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INDONESIA: THE UNTAPPED TAKAFUL MARKET

Investors looking for potential growth and handsome profit in the insurance industry have only to look at Indonesia to realize how big an untapped market it is, especially for the Shariah insurance, or aptly known as Takaful. With 17,508 islands, Indonesia is indisputably the world largest archipelago. From as far as Sabang in north Sumatra to Merauke in Irian Jaya, thousands of ethnic groups live in Indonesia, in the midst of an immense agricultural and biological resources. The fact that Indonesia is one of the most populated country in the world should be tempting enough for any business venture, for there lies affordable human resources and an ever growing market potentials. Most importantly, it has the biggest Moslem population with more than 200 million or approximately 87% of the total Indonesian population of 235 million.

The economic outlook in Indonesia is equally promising. In year 2007, Indonesia's GDP per capita is estimated at USD1,560 which is equivalent to about Rp 1.0 million per month. This shows an increase of 6.1% compared to the previous year. Although the economic system is still largely conventional, the potential for shariah economic system is vast and evolving. Since the introduction of shariah financial institution in 1991, the establishment of Bank Muamalat Indonesia as the first shariah bank in Indonesia has definitely made a considerable impact in the Indonesian market.

On August 24, 1994, the Indonesian government with the support of the Association of Intellectual Moslem Indonesia or Ikatan Cendekiawan Muslim Indonesia (ICMI), Abdi Bangsa Foundation, Bank Muamalat Indonesia, PT Asuransi Tugu Mandiri and other Moslem investors, has established PT Syarikat Takaful Indonesia as a pioneer shariah insurance company in the country. This establishment was fully supported by Syarikat Takaful Malaysia Berhad financially and technically.

PT Syarikat Takaful Indonesia owns two shariah insurances, namely PT Asuransi Takaful Keluarga (ATK) which provides family Takaful and PT Asuransi Takaful Umum (ATU) which provides general Takaful services. The group is currently among the 150 insurance companies operating in Indonesia both in life and general insurances.

The growth of shariah insurance entities in Indonesia was slow at the beginning with only five shariah insurance companies by the year 2002 including ATK and ATU. The development of shariah insurances has been lagging far behind the conventional insurances. The data from the State Finance Department (Depkeu) shows that the asset of shariah insurance in 2006 is only Rp 882 billion (USD 95 million) (0.93%) compared to total insurance and takaful assets of Rp 94,730 billion (USD 10,200 million). Meanwhile, total premium collected is only Rp 464 billion (USD 50 million) or 0.89% of Rp 52,200 billion (USD 5,612 million) of the total national insurance premiums. However, until August 2007, the number of Shariah insurers has improved significantly from five to forty three with twenty in life insurances, nineteen in generals and 4 in reinsurances. In lieu of the positive outlook in the Shariah insurance, there are other insurers to enter the market in the near future, all eying for a piece of the pie.

Author's biography:

Saiful Yazan Ahmad, President Director of PT Syarikat Takaful Indonesia based in Jakarta since June 2007. Prior to the appointment, he was one of the co-founders of Takaful Ikhlas Sdn Bhd and served in several insurance related institutions such as MAA Assurance, Watson Wyatt, and Bank Negara Malaysia. Twenty years working experience in marketing, actuarial, operational as well as regulator. Graduated from University of Iowa, USA with MSc. in Actuarial Science and Universiti Teknologi Mara, Malaysia with MBA.

To date, there are more to be developed to further stimulate the market. Compared to other countries with Moslem potential market, the growth of shariah insurance in Indonesia is rather slower. Malaysia for instance, has only 10 % of Indonesian population, yet the total asset of its Shariah insurance has reached approximately 6.0% or approximately RM 6,900 millions (Rp 18,156 billion) of its total assets of the insurances and takaful industry. In term of premium collections, it has reached RM 1,721 millions or 6.0% of total insurance and takaful premium of about RM 26,607 millions for the year 2006.

The progress of shariah insurance in many countries is driven by the society's awareness towards the importance of insurance and a growing demand from Moslems for shariah-based products. On the other hand, the acceptance of Indonesian society towards insurance is less favorable in general. Efforts should be taken to familiarize people with the shariah concept of insurance and to educate them about the necessity of having an insurance coverage. Most of the victims of tsunami and earthquake in Aceh, Nias, Yogyakarta, Bengkulu and even those affected by flood in Jakarta recently, have neither family nor general insurance coverage. Therefore, the shariah insurance companies, together with the government and Moslem scholars, should shoulder the responsibility to create awareness campaign among the population and to spread the information about the benefits of Shariah insurance through selected mass media.

To compete in the market effectively, shariah insurers need better investment instruments which give higher returns whilst conforming with the shariah principles. The government of Indonesia is in the final stage of approving the shariah bond or sukuk. With the introduction of sukuk in the market, we can expect more value added products to be developed by shariah insurers due to the higher return on investment at least at par with conventional.

Offering shariah-compliance products does not mean having only to focus on the Moslem as the sole captive market. The universality of Islam and the Shariah concepts make non Moslem a promising and potential market as well. Realistically, Shariah insurance accommodates risk management and sharing of risk among participants, regardless of their race or religion. For as long as the other party is engaged in non-haram activities, there is no restriction for Shariah insurers to extent their services. This is supported by the fact that the demand for insurance products are higher within the non Moslem society compared to Moslem mainly due to their standard of living.

To build a strong business foundation, shariah insurers need to develop the professional competency amongst its personnel, who should be knowledgeable and skillful in both the conventional and shariah system. This will enable them to be more creative and innovative in product developments, ready to compete globally in the free trade era. Employers need to invest certain percentage of their revenue in trainings for their staff to ensure continuous learning process take place. Concerted effort is needed to train people with religious background to become an alternative distribution channel as they can better market takaful products due to their knowledge and strong-based loyal followers.

Needless to say, the shariah insurance needs full support from the government to provide policies that are more flexible on investment and taxation that can accommodate and meet the needs of the industry. Hopefully, all aspects of shariah business can be developed simultaneously in the near future. Being under one roof, all shariah financial institutions are inter-dependent of one another. The shariah insurance can not develop significantly without the support of the shariah banking for instance, and vice-versa.

Last but not least, at Takaful Indonesia, our efforts in developing shariah-compliance products not only focus on repackaging of conventional insurance products but also on innovating specified shariah products. Takaful Indonesia is committed in offering value added products in accordance to shariah principles, a feature that distinguishes us from the conventional insurance. Presently, we have attractive products for bankatakaful and micro insurance which meet with the strong demand in the market. Investment linked products have become our main revenue contributor ever since our first launched a year ago due to the increased in demand for bundled products which combine protection and investment elements. During 2007, Takaful Indonesia has been awarded the best performance insurance by several independent institutions in Indonesia. This is a recognition that the whole team of Takaful Indonesia is proud of, for it reflects our commitment and team effort in offering only the best syariah-compliance products for the people of Indonesia.

If you would like more information on ICMIF and its services to the takaful sector, please contact Sabbir Patel (sabbir@icmif.org), or visit www.takaful.coop.

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