

"We do not act in response to aggressive competition in the pursuit of growth," he tells *FocusM*. "We uphold our business discipline that sustainable pricing and strong service delivery are important to establish long-term customer trust. We have achieved the economies of scale with an optimal expense structure that we are able to provide more and better product value to our customers and deliver higher returns to our shareholders."

Mohamed Hassan can cer-

tainly afford to brag. STMK's "high degree of financial discipline", as he puts it, saw the takaful provider post a net profit of RM112.34 mil for the third quarter ended Sept 30, 2019 (3Q19) from RM83.96 mil for the same period last year. Its cumulative nine-month net profit was also higher at RM289.73 mil versus RM204.35 mil for the same period last year.

A segmental breakdown shows its earnings lifted by top-line growth under the family category, higher family wakalah (agent) fee income contribution and well-contained operating expenditure, ie its management expense ratio improved 2.4 percentage points quarter-on-quarter (q-o-q). Further, STMK's overall claim experience remained commendable at 40.6% (2Q19: 41.2%).

The secret sauce, however, has to be STMK's product strategy towards "low-claims" credit-related products which made up more than 50% of group gross earned contributions through its banca partners – parent company BMB Holdings Bhd, RHB Islamic Bank Bhd, Affin Islamic Bank Bhd and Bank Kerjasama Rakyat.

## A stable outlook

Such positive results dovetail with external findings on the industry at large. Credit ratings agency RAM Holdings Bhd, which has a stable outlook on the local takaful sector for this year, wrote in a March 18 note that all major business lines saw an increase in contributions in 2018 with motor taking the lead (+13.4%), followed



STMK has seen its share price skyrocket nearly 70% from RM3.80 on Jan 3 to RM6.45 on Oct 29

by medical and personal accident coverage (+7.3%), and fire plans (+1.4%).

Ordinary family products also moved up, with family takaful new business contributions ascending a quicker 13.1% to RM4.9 bil (2017: +10%). "But the sector's profitability was affected by soft investment conditions," added RAM Holdings.

## Some hurdles to cross

Signs of challenging times ahead have been loud and clear for the insurance and takaful industry this year. For starters, the ongoing de-tariffication of the motor and fire insurance, which began in July 2016, continues to provide a less-than-encouraging performance from STMK's general insurance segment, which contributes about 30% of the group's gross earned contributions. But general insurance only posted smallish gains of 3.4% q-o-q for STMK from RM166.2 mil (2Q19) to RM171.9 mil (3Q19).

RAM Holdings has also flagged a lack of catalysts for motor sales and property transactions which "may limit growth going forward". The previous ecosystem, based on fixed pricing, allowed general takaful operators to offer cashback incentives to customers from takaful fund surpluses.

This was a source of product differentiation. But when Bank Negara Malaysia kicked off the de-tariffication process, that competitive advantage had been stymied through the introduction of risk-based pricing. What this means is that all general insurers and takaful operators can now offer upfront reductions of premium or contributions for "favourable" risks.

Then there is the MFRS 17 accounting charge which takes effect on Jan 1, 2021. This new accounting standard, while complex, basically requires insurance and takaful companies to recognise revenue (primarily premiums) and profits earned from contracts over the period that the

insurer or takaful operator provides coverage. The general effect will be spreading revenue as well as profits over the lifespan of a contract as opposed to the current practice of taking most of the profit on the first day.

The question is whether the market will recognise that economic fundamentals remain unchanged for insurance and takaful providers as investors would generally prefer taking profit now rather than later.

## A split consensus

These developments have divided analysts. Bloomberg data show eight analysts covering the stock with a 50:50 split between the buys and the holds.

MIDF Research's Khoo Zen Ye, from the hold camp, notes that growth might be "tapering off" for STMK. "The ongoing de-tariffication of the motor and fire insurance continues to present a less encouraging performance from its general insurance segment... Moreover, the earnings growth seems to be gradually tapering down albeit still at a solid double-digit growth rate due to effects from a higher base and normalisation," he wrote in an Oct 25 note.

Meanwhile, RHB's Fiona Leong, from the buy camp, has premised her call on STMK's "superior" return on equity and "attractive valuation". Despite gross earnings contribution in the general segment posting modest growth, Leong wrote in an Oct 25 note that "we are encouraged by the management's capability in preserving the bottom line amid a challenging environment".

## Growing the non-motor base

Mohamed Hassan sees the group deploying a number of strategies to meet such hurdles. Among others, STMK intends to bolster its non-motor mix. "We are in the process of recruiting and building a strong non-motor agency force. We will also be launching a

## Syarikat Takaful Malaysia Bhd

### FINANCIAL SERVICES

#### KEY BOARD MEMBERS AND MANAGEMENT

Datuk Seri Mohamed Hassan Kamil  
(group chief executive officer)  
Leem Why Chong  
(deputy chief executive officer)

#### MAJOR SHAREHOLDERS

BIMB Holdings Bhd  
**59.45%**

Employees Provident Fund  
**5.72%**

#### MARKET CAP (Oct 30)

**RM427.04m**

Share price (Oct 30)

**RM6.33**

52-week high (June 21)

**RM7.18**

52-week low (Nov 26, 2018)

**RM3.68**

#### FINANCIAL RESULTS

(3Q ended Dec 31, 2019)

Revenue

**RM753.51m**

Net profit

**RM112.34m**

#### One-year price chart



## Primer on takaful

**T**HE takaful space represents a small 17% of the combined insurance and takaful segment's total premiums and contributions as at end-2018, according to RAM Holdings data. This number is set to grow this year and next, according to analysts covering the sector.

But takaful is a category on its own. Takaful operators are similar to conventional insurance companies but they are governed under the Islamic Financial Services Act 2013. The additional layer of regulation is more towards "shariah governance". This is done to ensure that business activities and operations are shariah compliant.

But these products and services offered by takaful operators serve the same purpose: to meet the protection and savings needs offered by conventional insurers for Muslims and non-Muslims alike. Takaful operators may also offer profit sharing for some of their prod-

ucts to their customers.

Since its establishment in 1984, Syarikat Takaful Malaysia Keluarga Bhd has seen a growing appeal to both Muslims and non-Muslims, says its group CEO Datuk Seri Mohamed Hassan Kamil.

He believes the takaful industry will continue to outpace conventional counterparts. "The family takaful business has now contributed about one-third of the total new business from the life insurance and family takaful sector. The general takaful industry has contributed about 15% of total business from general insurance and general takaful sector," he says.

Malaysia's push towards a stronger Islamic banking sector is expected to enlarge the presence of takaful operators in the country. One of the catalysts is the Bank Negara Malaysia-led value-based intermediation that seeks to ensure Islamic finance business models are shariah compliant.

new SME product for the SME segment to support our non-motor business growth," he says.

But on the investment front, Mohamed Hassan assures that the group will continue to practice a "disciplined" approach. "We will ensure that strategic asset allocation is in line with risk appetite, asset liability management, liquidity, minimum investment returns and capital management."

Indeed, all Mohamed Hassan has to do now is just move in to capture greater market share. The government has emphasised insurance and takaful coverage for the lower-income group or the B40 through the mySalam national health protection scheme. Analysts believe this will act as a catalyst for future purchases of individual protection plans.

And there is the low penetration rate for family takaful, at about 35%, which gives a lot of room for STMK to manoeuvre in its quest for greater premiums.

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