Takaful marketing and distribution: The Asian perspective

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Artist's impression of a Malaysian bank

Traditionally, takaful operators have tended to rely on "low hanging fruit" such as government-related business and synergy business from Islamic banks, minimising competition with conventional insurers. However, some operators have aggressively tried to penetrate other distribution channels, competing directly against conventional insurers. In the last several years, in particular with the entry of multinationals into the fold of takaful, the full range of distribution channels has been actively explored.

Government-related business

In Malaysia, the early takaful operators have been helped greatly by the mortgage reducing term business tied to loans given out by the government and government related companies. This business provided a stable base which helped to create critical size for these operators. In the Middle East, this type of business would be government-related general takaful business such as coverage for oil refineries.

Agency distribution

Whereas agency distribution has been the main source of business for many conventional insurers in Malaysia and the rest of Asia, in takaful, there has been relatively less focus on this channel (except Indonesia). Recently however, several operators in Malaysia have developed strong agency force operations. These operations have tended to piggyback existing conventional agency forces to quickly create critical size while independent takaful agency forces are created. Part of the challenge of developing takaful agency forces in Malaysia is the traditional strength of agency forces in Kuala Lumpur, Selangor and Penang, areas with relatively more non-Muslims rather than Muslims.

The plans sold by agency forces in takaful have been both traditional products as well as unit-linked, but the newer operators in Malaysia have focused more on unit-linked products.

In general takaful, one distribution channel is dealers selling cars and motorcycles with the relevant takaful product included.

Bank distribution

Takaful products sold through banks can generally be classified as synergy products and non-synergy products. Synergy products synergise with the equivalent banking products. Examples include mortgage reducing term, group credit, motor and fire plans. Such products have been the mainstay of a number of earlier takaful operators in Malaysia and elsewhere such as Brunei. In some countries, takaful operations have followed the development of Islamic banks, as the former solves the immediate needs of the banks. This was a major reason behind the setup of the first takaful operator in Sudan.

An example of a non-synergy product would be the sales of takaful by financial advisors in the various bank branches. Both regular and single contribution plans are sold, though single contribution plans have been relatively more popular. This has been partly due to the similarity of single contribution plans with banking products as well as challenges with the direct debit of savings accounts for regular contribution plans. Single contribution structured products have been extremely popular in Malaysia, though sales have slowed since the financial crisis last year. Other non-synergy sales include direct marketing or telemarketing using the bank's database of customers as well as marketing to the corporate clients of the bank.

Other distribution channels in Malaysia

Direct distribution or telemarketing uses the database of a sponsor, which could be a company targeting its sales to Muslims or to the general population. In takaful, this channel has been relatively less prevalent in Malaysia than for conventional insurance. The products sold have tended to be simpler general takaful products such as personal accident or critical illness.

Corporate sales, or sales directly to corporations by the head office of the takaful operator, is popular for selling group term plans and group medical. In general takaful, brokerage is a popular distribution channel for corporate clients for major risks such as marine coverage.

A relatively new distribution channel is the Internet. In Malaysia, this is new for both conventional insurance as well as takaful. Tunemoney.com in particular has been at the forefront of such sales.

Development of distribution channels in Indonesia

Although alternative distribution channels have also developed in Indonesia, agency distribution has so far contributed the largest share of premium collection in the Indonesian takaful industry. Products developed have included both unit-linked as well as traditional savings products. Top players in the conventional insurance industry have been successful in leading the takaful market using the same approach – unit-linked products through the agency channel.

Bancassurance has also contributed a large premium volume especially through traditional synergy products such as Shariah credit (financing) life products, motor and home takaful.

Another form of synergy is where a unit-linked takaful product is co-developed and premium is paid through the bank's accounts. Recent developments have been seen in this class through co-branded products in which simple takaful protection of personal accident cover and a relatively small life cover is packaged into a bank ATM and debit card product; this is one the newest innovations in banking products.

Such a product could provide an effective way for the takaful operator to access a wide customer base using low premium contracts available in the bank's network.

The product is also available in post offices which can reach customers in smaller cities or even districts.

Corporate group sales are the main method for the life, personal accident and health takaful business which provides cover for employees of private sectors and government bodies. This includes death and disability coverage for hajj pilgrims. Competition is very tough in this market especially from local players to a degree that it is doubtful to expect profits. Brokerage is more common in general takaful rather than life takaful.

Many players have used post offices to distribute simple products to reach a wide range of customers. At the same time, many players have partnered with the state-owned Post Office Company to provide an-easy to access facility for premium collection. Among the most recent innovations is distribution through Telkomsel, the largest Indonesian cellular operator, of a general takaful personal accident cover which can be purchased for a short period, with a premium of less than Rp10,000 (US$1) that can be charged against the participant's mobile phone bill. This is a fairly popular product particularly during the Muslim festive period of Eid.

Microtakaful has also started to develop, providing cover to the lowest income level people who do micro businesses. Distribution is carried out through microfinance institutions such as Shariah rural banks and smaller organisations or Baitul Mal Wa Tanwil (BMT) which partly conducts charity to the poor.

As more multinationals enter the takaful space, it will be interesting to see the growth of new and exciting distribution channels and the further expansion of existing channels. With these new operators, all takaful operators will need to move beyond low hanging fruit to actively seek out such business.

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