




Pandemic Crisis Malaysian Takāful Market


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Abstract: With the progressive number of COVID-19 cases, this pandemic has adversely impacted the Takāful market in different forms containing liquidity impact, financial market volatility and solvency capital. This study describes the Malaysian takāful and insurance market throughout the COVID-19 crisis as well as its response to alleviate the burden faced by policyholders/ certificate holders of life insurance and family takāful plans from the economic and Shari'ah point of views. Qualitative approach is applied in this study to collect information, documents and data accordingly concerning to the topic discussed. The data will be explored using qualitative content, narrative, and discourse analysis to deliver its results and discussion. By understanding the precarious scenario of the Malaysian takāful and insurance market during the COVID-19 pandemic, we can further enhance the support to the regulator who has taken the initiative to direct the insurance and takāful industry to initiate adequate response to facilitate policyholders/ certificate holders during the outbreaks and decide what the best way forward would be as aligned with Maqāsid al-Shari'ah. This will ensure its positive impact in the Takāful market, not only to nurture sustainability in our ecosystem, stabilize the socio-economic but to safeguard policyholders/certificate holders accordingly so they could withstand pre, present and post pernicious outbreaks and pandemics. This study inspires Takāful practitioners, policyholders/ certificate holders, academicians, and the society to recognise the importance of takaful industry and it's preventive measures to avoid takāful loss in this swift spread of COVID-19 comprising catastrophic reserves by takāful operators to mitigate adverse catastrophic risks to human life, and building a more humanising takāful which is in tandem with Maqāsid al-Shari'ah that attracts more potential policyholders/ certificate holders.

Keywords: Takāful, humanising takāful, IBNR, catastrophic reserves, COVID-19

JEL Classification: G1, G2, P4

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Background of the Study

COVID-19 named by World Health Organization (WHO) appeared as a substantial threat to social protection and public health. In December 2019, this epidemic emerged from Wuhan City, China and spread to the rest of the world. (Elen-goe, 2020). A pandemic is defined as “An epidemic occurring worldwide or over an extensive area, crossing international boundaries, and usually affecting a large number of people” (Porta, 2008). Despite causing astonishing fatalities worldwide, the pandemic also affects livelihood, individuals, businesses and industries which changed the world forever (Philip Teoh, 2020). Pandemic in early Islamic history is reported by ‘Ā’ishah, mother of the believers, said: I asked the Messenger of Allāh (ﷺ) about plagues and he said, “They are a punishment which Allāh sends upon whomsoever He wills, but Allāh has made it mercy to the believers. Anyone who remains in a town which is plagued with an epidemic, remaining patient and anticipating Allāh’s reward, while firmly believing that nothing will befall him other than what Allāh has preordained for him, then he will receive a reward of a martyr.” (Ṣaḥīḥ al-Bukhāri, No. 3474).

Due to this pandemic, numerous countries worldwide have forced country wide lockdown. Therefore, the Malaysian Government announced the Movement Control Order (Restricted Movement) for the nation which is imposed under the Prevention and Control of Infectious Diseases Act 1988 (PCID Act) and the Police Act 1967 (Police Act) in March 2020 (Rajah & Asia, 2020).

This pernicious outbreak, acknowledged by the World Health Organisation (WHO) as a pandemic on March 12 2020 (Code Blue, 2020), has caught many world governments off guard, with more than thirty million confirmed cases and nearly a million deaths as at the time of writing (WHO, 2020). It is a contagious disease caused by a new strain of virus causing respiratory infections in humans and was discovered in late 2019 when an epidemic of pneumonia of anonymous origin surfaced in China and spread like wildfire to most parts of the globe, affecting 215 countries worldwide (Worldometer, 2020).

Although the first case in Malaysia was discovered on January 24 2020 and started by 3 Chinese nationals who had close contact with a contaminated person in Singapore, the country has managed to keep both the numbers of cases and deaths relatively low (Worldometer, 2020). The Ministry of Health (MOH) promptly formulated standard guidelines for managing the pandemic and a few hospitals and screening centres were specifically assigned in each state of Malaysia (Elen-goe, 2020). While cases in Malaysia among ASEAN countries was highest in the initial

phase (MOH, 2020), the subsequent lockdown integrating the recommendations of the WHO has resulted in a relatively low number of cases and deaths in the country (WHO, 2020). At the time of writing, the number of cases is a fifth of that of its southern neighbour Singapore (Worldometer, 2020), but in the week beginning September 13 2020, there have been 518 new cases in Malaysia, an increase of 722% over the week before (WHO, 2020). Meanwhile, the number of deaths in Malaysia is five times that of Singapore (Worldometer, 2020).

Incorporating Islamic teachings in disaster risk management, there are many verses in the Qurʾān (Surah Al- ʿimrān: 200, Yūsuf: 47-49, Baqarah: 282) and sunnah describing disasters, calamities, and catastrophe preparedness. Calamity does not overlook negligent individuals or groups but also involves innocent people. To mitigate the adverse catastrophic impact of COVID-19 on human life, in relation to having catastrophic risk, Nierkerk (2007) explained that:

“Disaster risk reduction is the systematic development and application of policies, strategies and practices to minimize vulnerabilities and disaster risks throughout a society, to avoid and limit the adverse impact of hazards, within the broad context of sustainable development”.

This study highlights the issues affecting takāful industry during the Covid-19 pandemic that policymakers and regulators need to be mindful of when developing their COVID-19 policy response to strengthen their strategies and frameworks to build a more humanising takāful which is in tandem with Maqāṣid al-Shariʿah. In response to ḍaruriyyāt (necessity), it is an inevitable essential element for humanity. The absence of these elements may cause harm, damage and destruction (mafsadah) to humanity. Takāful protects the life and wealth of the policyholders from any unexpected calamity, disaster, or catastrophe. Once a famous ḥadīth has said on tying a camel, repeatedly quoted by the proponents of takāful for risk management. It was narrated by Anās bin Mālik that an Arab Bedouin queried Rasulullah (ﷺ) in Madinah: “O the Messenger of Allah...Should I leave my camel untied and trust in Allah, or should I tie it?” The Holy Prophet (ﷺ) responded: “Tie your camel and then trust in Allah” (Al-Tirmidhi, 1998).

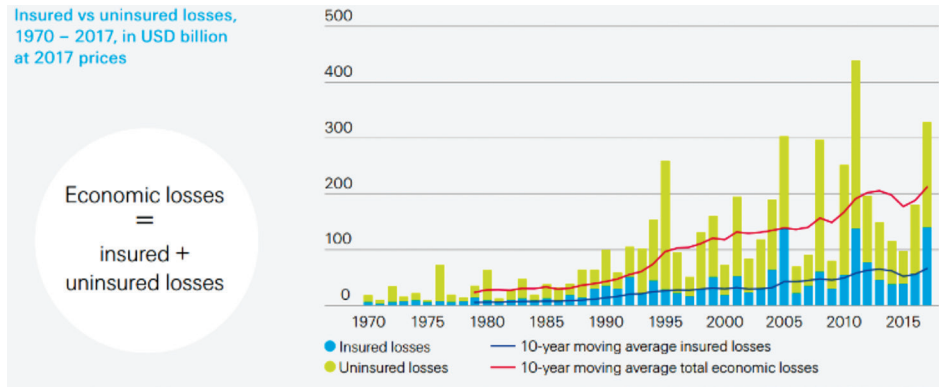
Agha & Sabirzyanov (2015) indicated that the ḥadīth instructs man to mitigate the risk of calamities, damages and losses as well as put his absolute trust in Allah (s.w.t). Thus, the creation of takāful is to preserve the maṣlaḥah and preventing the mafsadah which is in tandem with Maqāṣid al-Shariʿah.

Figure 1 shows in 2017, the global protection gap (the disparity between insured and economic failures over time generated by catastrophes not covered by

insurance) was stated USD 193 billion. For over the last 26 years, the rate of growth of economic losses has outperformed the growth of insured losses. Insured losses grew by 5.4% between 1991 and 2017, and economic losses by 5.9% in 10-year rolling averages. (Re, S., 2018).

Figure 1

The global insurance protection gap was USD 193 billion in 2017.



Source: Re, S. (2018).

Until now, The Ministry of Health (MOH) has reported 1,626 virus clusters in Malaysia, while 1,256 have been declared ended (Salim, 2021).

The Impact of Covid-19 Outbreak on Economy and Sectors

In order to deal with the problem, many countries have closed borders, prohibiting people from entering or exiting their areas. This decision, against the recommendations of WHO (CBS, 2020) has resulted in the rapid decline of the travel sector, with severe losses and a marked reduction in tourism and passenger traffic (ICAO, 2020). This has impacted world economies, resulting in an increase in global poverty and inequality (United Nations, 2020).

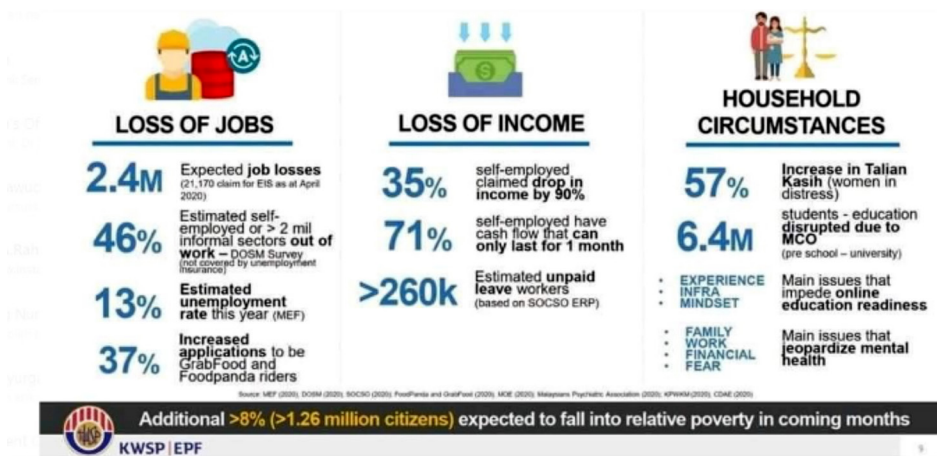
In Malaysia, the economy shrank by 17.1% in the second quarter of 2020 from a growth of 0.07% in the first quarter of 2020 (BNM, 2020). The second quarter, which reflects the post-COVID-19 effect, saw the services sector contracting by 16.2% due to a national Movement Control Order that limits service operations to essential services (BNM, 2020).

The Ministry of Finance has issued Standard Operating Procedures (SOPs) for the financial services sector (MOF SOPs) in May 2020 in May 2020. In accordance

with these SOPs, which applies to all financial services, including insurance/takāful and banking institutions, approved and registered intermediaries and agent banking, and development financial institutions, they have revised banking operating hours, customer attendance hours, staff capacity, and maintain cleanliness and social distancing when dealing at the counter due to Coronavirus outbreak specifically during the early MCO period, e.g. they were still working but with reduced hours which finished early at 3pm instead of 5pm (AIBIM, 2020). According to Erk, Patiath, Pedde, & Ouwerkerk (2020), insurance carriers’ operating models (including policy issuance and service, product, pricing and underwriting, distribution, claims, and other support functions) in the future will be far less labour intensive and look like more modern tech companies and will be different from the traditional insurers for two main reasons: simplification of products and simplification of the product portfolio. Hence, insurance carriers have a chance to enhance productivity and decrease operational expenses while concurrently enhancing their customers’ experience.

COVID-19 which started as a health crisis has become a full-blown global economic and financial crisis. The social and economic impact of COVID 19 is undoubtedly very significant. Literally and figuratively speaking, COVID-19 has pushed most of us into ‘survival mode’ as shown in Figure 1.0. A key factor to establishing a robust public healthcare system and social protection that could withstand unprecedented shocks was the government’s commitment which acts as automatic stabilisers during a crisis, that requires significant capacity, political will and coordination at all levels to deliver a positive impact.

Figure 1.0
COVID-19 Exposes the GAPS within the Malaysia Social Protection System.



Source: EPF, (2020)

There is no data available for the takāful industry post- COVID-19 specifically but compared to the first half of 2019, the first half of 2020 showed that the takāful industry experienced a decline of 16.7% in new business family takāful contribution with the investment link plans and the ordinary plans declined by 30.6% and 10% respectively (BNM, July 2020). The decline of its counterpart, the investment link plans and the ordinary plans, are 24.5% and 18.4% respectively in terms of premiums. It is expected that decline in family takāful contributions and life insurance premiums for the investment link plans is higher than that of the ordinary plans. Nevertheless, the figures show that the difference in family takāful is more significant than its life insurance counterpart.

Meanwhile, the takāful contribution for the general takāful business (motor, fire and property, engineering, third party, workers and employees compensation, marine, miscellaneous and personal accident, liability, contractors' risk, etc) showed a slight increase of 0.6% over the same period in 2019. This is due to the increase in premium with the Contractor's All Risk & Engineering, the Liability, the Fire as well as the Miscellaneous sectors recording an increase of 85.1%, 30.8%, 0.4% and 0.3% of takāful contribution, respectively. Meanwhile the Marine, Aviation & Transit, the Workmen's Compensation & Employers' Liability, the Medical Expenses & Personal Accident as well as the Motor sectors experienced a decline of 31.7%, 17.9%, 5.7% and 0.6% of takāful contribution, respectively.

In general, the impacts of the pandemic outbreak on the takāful industry have taken many forms. From a takāful loss perspective, it is as follows: (1) liquidity impact due to deferment of life insurance premiums and family takāful contributions for three months premium holidays to policyholders/ certificate holders which has been collectively agreed by life insurers and family takāful operators. This deferment or the extension of the grace period of contribution payment leads to liquidity impact; (2) financial market volatility due to low investment return because of the widen şükük spread. Hence, low cashflow to cover variable costs, fixed costs, salary, management and operation of the takāful company; (3) Prolong period of this leads to loss and it could cause the impact of solvency in the long term. According to Erk, Patiath, Pedde, & Ouwerkerk, (2020), insurance carriers have encountered significant operational disturbances and increasing stresses on profits due to this pandemic. Hence, they ought to transform their cost structures and operating models to sustain in a post-coronavirus world.

Findings and Discussions

This study explains Malaysian takāful and insurance industry responses throughout this outbreak to mitigate the adverse catastrophic impact of COVID-19 on human life as well as to reinforce the socio-economic by building a more humanising takāful which is in tandem with Maqāsid al-Shari‘ah. In addition to that, this study comes out with valuable recommendations for the Malaysian takāful industry to survive and thrive in this inevitable pernicious pandemic.

Response from the Malaysian Takāful and Insurance Industry

The insurance and takāful industries have been instructed by Bank Negara Malaysia to commence adequate response to support policyholders/ certificate holders. In this respect it has announced preventive measures or procurement controls to relieve the burden faced by policyholders of life insurance and participants of family takāful plans (BNM, 2020). These include the flexibility to defer the payments of contributions and premiums for three months with a guarantee that the life insurance policy or family takāful certificate will not be lapsed by the respective insurers and takāful operators.

In addition, the takāful operators and insurers will also extend the period for reinstatement of the life insurance policies and family takāful certificates. The initiative includes an increase or reduction in the sum covered/assured, changes to the contributions and premiums arrangement whereas in the case of life insurance conversion into a paid-up policy. For Takāful, this can also be done but changes to the certificate wordings need to be made and are subject to the approval of the takāful operators’ Shari‘ah Committee. Bank Negara Malaysia also announced that fees, charges, and penalties are waived during the period.

Similar measures for flexibility by general insurance and the general takāful industry are also implemented to facilitate requests for flexibilities to pay their premiums/ contributions to ensure that their properties and businesses continue to be protected. This includes restructuring of their policies/certificates.

Apart from the above, the takāful industry has also allocated RM 1 million of the RM 8 million special relief fund otherwise known as COVID-19 Test Fund (CTF) to assist the MOH attempts to organize more COVID-19 tests for Malaysians (LIAM *et. al.*, 2020). This would enable participants required to undergo COVID-19 testing to claim up to RM 300 reimbursement (MyCTF, 2020). This is in addition to other initiatives by individual takāful operators that contribute individually to other funds in general such as the RM 250 thousand donation by Syarikat Takaful Malaysia Keluarga Bhd (Takaful Malaysia) to the COVID-19 Humanitarian Aid (Farah Solhi, 2020).

Islam prioritizes humanity (*al-insāniyyah*) during a pandemic. Humanitarian (*al-insāniyyah*) principles are generally intertwined with *Maqāṣid al-Shari'ah*. For the proponents of human rights and humanity, the most important principles are the preservation of faith or belief (*hifz al-dīn*), preservation of soul (*hifz al-nafs*), preservation of offspring/ progeny (*hifz al-nasl*) and preservation of wealth (*hifz al-māl*) which is aligned with *Maqāṣid al-Shari'ah*.

In terms of curbing the transmission of the COVID-19, during Conditional Movement Control Order (CMCO), Friday prayers are permitted with limited congregants upon advise of the respective religious authorities. Government action in response to the COVID-19 pandemic will be ineffective without individual or social responsibilities. 'Abd Allāh ibn 'Umar stated that the Prophet Muḥammad (ﷺ) said: "Every one of you is a guardian and is accountable for your tasks. The leader is accountable for his subjects, and the man is in charge of his family; the woman is liable for her husband's home and their kids. All of you are guardians and are liable for your obligations" (Ṣaḥīḥ al-Bukhārī, No. 893; Ṣaḥīḥ Muslim: 1829). Abū Hurayrah reported that the Messenger of Allāh (ﷺ) said: "It is obligatory upon you to listen to and obey the authorities during prosperity and adversity; whether you are willing or unwilling, even when someone is given undue privileges over you." [Ṣaḥīḥ Muslim: 1836]. As prayer is the second principle of Islam, under Takaful Mulia, Sun Life Malaysia, double indemnity for accidental death/total and permanent disability (TPD) benefit is payable if accidental death/TPD of the person covered occurs at the registered mosque/surau for the purpose of performing prayer (ṣolāt) or while performing Hajj/Umrah (Sun Life Malaysia, n.d.) which is aligned with *hifz al-dīn*.

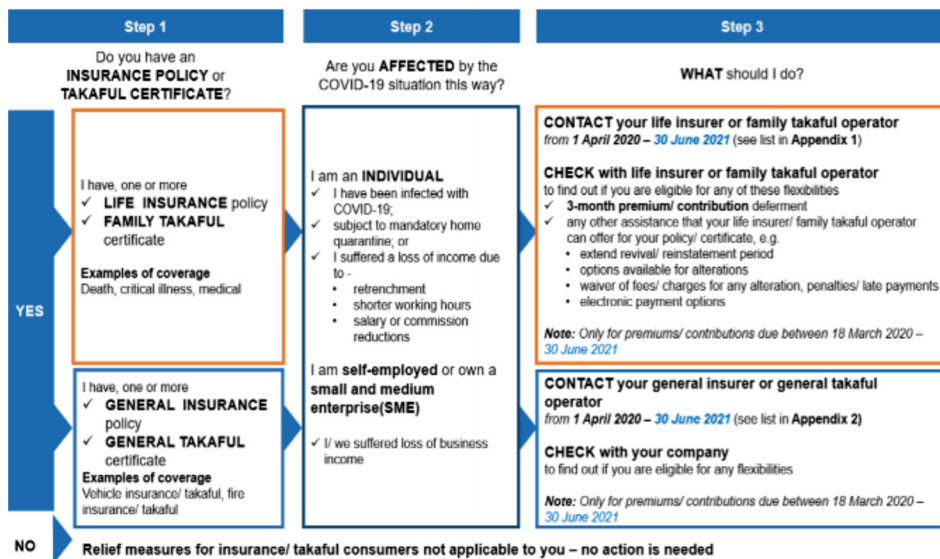
With the number of COVID-19 cases rising, for the protection of soul/life (*hifz al-nafs*) there are cash benefits/allowance for hospitalisation from RM60 - RM250 per day (up to 30 days) upon diagnosis and quarantine caused by COVID-19 for the policyholders/ certificate holders (LIAM, 2020). In addition to the protection of one's life and soul (*hifz al-nafs*), the Malaysian Takaful Association (MTA), Persatuan Insurans Am Malaysia (PIAM) and the Life Insurance Association of Malaysia (LIAM) have extended the eligibility criteria of the RM8 million COVID-19 Test Fund (CTF) to include COVID-19 tests required for hospital admission for emergency and semi-emergency surgeries for the protection of the healthcare front liners from the risk of COVID-19 infection (PIAM, 2020).

As for the protection of offspring (*hifz al-nasl*), upon the demise of the insured caused by COVID-19 there is a benefit of RM10,000 (LIAM, 2020). The holy Prophet Muḥammad (ﷺ) has emphasized leaving the family rich rather than poor. Narrated by Sa'ad Abī Waqāṣ, the Prophet said, "It is better to leave your offspring wealthy than to leave them poor asking others for help" (Ṣaḥīḥ al-Bukhārī, No.725).

In *Takāful*, the concept of individuals in the community jointly guarantees protection against future loss or damage arising from either catastrophe or misfortune is aligned with the protection of wealth (*hifz al-māl*). In addition, some of the takāful companies offering three-months of premium holidays without affecting the policy coverage, special package for Small Medium Enterprise (SME) and business coverage, and product with extra length service such as daily allowance when admitted to the hospital due to Covid-19. These initiatives of creating more humanizing takāful are aligned with the principles of “*al-mashaqqah tajlib al-taysir*” (hardship begets facility) i.e. for infected policyholders/ certificate holders subject to compulsory home quarantine or suffered a loss of income; and SMEs which have undergone a loss of income they are entitled to a 3-month contribution/ premium deferment as stated in Figure 2, *hājah* (need) i.e. the urgent need to have the protection of religion, life/soul, offspring and wealth (*hifz al-dīn, al-nafs, al-nasl and al-māl*) for the policyholders/certificate holders during a pandemic because of the precarious economic position where *takāful* is mutual cooperation to protect the necessities, ‘*umūm al-balwa* (widespread pandemic difficult to avoid) and ‘*urf* (custom) following the customary practices during pandemic create a concession in this regard will eventually lead to a self-reliant society with the protection of unexpected difficulties during pandemic especially.

Figure 2

Relief measures for insurance/ takāful consumers due to the economic impact of COVID-19.



Source: Bank Negara Malaysia, (2021).

Suggestions for the Malaysian Takāful Industry

The COVID-19 pandemic is a catastrophe and the Malaysian takāful operators should have reserved for catastrophic risks where they are liable. Amid the outbreak, the conventional insurance industry has long made provisions for catastrophic risks with supervisory authorities facilitating it through tax facilities (Cleary *et. al.*, 2016) such as the tax deductions and the like (Brumbaugh, & King, 2005). Indeed, the World Bank has suggested that insurance may be used to cover catastrophic risks (Pollner, 2001) such as a pandemic, at least in part.

The International Risk Management Institute equated the catastrophic reserve with the Incurred But Not Reported (IBNR) claims reserve (IRMI, n.d). However, we are suggesting that it is above and over IBNR because the IBNR calculations do not take into consideration catastrophic losses. Indeed, the definition by the Society of Actuaries does not indicate that it is IBNR (Society of Actuaries, n.d). IBNR is usually made for reserves for long-tail business such as Motor Third Party Bodily Injury and Death (TPBID), but catastrophic reserves are meant to cover natural disasters that occur every several decades, such as the Typhoon Vera (The General Insurance Association of Japan (GIAJ), n.d). Although IBNR may be used to reserve for catastrophic events, in general the methods used in formulating the reserves do not consider catastrophic risks in view of their singular nature (Straub, E., & Grubbs, D. 1998).

However, the tax deduction for catastrophic reserves in Malaysian has not been addressed because there is no separate item in the accounts of Malaysian takāful operators as yet. Therefore, if a takāful operator wishes to use IBNR to incorporate catastrophic reserves, then the most significant development factors should be used in each column of the development triangle rather than the latest or the average development factors. There exists bias and may result in an overestimation by using the highest development factors. Consequently, this results in a lower surplus for the participants. However, it is more in line with the Shari‘ah. This is based on the legal maxim, “Eliminating mafsadah is prioritized over securing maṣlahah” (Ismail, 2010).

As we have stated, it is better to use a separate catastrophic reserve rather than incorporating it into the IBNR reserves not only to reduce the element of uncertainty (*gharar*) but also its utilization will reduce elements of potential misuse at a later stage. Ideally, it should even be separated from catastrophic reserves. We can name this as “pandemic reserves” but the International Financial Reporting Standard (IFRS) has not incorporated it yet. On the other hand the IFRS has recognized the Japanese Generally Accepted Accounting Principles (GAAP) which require insurers to provide for catastrophic events based on a ratio of premium income

(IFRS, 2017). The “pandemic reserves” can be modelled along the lines of the Japanese formulation of catastrophic reserves but should incorporate the development pattern of earlier pandemics and adjusted with external market analysis by conventional insurers. For the determination of the takāful pricing, each product has to factor in pandemic risks, a methodology similar to the recommendation of the one developed by the Subcommittee on Ratemaking of the Casualty Committee of the Actuarial Standards Board with respect to general insurance ratemaking (Subcommittee on Ratemaking of the Casualty Committee, 2000).

For takāful accounting, the reserve for pandemic risks is deducted from each particular takāful risk fund and treated similar to IBNR, albeit for each line of business. This reserve is fair and just to the different cohorts of participants since it has been incorporated in the pricing of the general takāful covers.

Malaysia is not prone to natural catastrophe risks; thus the regulator has not required the insurance and takāful industry to supply information relating to catastrophic events (International Monetary Fund, 2013). However, BNM has indirectly allowed takāful operators to incorporate catastrophic reserves (Bank Negara Malaysia, December 2018 and December 2019).

To sum up, our proposal for the Malaysian takāful industry to provide cover to individuals and business are as follows:

- (1) Micro takāful for family takāful participants extended to cover pandemic risks. Coverage can be offered through micro finance institutions for a start to reduce acquisition costs.
- (2) Micro personal and travel accident takāful for family and general takāful participants extended to cover pandemic risks.
- (3) Workmen Compensation takāful to cover risks whilst working from home.
- (4) Employers’ liability takāful to cover risks of working from home.
- (5) Cyber takāful to cover risks of handling data outside of office premises. This can be done with partnerships with fintech companies that use artificial intelligence and online delivery channels.
- (6) Group takāful cover tailored to individual employees using fintech.
- (7) Takāful for small businesses and freelancers working from home.
- (8) Medical expenses from pandemic related treatment that are not borne by governments. However, to reduce risks, the industry should engage the government and draw up a proper framework.

Conclusion

In takāful, the supplementary assistances for the infected policyholders/ certificate holders come in several forms of financial assistance amongst others include lump-sum demise compassionate benefits, hospitalization allowance and cash benefits are aligned with humanitarian (*al-insāniyyah*) principles and intertwined with *Maqāsid al-Sharī'ah*. The urgent need to protect (*hifz*) and save soul/ life (*al-nasf*), progeny (*al-nasl*) and wealth (*al-māl*) can be achieved through subscribing takāful plans to prepare the policyholders/certificate holders from future pernicious outbreaks, epidemics and pandemics, thus they could withstand unprecedented shocks.

Despite the positive response from the Malaysia takāful and insurance industry throughout the pandemic, the study provides an important suggestion that Malaysian takāful operators should have reserved for catastrophic risks which are above the Incurred But Not Reported (IBNR) claims reserve; or use a separate catastrophic reserve rather than incorporating into the IBNR reserves as discussed earlier. The relevant knowledge, appropriate attitudes and environmental awareness are essential to nurturing sustainability in our ecosystem especially in the takāful industry.

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