

Swiss Re Survey of Risk Appetite and Insurance: Asia-Pacific 2011 Takaful Findings

Islamic insurance – Identifying a clear need for consumer education

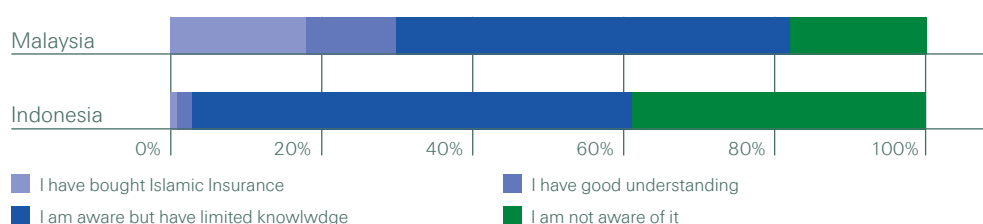
In 2011, Swiss Re commissioned a survey on risk appetite and insurance in 11 markets in the Asia-Pacific region. The survey gauged consumers' attitudes towards various risk aspects, and looked into both their insurance needs and buying behaviours. The target group was people between 20 and 40 years old (from the Generations X and Y), as these are the future consumers whom the insurance industry owes its future to.

This survey was also conducted in Malaysia and Indonesia, the two biggest Takaful markets in Southeast Asia, with contributions of over USD one billion and USD 350 million respectively in 2010. Therefore, some questions, specific to Takaful products and services, were included for *Muslims* from these two countries participating in the survey.

Takaful-specific survey findings

In both markets, only a small portion of the respondents have bought Islamic insurance products, with Malaysia showing a higher ownership rate than Indonesia (16% versus 1%). An overwhelming majority of respondents (Malaysia: 70%; Indonesia: 95%) either do not know about, or have limited knowledge of, these products.

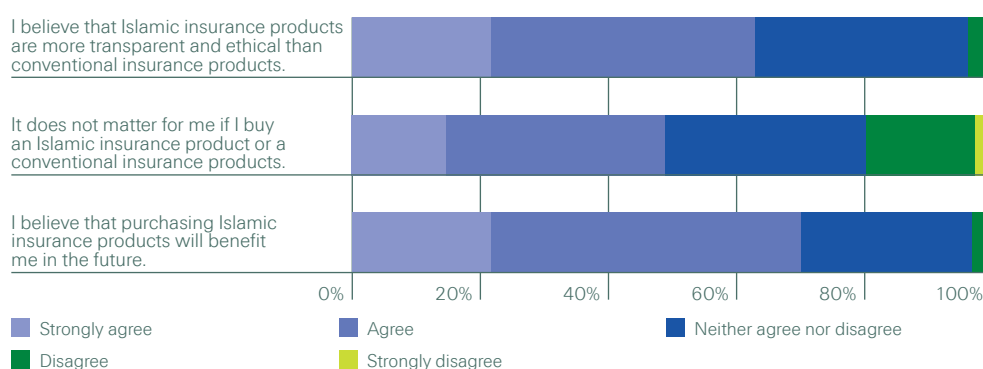
Awareness of Islamic insurance products (in %)



Interestingly, despite the low penetration rates and levels of understanding, a large majority of respondents in both markets perceive Islamic insurance products positively. Overall, 65% of the respondents believe that purchasing Islamic insurance products will benefit them in the future, and 70% believe that these products are more transparent and ethical than conventional insurance products.

In addition, while 49% of the respondents say it does not matter whether they buy an Islamic insurance or a conventional insurance product, 20% disagree.

Perceptions towards Islamic insurance products (Malaysia and Indonesia, in %)



Let us look at the survey results in more detail.

Lack of knowledge: Discovering a need to provide consumer education

The Takaful ownership rates of 16% in Malaysia and 1% in Indonesia correspond with the latest market share figures for both countries (i.e. Malaysia: 7% for General Takaful and 16% for Family Takaful; Indonesia: 3%).

It is striking to see that 95% of Muslim respondents in Indonesia have either limited or no knowledge of Islamic insurance. Surprisingly in Malaysia, where Takaful has been established for over 20 years, only 30% of the respondents have a good knowledge of Islamic insurance or own Takaful products.

This indicates a clear need for consumer education, as there is good growth potential simply through increasing people's awareness of Islamic insurance in both countries.

Purchase of Islamic insurance is seen as beneficial: Providing a strong foundation for good growth

Potential growth is underscored by the fact that the majority of respondents in both countries (Malaysia: 82%; Indonesia: 59%) believes that purchasing Takaful products will benefit them in the future. This positive attitude towards Islamic insurance products is a good basis for potential growth in Malaysia and Indonesia.

Takaful products are deemed as more ethical and transparent: Reinforcing inherent advantage compared to conventional insurance

The foundation for potential growth is further strengthened by the fact that Takaful insurance appears to have a better image than conventional insurance. Despite having a limited knowledge of Islamic insurance, the majority in Malaysia (75%) and Indonesia (56%) still believes that Takaful insurance products are more ethical and transparent than conventional insurance products.

Takaful operators should take advantage of this positive perception, and market these perceived benefits more aggressively. At the same time, this can be a challenge for companies that sell both Takaful and conventional products, as they may not want competition between the two.

Furthermore, the Takaful industry will need to take care to perform according to these perceived expectations, both at business and industrial level.

Buying behaviour not necessarily in line with perceived advantages of Takaful

It is interesting to see that despite the perceived advantages of Takaful highlighted in the previous two sections, more than 40% of the Muslim respondents do not care whether they buy conventional insurance or Takaful product.

Reasons for this could be a lack of knowledge. Other considerations, such as product suitability, value for money and the financial soundness and reputation of insurers, can play an important role in the decision-making process of consumers.

Conclusion

The perceived benefits and advantages, compared to conventional insurance offerings, put the Takaful industry in a good position to grow its business further, and to maintain its past five-year growth rates of over 20%.

However, in order to achieve Takaful's full potential, further *consumer education* is of paramount importance. Working to increase awareness of Islamic insurance should not only be the task of individual operators, but also of the whole industry. The Takaful associations of Malaysia (MTA) and Indonesia should be the major drivers in the promotion of Islamic insurance. For instance, they could organise high-profile media campaigns on behalf of the entire industry, like creating television advertisements and hiring celebrities to endorse Takaful products.

According to the survey, turning to *agents* is still the preferred channel to conclude transactions. Therefore, it is necessary to ensure that agents are well trained, and in a position to explain the advantages of Takaful products to potential customers. In Malaysia, the *internet* is often used as a source of financial information. Takaful operators will have to improve their corporate websites to take advantage of this, as many websites currently provide rudimentary information only. *Social media* also plays an increasingly important role, especially for Generation-Y consumers, whom the Takaful industry has to cater to.

In Indonesia, television is the most preferred channel for getting financial information. Therefore, the Takaful industry should use this medium more actively.

The Takaful industry should also be more aggressive in promoting the value proposition of offering *ethical* and *transparent* products, as this is aligned to the demands of Takaful's target consumers of 20 to 40-year-olds.

According to the survey, the buying decision is based on *product suitability, value for money, and the financial soundness and reputation of insurers*.

Hence, the most important criteria is that the product offered matches consumer needs. In both countries, the majority of respondents is worried about not being able to pay their medical expenses and about getting seriously ill. Many do not have sufficient *medical or health insurance*. This is obviously an area where Takaful operators should get more involved.

Another risk highlighted by the report is the underestimation of life expectancy by the respondents, particularly in Malaysia. The Takaful industry can play a key role in raising public awareness of longevity risks and the importance of personal financial planning at early age, bearing in mind the lack of 'safety nets' (for example, government-sponsored social protection) and changes in family structures, especially in urban areas. Suitable products and services for tackling these challenges can be offered.

With price being the biggest barrier for insurance purchases, and financial soundness and security being the most important criteria for choosing an insurance company, Takaful operators will also have to ensure that their products offer value for money, and are considered financially sound and secure.

Summary

The Takaful industry in Malaysia and Indonesia is poised for further growth, given its positive image among the Muslim population. However, in order to take full advantage of potential opportunities, there is a need for intensive consumer education and innovative products to meet urgent customer needs, such as medical or health insurance and personal financial planning for retirement.