

A STUDY OF STRATEGY, ORGANIZATION STRUCTURE AND
PERFORMANCE OF INSURANCE FIRM: A CASE STUDY OF
TAKAFUL MALAYSIA

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Abstract

Syarikat Takaful Malaysia Berhad (STMB) has been in the insurance industry for more than 28 years but the company's performance has not been encouraging. However, since 2009 there has been a major transformation initiative taken by the company. The transformation looks at the following perspectives; "People and Leadership", "Process and Best Practices" and "Technology and Systems", and how they supported the company's strategy.

This research is to investigate on how to transform Takaful Malaysia from being reactive to the market, and realign itself to be business focused by looking at the people, leadership, process, best practices, systems and technologies. It will also explore all the initiatives that had taken place from 2009 to 2012, by looking at the said three components described earlier.

Some of the theories used include Change Management theories, Leadership theories and the Porter 5-forces theories, which include Force Field Analysis Approach, Rational Approach to Change, Emotional Approach, Porter's Value Chain Model and military strategy theories such as Sun Tzu, Genghis Khan and US Marines.

We had conducted a survey with the Management team, and 12 had responded out of 13. The other person was out of country and hence, we will exclude the response from the 13th candidate. The breakdown of the analysis from the responses are as follows:-

- 3 respondents are from sales division, which are also the initiatives driver of the company and income generating divisions.
- 1 respondent is from investment unit, which is also income generating division.

Do note that these 4 divisions mentioned above are the one generating actual income and sales for the company. They are the key business units that require the most support in order to achieve the top line. As for the rest of the divisions:-

- 2 respondents are from insurance operations
- And the rest of the 6 respondents are from supporting divisions

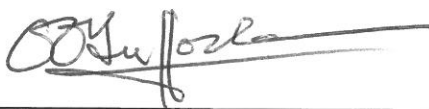
The eight divisions mentioned above are to support the sales and investment division. In addition, they are also responsible to lower the bottom line, as well as improve efficiency and enhance customer service.

As for the results of the survey with the employee, there was a huge success as 73% of the entire population responded to the online survey. The overall feedback has been positive. The total respondents were 657 and from the feedback by the employee based on the survey, 380 or 58% felt that People and Leadership made the difference in the transformation. There are 161 employees or 25% who felt that Process and Best Practices made the difference and the balance of 116 or 18% chose System and Technology that made the most impact to the transformation agenda.

Based on this case study, it is recommended that a conceptual model that works for Takaful Malaysia can be adopted to transform a company into a more viable and vibrant business enterprise.

Approval Page

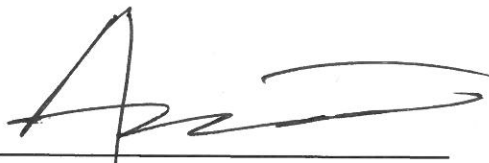
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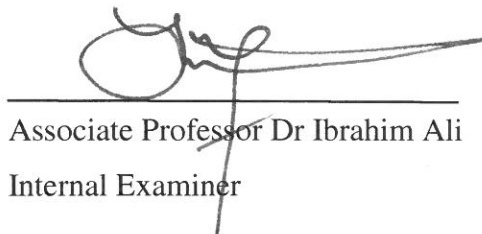
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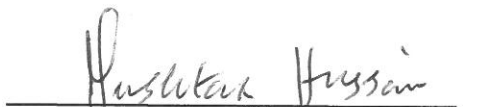


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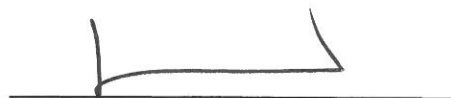


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Declaration

I hereby declare that the thesis is submitted in fulfilment of the MSc degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

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Terminology

Insurance Terminology	Explanation
Takaful	<p>a. Takaful insurance is an Islamic insurance system based on the principle of contract for mutual cooperation (ta'awun) which means mutual assistance. The Takaful Act 1984, section 2 defines "<i>takaful</i>" as;</p> <p>➤ a scheme based on brotherhood, solidarity and mutual assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose.</p> <p>b. The aims and operations of Takaful business do not involve any element which is not approved by the Syariah. All investments managed by the Takaful operator are made in accordance to the Syariah principles.</p> <p>c. The funds are managed by the Takaful operator on behalf of the participants, which will be beneficial to the participants. In addition participants retain an ownership interest in the Takaful fund.</p>
Conventional	<p>a. Term used to denote normal insurance practice and to clearly differentiate that it is not an Islamic insurance.</p> <p>b. It is a risk transfer mechanism whereby risk is transferred from the policyholder (the insured) to the Insurance Company (the insurer) in consideration of 'insurance premium' paid.</p> <p>c. The surplus is owned by the company and the risk/reward is not shared.</p>
Customer = Participant	<p>Customer/Policyholder = Conventional Insurance</p> <p>a. A policyholder is the owner of an insurance policy usually, but not always, the insured. Policyholder has all the ownership rights of the policy.</p>



	<p>b. The policyholder agrees to pay a premium and in return, the insurance company promises to pay a predetermined amount of money to the insured or beneficiaries when some specified event takes place.</p> <p>Participant/Certificate holder = Takaful Insurance</p> <p>a. Participants are the certificate owners who mutually agree to assist each other financially in the case of certain defined need (as defined in the Takaful contract) by contribution to a common fund.</p> <p>b. By jointly guaranteeing each other, the participants are in fact the insurer as well as the insured at the same time. This is because they are the ones bearing the risks and not the Takaful operator.</p>
<p>Premium = Contribution</p>	<p>Premium = Conventional Insurance</p> <p>a. The fee an insurer receives from a policyholder (in return for their policy) is known as 'premium'. This premium, and the terms and conditions of the policy, are based on the likelihood of the risk happening and its value.</p> <p>b. The insurer collects premiums on a number of policies and pools these funds, which it then invests to increase the amount of money held. Should any insured person or business make a claim on a policy, the insurer will pay out on that claim from the pool of funds.</p> <p>c. When premium is paid by the policyholder; the risk is transferred to the company.</p> <p>Contribution = Takaful Insurance</p> <p>a. Contribution refers to the monetary donation provided once or periodically by a participant to a Takaful operator for the purpose of investment and tabarru'.</p>

	<p>b. A participant decides on the contribution amount provided that it exceeds or equals the minimum contribution amount.</p> <p>c. When the contribution is donated by the participant, the risk remains in the co-operative fund which differs from conventional method.</p> <p>Note: Tabarru' is a portion of participant's contribution for the purpose of mutual help and used to pay claims submitted by eligible claimants</p>
<p>Cash Value = Personal Account Balance (PA Balance)</p>	<p>Cash Value = Conventional Insurance</p> <p>a. Policy cash value or surrender value is the amount of money the policyholder will receive as a refund when the policyholder cancels the coverage and returns the policy to the company.</p> <p>b. The cash value is only available for permanent insurances such as whole life and endowment. In these cases, the cash value is only available after the policy has been in force for three full years. This payment of cash value after a minimum period of three full years is guaranteed by law.</p> <p>PA Balance= Takaful Insurance</p> <p>a. Personal Account is an account to credit a portion of contributions from the participant for the purpose of investment/savings.</p> <p>b. The savings and investment contributions will be invested by the Takaful operator and the profit will be shared between the participants and the Takaful operator according to a pre-agreed ratio.</p> <p>c. If a participant decides to withdraw from the scheme before the maturity of the plan, then he/she is returned all the money in his PA and the profits that the money</p>

	has earned so far. There is also a facility to partial withdraw the PA but only after the plan has been in force for certain limited years.
Wakalah fee	<p>a. "Wakalah" means protection or delegation. Legally "wakalah" refers to a contract where a person (principal) authorizes another person (agent) to do a certain well-defined legal action on his behalf.</p> <p>b. The Takaful operator manages the fund and receives a pre-agreed percentage of the participants' fund or fixed fee; this management fee is called a <i>wakala fee</i>. In addition, the Takaful operator may charge a performance-based fee, which is its incentive to manage the fund as well as possible.</p> <p>c. The Takaful operator determines what fee(s) to charge after consulting with the syariah board. Any fees it collects are placed in the shareholders fund and are used to reward the shareholders as well.</p>
Commission = Admin Fees	<p>Commission = Conventional Insurance</p> <p>Commissions are paid to brokers or agents ('intermediaries') as an incentive to sell policies, maintain and expand the company's business.</p> <p>Admin Fees = Takaful Insurance</p> <p>Admin fees are the fees paid to the brokers for the brokerage services engaged.</p>
Share holder fund = Tabarru (PSA and GFTA)	<p>Shareholder fund = Conventional Insurance</p> <p>a. It refers to shareholders' equity and reserves. In conventional, insurance fund belongs to shareholders/company.</p> <p>b. The company can charge all expenses inclusive of company expenses to the life fund. The company will also get surplus if the fund is having surplus. Therefore,</p>

if insurance fund has a deficit, then the company will have to pay/get injection.

Shareholder fund = Takaful Insurance

Also called the *operating fund*, this account holds the seed money (the paid-up capital) provided by the company's shareholders. The shareholder fund pays startup administrative expenses, and remaining capital is invested. Any profits from those investments go back into this fund. In addition, Takaful participants pay ongoing management fees that are placed in the shareholders fund to support continuing administrative expenses.

Shareholders are rewarded for their investment with explicit fees that are paid out of this fund periodically. In addition, when a Takaful fund earns investment profits, shareholders may receive a share of those profits.

Tabarru (PSA and GFTA) = Takaful Insurance

- a. The contribution paid by the participant goes into two different accounts, the Participants' Account (PA) and the Participants' Special Account (PSA).
- b. The PA, into which the larger proportion of the money is paid, is a form of savings and investment account.
- c. Money paid into the PSA is paid with the intention of helping fellow participants in times of hardship. The actual proportion of each participant's contributions to this account is determined by the company.
- d. Money from both the accounts, are invested by the company on a profit and loss sharing basis in enterprises which are not contrary to Islam either in their operations or in the nature of their business.
- e. Profits generated by the investment of the PA funds are shared between the company and the participants in a pre-agreed ratio.

	<p>f. Profits generated by the investment of PSA funds are used to beef up the fund.</p> <p>Note : GFTA refers to Group Family Takaful Account (GFTA)</p>
Agent = TFC (Takaful Financial Consultants)	<p>Agent = Conventional Insurance</p> <p>An <i>insurance agent</i> is a licensed professional who represents an insurance company in selling and servicing policies.</p> <p>Takaful Financial Consultant (TFC) is an independent party that provides financial planning services to the customer based on the customers' financial needs.</p> <p>Executive Pemasaran Takaful Keluarga (EPTK) is Takaful agent represents a Takaful operator and primarily sells Takaful plans issued by the Takaful operator it represents.</p>
EPTK = Executive Pemasaran Takaful Keluarga	Agent / TFC
Profit Sharing = Mudharabah	<p>Profit Sharing = Conventional Insurance</p> <ol style="list-style-type: none"> Profit sharing refers to a participating life insurance policy is one which will participate in the distribution of surplus if the life insurance company's experience is favourable. Conversely, a non-participating policy cannot do so. Policy owner of a participating policy will pay a higher premium for a given sum insured than a non-participating policy because he/she will usually receive greater benefits. A bonus is a refund of excess premium paid to the policyholder of a participating policy. Such bonuses are paid out of the insurer's divisible surplus if the insurer's actual experience is favorable

	<p>d. These bonuses are usually deferred in that they are only payable at the end of the term of the policy, or when a claim arises.</p> <p>Mudharabah= Takaful Insurance</p> <p>a. Under the Mudharabah contract, the Takaful operator acts as a mudharib (entrepreneur) and the participants as rabbul mal (capital providers).</p> <p>b. The contract specifies how the surplus from the Takaful operations is to be shared between the Takaful operator and the participants.</p> <p>c. Losses are borne by the participants as the capital providers. However, to protect the interest of the participants, the Takaful operator is required to observe prudential rules.</p>
Reinsurance = Re-Takaful	<p>Reinsurance = Conventional Insurance</p> <p>Reinsurance is process where companies normally 'lay-off' a proportion of the risk by reinsuring with other insurance, or specialist reinsurance, companies.</p> <p>Re-Takaful= Takaful Insurance</p> <p>Re-Takaful is a form of insurance whereby the Takaful operator pays an agreed percentage upon premium from the Takaful fund to the Re-Takaful operator. And in return, the Re-Takaful operator provides security for the risk reinsured.</p>
Co-Insurance = Co-Takaful	<p>Co-Insurance = Conventional Insurance</p> <p>A co-sharing agreement between the insured and the insurer under a health insurance policy, which states that the insured will cover a set percentage of the covered costs after the deductible has been paid.</p> <p>Co-Takaful = Takaful Insurance</p> <p>Term used for Takaful insurance. Definition same as Conventional Insurance.</p>

<p>Policy = Certificate</p>	<p>Policy = Conventional Insurance</p> <p>Policy is a contract or agreement between the insurer and the insured, which determines the claims the insurer is legally required to pay.</p> <p>Certificate = Takaful Insurance</p> <p>An evidence of a contract between a participant and a Takaful operator, which sets out the terms and conditions of a particular certificate.</p>
<p>Premium Warranty = Contribution Warranty</p>	<p>Premium Warranty = Conventional Insurance</p> <p>General insurance companies are required to enforce a 60-day Premium Warranty clause on most types of insurance covers except for motor insurance policies, travel insurance, marine hull insurance and insurance bonds.</p> <p>Under the Premium Warranty clause, the insured is required to pay the premiums charged for the insurance within 60 days from the effective date of insurance cover. If the premium is not paid by the 60th day, the insurance cover will be automatically cancelled from the 61st day.</p> <p>Contribution Warranty = Takaful Insurance</p> <p>Takaful operators also apply the concept of “contribution warranty” for non-motor business, whereby participants are allowed up to sixty days from the date of inception of the Takaful certificate to remit contributions to the Takaful operator. Takaful coverage shall commence from the inception of the Takaful certificate, and is in force during this period.</p>
<p>Proposal = New Request</p>	<p>Proposal is a form filled out by a person applying for conventional insurance. The information in the proposal form is used by the insurance company to ascertain if a policy can be issued. In Takaful, proposal is referred as new request.</p>

PSA = Personal Shareholder account	<p>PSA = Takaful Insurance</p> <p>PSA = Participants' Special Account as Tabarru' for non ILP products</p> <p>ILRF = Investment Linked Risk Fund as Tabarru' for ILP products</p>
GFTA = Group Family Takaful Account	<p>Group Family Takaful is a Family Takaful (usually without medical examination) on a group of people under a master certificate. It is typically issued to an employer for the benefit of employees, or to members of an association. The contribution paid by the participant is pooled to the Group Family Takaful Account (GFTA)</p>
PA Balance = Participant Accounts Balance	<p>PA = Takaful Insurance</p> <p>PA Balance = Participant's Account Balance for saving and investment purposes</p>
Management Fee = Wakalah Dripping	<p>Management Fee = Conventional Insurance</p> <p>The fee charged for managing the investments of the funds and is directly charged to the investment-linked funds account.</p> <p>Wakalah Dripping = Takaful Insurance</p> <p>A Wakalah fee will be charged up-front from the contributions paid. The wakalah dripping refers to the wakalah fee charges.</p>
Top up	<p>Top up facility is provided for an investment link plan. This facility enables the policyholder/participant to increase the investment portion without any change in the insurance coverage.</p>
Fund Allocation	<p>Fund Allocation = Conventional Insurance</p> <p>An investment-linked insurance plan combines investment and protection. The premium provided covers life insurance and a part of the premiums will be invested in specific investment funds of the policyholder choice.</p>

	<p>Policyholders have the option to allocate the percentage of the insurance premiums towards protection and investment. Fund allocation basically refers to the percentage allocation of the investment fund based on the policyholder's choice.</p> <p>Fund Allocation = Takaful Insurance</p> <p>The investment-linked Takaful will allocate the contribution in two parts. One part is the participative contribution (tabarru') which is used to help the participants that need it most, as in the case of death or disability.</p> <p>The rest of the contribution goes into buying investment-linked units. The participant can choose which Syariah-approved investment funds they would like to invest in.</p> <p>Fund allocation basically refers to the percentage allocation of the investment fund based on the participant's choice.</p>
TEPI = Excess Pay In	<p>Under the context of Family Takaful, excess pay in refers to the extra contribution paid by the participant.</p>
Receipt = Pay In	<p>Receipt/Pay In is a written acknowledgement of the receipt of the premium/contribution.</p> <p>Receipting = Conventional Insurance</p> <p>The action of receiving the premium.</p> <p>Pay In = Takaful Insurance (STMB's Term)</p> <p>The action of receiving the contribution.</p>
Payment voucher = Pay out voucher	<p>A payment voucher/payout voucher is an accounting document representing an <i>internal intent</i> to make a payment to an <i>external entity</i>.</p> <p>A voucher will contain detailed information regarding the payee, the monetary amount of the payment, a description of the transaction, and more.</p> <p>Payment voucher is used in the conventional insurance and pay out voucher is used in the Takaful insurance.</p>