VALUE-BASED INTERMEDIATION FOR TAKAFUL FRAMEWORK
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The Value-based Intermediation for Takaful (VBIT) Framework has been developed and structured by the VBIT Task Force, and is intended to enhance public awareness on and access to the variety of value-based initiatives, strategies and expected outcomes of the Takaful industry in Malaysia.

The VBIT Task Force maintains that:

i) The overall content of the VBIT Framework is of a general nature and strictly for informational purposes.
ii) The information and opinions contained in this publication have been obtained from reliable sources. Opinions and information are subject to change without notice.
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iv) The illustrations provided were selected to best represent the objective of the relevant section in the consideration and deliberation of the VBIT Task Force. They are intended to help readers develop the thought process of their desired outcomes.
v) The goal is to keep the information timely and accurate; however, should there be any amendments and revisions to be made, the VBIT Task Force and MTA will do the best to address them.
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ABOUT THE FRAMEWORK

The framework aims to encourage industry players towards achieving growth that is sustainable and meaningful for all stakeholders. In the effort to create a positive socio-economic impact, Takaful Operators (TOs) aspire to become a major influence on the realisation of prosperity and Maqasid Shariah.

The framework operates as a guideline for Takaful Operators in their implementation of Value-based Intermediation for Takaful (VBIT) by outlining the best conduct and practices in the industry. The framework is comprehensive and relevant to Family Takaful, General Takaful and Retakaful Operators. A clear understanding of how Takaful Operators can embrace VBIT will drive the industry to the next level.

**UNDERPINNING THRUSTS**

- **Financial Resilience**
  Ability to bounce back from financial shock

- **Community Empowerment**
  Process of enabling people to gain control over the factors and decisions that shape their lives

- **Good Self-Governance**
  Ability to effectively exercise all necessary functions of regulation

- **Best Conduct**
  Practice that is deemed to be most superior because it leads to the best results

**GUIDING PRINCIPLE**

- **Corporate Value Intent (CVI)**
  Enhanced alignment with the objectives of Shariah

**KEY IMPLEMENTATION STRATEGIES** (Focus Areas)

- **Inclusive Stakeholder Engagement**
  Effective communication to achieve the objective of CVI

- **Value-driven Solutions**
  Offerings, business practices and infrastructure that provide meaningful and valuable experiences

- **Impact-based Assessment**
  Analysis of potential impacts from all perspectives

- **Constructive Collaboration**
  Strategic alliances in delivering value-driven solutions

**PERFORMANCE MEASUREMENT**

- **Comprehensive Measurement**
  Identify measurable KPIs, compile data and measure results
The framework elaborates on the underpinning thrusts of VBIT, which are financial resilience, community empowerment, good self-governance and best conduct, and how they can be embodied in the Takaful Operators’ respective Corporate Value Intent (CVI). In addition, the VBIT Framework provides the areas of focus of the Key Implementation Strategies, covering inclusive stakeholder engagement, value-driven solutions, impact-based assessments and constructive collaborations.

The framework also provides suitable measurement guidelines to evaluate the progress of VBIT initiatives and shares the industry’s commitment with the respective stakeholders through impact-based disclosures.
The VBIT Framework reflects the industry’s aspiration to bring the Malaysian Islamic Finance industry, particularly the Takaful industry, to the next level to unlock its full potential.

Since 1984, the Malaysian Takaful industry has constantly worked to empower various stakeholders by providing a variety of products and services, engaging with society’s diverse groups and adhering to the rules and regulations to maintain the stability of the industry. The Takaful industry has progressed through many transformations and regulation changes throughout the years, and continues its evolution in order to cater for the needs of the future.

The industry embraces the concepts of Value-based Intermediation (VBI) as advocated by Bank Negara Malaysia. Thus, more value-added initiatives will be integral to how Takaful operators conduct themselves as companies and as part of the evolving industry. The VBI agenda will help the Takaful industry integrate value-based concepts seamlessly into the respective business practices. This is in line with the aspiration to ensure inclusive protection for each and every segment of society.

Globally, there are many terms used to reflect value-based creation ideals and the most prominent is sustainability. What differentiates the Value-based Intermediation for Takaful (VBIT) Framework from the sustainability agenda is the emphasis on achieving Maqasid Shariah in the implementation of the value-driven agenda, which aims to deliver positive impact while sustaining positive financial returns. The underpinning thrusts of the Framework – Financial Resilience, Community Empowerment, Good Self-governance and Best conduct – will become the foundation for Takaful players to realise the value-based agenda at their respective establishments.

The approach adopted can be unique according to the respective Takaful and Retakaful Operator’s corporate value intent but the idea shall be collectively embraced by the whole industry and its stakeholders, while ensuring that the VBIT initiatives are comprehensively measured and appropriate disclosures are made.

The framework provides relevant examples to stimulate the thinking process of what the industry can do and how the industry can further improve, to achieve more than what is normally done and executed. Although the framework was introduced in 2021, the thoughts framed in the concepts are timeless, and will act as a guide for any industry that aspires to be economically resilient while upholding values that benefit all.

With that in mind, the Malaysian Takaful Association (MTA) believes that elevating the potential of the Takaful industry through a value-driven agenda is highly dependent on the continuous efforts and commitment of all stakeholders – the society, the industry and the regulators.

ENCIK ELMIE AMAN NAJAS
CHAIRMAN
## PART 1: ELEVATING THE POTENTIAL OF TAKAFUL

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ELEVATING THE POTENTIAL OF TAKAFUL

TAKAFUL AT A GLANCE

OVER THE YEARS

The development of Islamic finance over the last few decades have largely been spurred by the demand for Shariah compliant banking, financing and investment products, as understanding of their qualities and acceptance of their features permeate across various consumer, corporate and governmental segments, including within non-traditional markets.

Apart from being generally competitively priced vis-à-vis conventional financial products, the demand for Islamic financial products are underpinned by enhanced awareness of their core principles that advocate principles of equity (prohibition of riba), participatory relationship (risk and profit sharing) and ownership (asset backed and asset based). These same core values are also inherent in the structural makeup of Takaful products, whose features introduce additional elements that are not typically available in other Islamic financial products – the preservation of wealth, the protection of assets and to provide for an individual’s family and loved ones. Together with other Islamic finance offerings, Takaful enables the completion of a whole suite of product offerings that are in alignment with wholesome life values that espouses integrity, transparency and fairness whilst striking an equilibrium with commercial intent, intertwined with real economic activities.

The Takaful industry in Malaysia started to gain momentum when the Malaysian government formed a special task force to explore the viability of setting up an Islamic insurance company. From that study and based on its recommendations, the Takaful Act 1984 was gazetted and came into force thereafter. Since then, the industry has made progress in achieving the common objective of upholding Takaful globally while increasing its penetration rate, particularly in Malaysia.

TAKAFUL ECOSYSTEM

As an Islamic finance hub, Malaysia is equipped with:

Comprehensive Market Infrastructure

The list below shows the collective work conducted by each stakeholder in strengthening the role of the Takaful industry, formulating a centralised Shariah advisory hub for Islamic insurance and developing enhanced certainty in Shariah and technical expertise via the following talent and knowledge institutions:

Bank Negara Malaysia (BNM)
Ensures effective and efficient Islamic financial intermediation that contributes towards economic growth and development. A robust financial infrastructure and regulatory framework has been developed by BNM to accelerate the growth of the Islamic Finance Industry.

Malaysian Takaful Association (MTA)
MTA represents 18 licensed Takaful and Retakaful operators in Malaysia. It essentially promotes the interests of its members and leads and supervises the exercise of self-regulation within the Takaful industry.

Perbadanan Insurans Deposit Malaysia (PIDM)
Mandated to provide incentives for sound risk management in the financial system and to promote and contribute to the stability of the financial system.

Robust Legal & Regulatory Framework

Various frameworks, policies and legislation have been introduced by regulators in order to strengthen the institutional structure of the Takaful industry, including:

Islamic Financial Services Act 2013
Risk-based Capital Takaful Framework
Internal Capital Adequacy Assessment Process
Takaful Operational Framework
Life Insurance and Family Takaful Framework & Phased Liberalisation of the Motor and Fire Tariffs
Shariah Governance Framework

BNM commenced its supervision of the insurance and Takaful industry

Takaful Act 1984 was enacted to govern the conduct of Takaful business and the establishment of Shariah Committees

Set-up of ASEAN Takaful Group

1984 1988 1995

OVER THE YEARS

1984 - Takaful Act 1984 was enacted to govern the conduct of Takaful business and the establishment of Shariah Committees
1988 - BNM commenced its supervision of the insurance and Takaful industry
1995 - Set-up of ASEAN Takaful Group
BNM launched the Financial Sector Masterplan
BNM unveiled its Financial Sector Blueprint 2011-2020
The new Islamic Financial Services Act (IFSA) 2013
Revision of the Takaful Operational Framework and embarking on Takaful Reform journey
Implementation of Life Insurance and Family Takaful Framework and Phased Liberalisation of the Motor and Fire Tariffs
Transforming Takaful to achieve meaningful and sustainable growth through value-based agenda
Enforcement of Takaful Operational Framework and the revised Shariah Governance Framework

Dynamic Market Participants
Locally registered Takaful and Retakaful Operators:

**Family Takaful**

- AIA PURIC TAKAFUL
- AmMetLifeTakaful
- eTiQa
- FWD
- Great Eastern
- Hong Leong
- iMB Takaful
- Prudential BSN TAKAFUL
- Sun Life
- Takafulmalaysia
- iKLPlaz
- Zurich Takaful

**General Takaful**

- eTiQa
- Takafulmalaysia
- iKLPlaz
- Zurich Takaful

**Retakaful**

- Munich RE
- Swiss Re
The Takaful value proposition is the ability to realise the intended outcomes of Shariah (Maqasid Shariah) in its conduct and offerings, going beyond the minimum Shariah requirements. The unique value proposition is embedded in the intended outcomes of Shariah which underpin the foundations of all Islamic Finance offerings.

Understanding Maqasid Shariah enhances Takaful value as a means of achieving a well-balanced and sustainable proposition for all stakeholders. The VBIT Framework provides a guide for Takaful practitioners on the awareness of and the process to transform the Takaful industry into an intentional and meaningful journey towards achieving the ultimate objectives of Shariah.

In simpler terms, Maqasid Shariah promotes the welfare of all humankind and prevents harm by preserving the Essentials of Shariah. The Essentials are deemed as basic human rights and are necessary for each human being to live a decent life. The Essentials are the interests of each human being, and these interests are firmly protected by Islamic Law. Anything threatening the interests of the Essentials should be avoided at all cost.

**ESSENTIALS** *(Dharuriyat)*

**Protection of Faith**
Safeguarding the fundamentals of faith which regulate people’s relationship with their God Almighty and relationships with each other. This includes upholding Islam as the official religion in Malaysia while allowing the practice of other religions, faiths and beliefs.

**Protection of Life**
Responsibility to protect, preserve and appreciate all living beings’ right to live, including society, flora and fauna.

**Protection and Preservation of Lineage**
Protection of lineage includes safeguarding the right to develop a proper and safe environment for the protection of our offspring and to enable them to be raised in a noble and respectful manner.

**Protection of Intellectual Needs and Well-being of the Mind**
Preserving the human intellect (mentally and spiritually) from all that is harmful to ensure harmony of every living being, whereas an unsound mind is the source of afflictions and ailments.

**Protection and Enrichment of Wealth**
Ensuring the steps to acquire, accumulate, preserve, purify and distribute wealth are legal and beneficial to all without oppression and persecution.

**NECESSITIES** *(Hajiyat)*

This represents conveniences such as healthy food, communications tools, means of transportation and marriage among other are encouraged and regulated by the Islam, however it is all consider as a less crucial needs as compared to Essentials *(Dharuriyat)*. By addressing these needs, it allows human beings to live their life without facing much difficulties.

**EMBELLISHMENTS** *(Tahsiniyat)*

This represents complementary and desirable wants that provide additional comfort to a better life, such as branded clothes, luxury cars, comfortable and lavish properties. While Islam encourage the human beings to achieve such comfort and ease in life, it must only be attained by ways allowable within Islamic Laws.
CURRENT STATE OF TAKAFUL INDUSTRY

The Takaful industry in Malaysia has experienced significant growth over the last decade. Between 2013 and 2018, the compounded annual growth rate (CAGR) of Family Takaful reached 11%, which was substantially higher than the 6% growth rate of conventional insurance, albeit starting from a lower base.

![Graph showing growth rates of different insurance types from 2011 to 2019.]

Source: Bank Negara Malaysia (1)

The Takaful industry can further strive to improve in the following broad areas:

**Low Overall Penetration | Targeting Underserved Markets**

Overall penetration rate of Takaful remains low, at only 15%, which is below market potential. Although certificate issuance has increased in tandem with the increase in population, the penetration rate has remained stagnant over the past few years. Referring to the table below, the market penetration rate has yet to experience any substantial growth.

<table>
<thead>
<tr>
<th>Year</th>
<th>Family Takaful</th>
<th>General Takaful</th>
<th>Life Insurance</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>11.0%</td>
<td>15.8%</td>
<td>18.86%</td>
<td>13.91%</td>
</tr>
<tr>
<td>2011</td>
<td>4.16%</td>
<td>-5.76%</td>
<td>12.59%</td>
<td>5.39%</td>
</tr>
<tr>
<td>2012</td>
<td>8.11%</td>
<td>11.27%</td>
<td>12.04%</td>
<td>6.96%</td>
</tr>
<tr>
<td>2013</td>
<td>12.48%</td>
<td>4.02%</td>
<td>7.71%</td>
<td>7.29%</td>
</tr>
<tr>
<td>2014</td>
<td>1.06%</td>
<td>1.64%</td>
<td>6.31%</td>
<td>7.06%</td>
</tr>
<tr>
<td>2015</td>
<td>11.32%</td>
<td>2.5%</td>
<td>3.97%</td>
<td>7.31%</td>
</tr>
<tr>
<td>2016</td>
<td>10.33%</td>
<td>2.79%</td>
<td>4.59%</td>
<td>7.28%</td>
</tr>
<tr>
<td>2017</td>
<td>9.62%</td>
<td>4.25%</td>
<td>8.35%</td>
<td>8.38%</td>
</tr>
<tr>
<td>2018</td>
<td>10.12%</td>
<td>10.52%</td>
<td>10.12%</td>
<td>10.52%</td>
</tr>
<tr>
<td>2019</td>
<td>14.67%</td>
<td>3.58%</td>
<td>3.4%</td>
<td>14.54%</td>
</tr>
</tbody>
</table>

Source: Statistical Yearbook Insurance & Takaful Financial Year 2018 and DOSM (2)


VALUE-BASED INTERMEDIATION FOR TAKAFUL FRAMEWORK
The Takaful industry can aspire to further penetrate or focus their efforts to support untapped and/or underserved market segments (B40, Rural areas, Senior Citizens, etc.) to address their respective protection gaps. Protection Gap (3) is the difference between the financial resources available to the family of the breadwinner against the amount required to maintain the current standard of living for the dependents, in the event of death or disability of the breadwinner. The Protection Gap shows that Malaysians are not sufficiently insured (via life insurance or takaful) to protect and provide for their loved ones in the event of their death or disability. The diagram below depicts the method to determine Malaysia’s protection gap:

On a broad macro level, Malaysia’s protection gap amounts up to RM2,489 billion presenting a major gap which needs to be addressed by the Insurance and Takaful industry.

**Low Awareness of Takaful & Financial Literacy**

One of the main challenges faced by the Takaful industry in its efforts to increase market penetration is the low level of financial literacy (4) and awareness of the importance of financial planning among the unserved and underserved market segments, thus resulting in high protection gaps, as illustrated earlier. The general awareness of Takaful remains low, as evident from the chart below.

**Perception of Takaful**

1. Most people perceive it as Islamic insurance. However, most admit to having little knowledge of how it works; only a few have some basic knowledge.

2. Some believe that Takaful offers the same types of products as those in conventional business and similar coverage and benefits.

3. General Takaful: more for self or personal coverage, i.e., life insurance, motor and personal accident.

   Family Takaful: extends the coverage beyond self to include the family, i.e., medical for family, home and education.

   It is observed that most people have an inaccurate perception of Takaful, hence it diminishes their understanding of Takaful offerings.

4. Most admit for not having the correct understanding of the main differences between Takaful and conventional insurance. The Islamic aspect was rarely mentioned by respondents.
The Takaful industry should explore new avenues in order to promote better understanding of basic financial knowledge, thus increasing the public’s awareness of having sufficient financial protection as well as educating them on the uniqueness of Takaful solutions compared to conventional products. By doing so, the Takaful industry will be able to expand its offerings and meet the evolving needs of the various market segments. By engaging with the diverse market segments, TOs will gain access to a wider range of stakeholders within the society and the market at large. This can lead to increasing business opportunities and greater expansion of the industry.

**Distribution Channel Models & Reach**

The Takaful industry’s main distribution channels follow agency and bank-takaful business models. As these distribution channels remain the dominant channels in Malaysia, there is still a lack of geographical reach nationwide to markets and communities which remain underserved and unserved as highlighted earlier. As such, TOs have begun expanding into new, alternative distribution channels to improve accessibility for the public to participate in Takaful, such as digital/online platform, post offices, retail outlets, among others. Nevertheless, these distribution channels are still at the infancy stage in Malaysia and have yet to achieve significant scale and volume for sustainable business growth.

**Product Innovation & Value Proposition**

As the general public mainly perceives Takaful solutions as the Islamic version of conventional insurance products, it is important for TOs to establish themselves as product innovators in their own right. This can be achieved by emphasising the principles of Maqasid Shariah as the foundations of Takaful to differentiate it from conventional insurance. TOs can also portray themselves as thought-leaders in product innovation.

Currently, there is growing demand for TOs to provide protection propositions that consider Environmental, Social and Governance (ESG) risks. This presents an additional opportunity for TOs to differentiate themselves and their offerings from conventional solutions. TOs may establish themselves as global thought-leaders in addressing progressive market demands by partnering with and/or supporting environmentally conscious businesses and socially responsible organisations, in alignment with the spirit of ESG in focusing on sustainability and responsible investing.

In today’s world, TOs are expected to play a role of more than just solution providers to address protection gaps. As socially responsible organisations, TOs would be expected to advocate or be part of the ecosystem that promotes health and well-being agenda. As such, TOs are advised to explore and develop impactful solutions, products or program propositions that encourage good behaviour and practices, not only for the benefit of the certificate holders but also for the community at large. Currently, such propositions remain at a nascent stage for TOs in Malaysia.
EXAMPLE OF TAKAFUL BUSINESS PROPOSITION

**Takaful as a commercial business that provides mutual protection underpinned by solidarity & charitable spirit**

The literal meaning of Takaful is shared responsibility, collective assurance and mutual undertaking, where the fundamental structure of Takaful is defined by mutual protection and solidarity that is designed to help others in managing a defined risk. Based on this shared responsibility and joint benefit perspective, Takaful upholds the principle of mutual assistance and shared responsibility to mitigate against defined risks and unfortunate life events for all of the Takaful fund participants, not only among individuals but also society at large (including businesses).

For high net worth individuals and the affluent segment, participation in Takaful has a two-pronged advantage – not only are they able to benefit from the protection plan they participate in, but with the contributions paid, they are indirectly involved in charity and social welfare.

With the current offerings of Takaful products that include savings, investment and legacy planning elements, the individuals from this market segment are able to manage their own coverage levels, magnify their savings and achieve investment targets. In other words, Takaful provides benefits to its participants in the form of wealth protection and wealth accumulation, and can be considered as one of the tools for risk management.

On the other hand, the contribution amount paid into the Takaful fund will provide the necessary financial aid and assistance in the event that one of the participants faces the defined risk or unexpected life crisis. The “financial assistance” is paid out from the Takaful fund to compensate the victim or the victim’s family against financial liability arising from defined events. This form of “charity giving” will mitigate the burden of individuals whose risks are divided among the participants of the Takaful fund.

By embracing the VBIT principles, the Takaful industry is encouraged to innovate its offerings to raise the financial capabilities of the underserved and unserved segments and enhance their product suitability assessment to cater for specific needs. It comes with a focus on providing better accessibility, delivering meaningful value and improving their overall experience with the industry.

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**Providing meaningful protection for the underserved and unserved communities**

The current uptake of Takaful and insurance among the underserved and unserved segments is disproportionately low relative to the national population. Lower participation in Takaful plans among these segments is commonly linked to lack of awareness about the value propositions offered by Takaful products and further spurred by the lack of affordable and suitable Takaful products to cater for the limited financial budgets and specific needs of these segments.

The low level of Takaful literacy and the lack of understanding of the need or necessity to participate in Takaful as a form of personal risk management may lead to some reluctance in subscribing to Takaful in general. The complexity of the current product offerings that come along with non-competitive pricing may also hinder these segments from considering Takaful offerings. These challenges of accessibility, suitability and affordability further drives these segments away from obtaining meaningful and appropriate protection plan for their needs.

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(5) Source: BNM, DOSM, Implementation Coordination Unit (2017) [B40 estimated by using 2016 BR1M recipients as a proxy for the B40 segment]
INDUSTRY ASPIRATIONS MOVING FORWARD

The Takaful industry aspires to further evolve towards enhancing “fit-for-purpose” conduct. The industry is committed to continuously addressing the needs of various populations. This includes addressing protection gaps in the underserved and unserved segments, as well as creating opportunities for the more affluent segments to participate in and capitalise on Takaful offerings.

Takaful offers basic protection of wealth, assets and properties to ensure sustainability of livelihoods of beneficiaries (6) when faced with adverse financial events. Takaful advocates the accumulation of wealth via participation in savings plans and corresponding wealth distribution plans.

Participation in Takaful also offers avenues to do good deeds via the mutual assistance and cooperation among participants in Takaful funds, regardless of the amount of contributions. This encourages the more affluent to further contribute to this cause and enables the circulation of wealth towards reducing protection gaps and raising the financial capabilities of the relevant segments of the population.

(6) Beneficiaries refer to an individual’s next of kin, owners of assets and properties, or owners of a business and its employees
(7) This is done by eliminating elements of interest (riba), speculation (maysir), excessive uncertainty (gharar fahish) and Islamically unlawful activities (haram) in risk management solutions

EMBRACING VALUE-BASED OFFERINGS

The current business proposition is that Takaful products and services mostly cater for the demand of customers seeking Shariah compliant coverage (7). Surveys conducted by MTA show that there are customers who perceive that Takaful offerings are similar to conventional insurance. This inaccuracy stems from the lack of understanding on the underlying concepts of Takaful and their focus on the immediate benefits derived from participating in the arrangement.

With better engagement and education on Takaful value propositions, customers can understand and appreciate the unique values of Takaful offerings and opt for Takaful coverage.

The Takaful industry may be able to unlock its full potential by going beyond the minimum requirements of compliance to tap into the needs of the underserved and unserved market and offer the affluent segments customised means to protect their assets and wealth as part of their future financial risk management. This is possible with the Takaful industry developing policies, operations, offerings and distribution channels that promote sustainability and socio-economic well-being.

ENHANCING TRANSPARENCY TO EMPOWER STAKEHOLDERS

The current practice in the industry adheres to the regulatory disclosure requirements, which primarily focus on the financial performance of Takaful companies.

Better and enhanced transparency can boost stakeholders’ confidence in the Takaful industry and enable them to make informed decisions when considering Takaful offerings.

Stakeholders will be more empowered and involved through additional disclosure of non-financial performance, such as impacts on community well-being, economic growth and strategies towards creating a sustainable environment.
# Part Two

## Towards Creating Greater Socio-Economic Impact

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TOWARDS CREATING GREATER SOCIO-ECONOMIC IMPACT

UNDERSTANDING VALUE-BASED INTERMEDIATION FOR TAKAFUL (VBIT)

VBIT aims to deliver the intended objectives of Shariah through best practices, conduct and offerings that generate positive and sustainable impacts on the economy, the community and the environment, consistent with the shareholders’ sustainable returns and long-term interests.

When a TO implements VBIT, it involves the following three (3) steps:

1. Meet the requirements of Shariah on conduct, practices and offerings.
   - Deliver one or more of the intended outcomes of Shariah (Maqasid Shariah).

2. Manage risks and opportunities associated with any issues pertaining to the environment, society and the governance of the Takaful companies.
   - Implement a strategic approach to reduce risk and develop innovative solutions that create a positive value chain for the benefit of stakeholders.

3. Improve business performance and generate sustainable returns for shareholders, in accordance with long-term environmental, social and economic sustainability objectives.

<table>
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<th>VBIT</th>
<th>CSR</th>
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<td><strong>Similarity</strong></td>
<td>Doing good and creating positive impacts on others</td>
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<tr>
<td><strong>Difference</strong></td>
<td>Doing good is well integrated within business activities (offerings &amp; practices)</td>
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<td><strong>Motivation</strong></td>
<td>Competitive advantage</td>
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<td><strong>Example</strong></td>
<td>Strategic alliance between Hong Leong MSIG Takaful and PTPTN to provide education savings plan with affordable and comprehensive Takaful coverage through the SSPN-i Plus product.</td>
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MAQASID SHARIAH AND TAKAFUL

The main objective of Islamic law is to safeguard the realisation of benefit to mankind, concerning their affairs both in this world and the hereafter.

It is generally understood that Islamic law intends to secure benefit for the people while protecting them against any evil and corruption. In simpler terms, Maqasid Shariah emphasises maximising benefit creation and preventing any negative impact on society at large.

The intended outcome of Maqasid Shariah is to provide a holistic perspective in the pursuit of universal well-being. Takaful is one of the risk management solutions in Islamic Finance that safeguards life, intellect, wealth and lineage. As an extension of Islamic economics, Takaful seeks to balance social responsibility with the aspiration of sustainable prosperity.

The existing practices of Shariah in Malaysia have supported the growth of the Takaful sector and established Takaful as the competitive Islamic solution to conventional insurance products in the country. Hence, it is fair to say that embracing the intended outcomes of Maqasid Shariah will further strengthen the unique value proposition of Takaful.

CONCEPTS RELATED TO SUSTAINABILITY

1. United Nations Sustainable Development Goals (UNSDGs)

- The United Nations (UN) focuses on similar precepts of value creation and inclusive development through its **17 Sustainable Development Goals (SDGs)**.

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1. NO POVERTY
2. ZERO HUNGER
3. GOOD HEALTH AND WELLBEING
4. QUALITY EDUCATION
5. GENDER EQUALITY
6. CLEAN WATER AND SANITATION
7. AFFORDABLE AND CLEAN ENERGY
8. DECENT WORK AND ECONOMIC GROWTH
9. INDUSTRY, INNOVATION AND INFRASTRUCTURE
10. REDUCED INEQUALITIES
11. SUSTAINABLE CITIES AND COMMUNITIES
12. RESPONSIBLE CONSUMPTION AND PRODUCTION
13. CLIMATE ACTION
14. LIFE BELOW WATER
15. LIFE ON LAND
16. PEACE, JUSTICE AND STRONG INSTITUTIONS
17. PARTNERSHIPS FOR THE GOALS
```

- The UNSDG concept was developed to combat issues relating to economic, social and environmental challenges. The idea is to eliminate extreme poverty and place the world on a sustainable path. The SDGs explicitly call for worldwide action among governments, businesses and civil society to end poverty and create a life of dignity and opportunity for all, within the boundaries of the planet.
2. Environmental, Social & Governance (ESG)

- The term ESG \(^{[8]}\) was first coined in 2005 and builds on Socially Responsible Investing (SRI), which considers investments based on specific ethical and moral criteria. ESG factors consider financial relevance and identifies potential risks and opportunities beyond traditional financial considerations, with an overlay of social consciousness.

- ESG factors address concerns on the three central considerations – Environmental, Social & Governance. This concept is used to measure the sustainability and ethical impact of an investment or company with an emphasis on achieving results that are more transparent and quantifiable.

- The term “ESG” is not only confined to environmental issues like climate change, water and waste pollution. The term also covers social issues like a company’s labour practices, human resource management, product safety and data privacy. Beyond this, it also includes governance matters like diversity in the board, executive pay and business ethics.

- Organisations that incorporate ESG considerations are committed to serving a social purpose as well leading a sustainable business. ESG criteria are an increasingly popular way for investors to evaluate companies in which they might want to invest as they can help the investors avoid companies that might pose a greater financial risk due to their environmental or other practices.

3. Principles for Sustainable Insurance (PSI) \(^{[9]}\)

- PSI is a global sustainability framework and initiative of the United Nations Environment Programme (UNEP) Finance Initiative which was launched at the 2012 UN Conference on Sustainable Development.

- PSI serves as a global framework for the insurance industry to address environmental, social and governance risks and opportunities and is part of the insurance industry criteria of the Dow Jones Sustainability Indices and FTSE4Good.

- VBIT is in line with PSI in providing coverage to address the distinct needs of the various segments of society while creating sustainable value for their stakeholders.

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\(^{[9]}\) Principles for Sustainable Insurance (PSI): https://www.unepfi.org/psivision-purpose/
TOWARDS CREATING GREATER SOCIO-ECONOMIC IMPACT

FOCUSBING ON THE INTENDED OUTCOMES

Overall, the intended outcomes of Shariah provide a guide for holistic socio-economic development. However, the priorities in application differ according to the specific social issues and challenges in different localities.

Hence, mapping a legal mechanism and international agenda (such as SDGs & ESG) into the intended outcomes of Shariah can help the Takaful industry in identifying specific and relevant targets to generate positive and sustainable impacts through its conduct, practices and offerings.

Focusing on the fulfilment of these intended outcomes, TOs can offer a wider range of benefits to society, irrespective of ethnicity, religion or race. For example, TOs may target to improve the quality of life by offering affordable protection or savings for education. The spiritual dimension may be targeted through compassionate benefit (funeral) products.

Moving forward, TOs can drive the VBIT agenda by offering clear value propositions relating to the society and the environment, in conjunction with attaining sustainable growth.

Upholding similar concepts to Islamic banking institutions, the aspirations of the Takaful industry are aligned with the “envisioned future financial landscape” as described in the Value-based Intermediation (VBI) Strategy Paper\(^\text{(10)}\).

The Takaful industry taking the bold step of adopting VBIT complements the Islamic Financial Institutions’ (IFIs) journey in implementing VBI concepts within their business, operations, affairs and activities. This will further strengthen the Islamic financial ecosystem.

ADDRESSING SOCIO-ECONOMIC ISSUES THROUGH VBIT

At the core of any TO, the intended outcomes or objectives of Shariah are the primary elements that must to be upheld. The implementation of VBIT can propel TOs into an active role in addressing national socio-economic issues such as poverty, access to meaningful education and social welfare protection, among others.

Some issues that can be tackled through VBIT propositions are listed below:

<table>
<thead>
<tr>
<th>Essentials of Maqasid Shariah</th>
<th>Issues that can be addressed</th>
</tr>
</thead>
</table>
| Life                          | • Opportunity to make a decent living and to live in harmony, with a sense of security for the future.  
                                 | • Social equality and mutual cooperation.  
                                 | • Employment opportunities and income stability.  
                                 | • Equitable distribution of wealth.  
                                 | • Rights to basic necessities such as food, drink, clothing and good health. |
| Intellect                     | • Free and quality education, particularly at the elementary level.  
                                 | • Equal education access for all to develop a knowledgeable and well-informed community. |
| Lineage                       | • Proper upbringing of the future generation by means of decent intellectual and moral development.  
                                 | • Well-preserved and healthy environment, with proper mitigation of climate change risks. |
| Wealth                        | • Access to affordable financial protection and understanding the importance of basic savings.  
                                 | • Safeguard and preserve wealth for the interest of immediate family or businesses in the event of crises and unexpected events.  
                                 | • Opportunity to invest in ethical and transparent investments to generate long-term sustainable and quality assets.  
                                 | • Encourage charitable contributions to others in need within the same community. |

The integration of social finance instruments and further enhancements into Takaful solutions in a more structured manner can create positive impacts to make Takaful offerings more affordable for various segments. TOs may leverage their individual strengths to promote synergy in crafting a variety of offerings to meet the needs of specific socio-economic groups or affluent market segments.

In addition to inclusivity, VBIT can empower society to become more financially resilient to catastrophes by providing a more holistic approach to recovery and equipping them with the right knowledge to face any unexpected events.

By adopting VBIT, TOs can expand their offerings of existing and new products and services to new market segments, which will result in an increased rate of market penetration and entail sustainable growth for the industry. This can also be made possible by the TOs’ passion to effectively highlight the importance of Takaful by utilising the most effective distribution channels. TOs may collaborate with community-oriented institutions and/or organisations such as retail convenience stores in obtaining comprehensive information regarding the needs of the local community.

https://avpn.asia/si-landscape/country/malaysia/
# VALUE CREATION FOR STAKEHOLDERS THROUGH VBIT

VBIT implementation can benefit numerous stakeholders who are involved in the Takaful industry, namely:

## Benefits to Society:

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receive Better Quality of Offerings (Products &amp; Services)</strong></td>
<td>Value-based products and offerings can cover the broad range of demands for Takaful among members of society. This can elevate and empower the community to attain long-term financial resilience, especially in times of emergencies and misfortune. Financial resilience can result in a substantial increase in productivity and quality of life.</td>
</tr>
<tr>
<td><strong>Fair and Better Transparency</strong></td>
<td>The extensive adoption of VBIT can foster good and ethical business conduct, which will build strong confidence in TOs among customers and society at large. Better transparency also improves Takaful literacy in society and creates better understanding of the role and processes involved in Takaful operations.</td>
</tr>
<tr>
<td><strong>Better Awareness and Preventing Negative Outputs</strong></td>
<td>Through impact-based assessments, customers become more aware of the impacts of the business dealings they are involved in. For example, TOs can prevent further damage to the environment by filtering environmentally damaging business activities and assisting customers currently engaged in such activities to become environmentally sustainable.</td>
</tr>
</tbody>
</table>

## Benefits to Regulators and Government Authorities:

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Better Alignment of Business Focus with the National Agenda</strong></td>
<td>By embedding equitable values in the business strategies of TOs, the realisation of national agendas becomes more attainable. With greater integration and more effective collaboration, TOs can effectively support the achievement of global and national agendas as laid out in strategic documents such as the Sustainable Development Goals, Paris Agreement, Green Technology, Circular Economy and Malaysia Plan, among others.</td>
</tr>
<tr>
<td><strong>Greater Integration and Effective Collaboration</strong></td>
<td>In order to achieve the common goals outlined in various strategic documents such as SDGs and ESG, the Framework and the approaches address real Takaful needs via the collective effort of different stakeholders, such as penetration rate and inclusion of coverage. The regulators and authorities have taken every step of value creation into account.</td>
</tr>
<tr>
<td><strong>Financial Stability</strong></td>
<td>With more uncertainties flooding the economy, value creation activities help to strengthen resilience and the performance of the Takaful industry. This can be further monitored using financial and non-financial indicators and effective disclosures which are transparent to all stakeholders. This can support the balance between innovation, growth and a sustainable ecosystem.</td>
</tr>
</tbody>
</table>
TOWARDS CREATING GREATER SOCIO-ECONOMIC IMPACT

How the value-based approach benefits society:

**Takaful benefits for mental health**

All new and existing customers of A-Plus Health-i will be able to utilise psychiatric consultation benefits without any increase in contributions. Customers are able to claim up to RM1,500 per year in psychiatric consultation fees when visiting any private or government hospital. This benefit covers six (6) mental health conditions: Major Depressive Disorders, Post-Partum Depression, Schizophrenia, Bipolar Disorder, Obsessive-Compulsive Disorder and Tourette Syndrome.

Source: AIA Press Release

**Enhanced customer journey through improved processes**

PruBSN Aman is one of a kind mobile application that marries the Takaful aspect - mutual assistance and Peer to Peer (P2P) concept - into one. PruBSN Aman allows participant to be connected with a community instantly and to be protected, simultaneously. Through collaboration with MyAngkasa Mukmin, end-to-end funeral arrangements will be managed according to Shariah laws upon death of the participant.

Source: Prudential BSN Takaful Berhad

How the value-based approach addresses national agenda:

**Perlindungan Tenang**

In support of the national agenda to increase the insured population in Malaysia, Perlindungan Tenang was launched by BNM on 24 November 2017 with the main objective of expanding insurance and Takaful solutions to B40 segments. The initiative aims to galvanise broader efforts among insurers and Takaful operators to offer products that are affordable, accessible, easy to understand and easy to purchase and claim on.

During the announcement of Budget 2021, the government stated that it aims to introduce the Perlindungan Tenang Voucher Program valued at RM50 per voucher. This is to encourage the targeted recipients to purchase any Perlindungan Tenang product and allow as many marginalised individuals in Malaysia as possible to get basic cover to protect them against financial shocks.


**EPF Account 2 Withdrawal to Purchase Insurance and Takaful Products**

It was announced during Budget 2021 that contributors to the Employees Provident Fund (EPF) will be allowed to withdraw from Account 2 to purchase approved insurance and Takaful products covering life insurance, family Takaful and critical illness.

This is an example of effective collaboration to ensure that EPF members are given the opportunity to purchase affordable insurance and Takaful products via a new platform. These products can be customised with affordable premiums and additional features to suit the needs of EPF members. Ultimately, this initiative will be supported by Takaful operators’ value-driven solutions and accomplish the national target to achieve higher penetration rates.

Source: Budget 2021 Announcement
VBIT implementation can benefit numerous stakeholders who are involved in the Takaful industry, namely: (cont’d)

<table>
<thead>
<tr>
<th>Benefits to Takaful Operators (TOs):</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Enhance Operational Efficiency</strong></td>
</tr>
<tr>
<td>Optimising operational efficiency by inculcating an internal value-based culture, responsible procurement and the development of businesses/individuals offering good value to stakeholders.</td>
</tr>
<tr>
<td><strong>Unlock Business Opportunities in the Underserved &amp; Unserved Markets</strong></td>
</tr>
<tr>
<td>Upholding an impact-driven mindset that inspires the exploration of new market segments to increase the rate of market penetration.</td>
</tr>
<tr>
<td><strong>Increase Penetration</strong></td>
</tr>
<tr>
<td>Focusing on new target market segments that can increase the rate of market penetration and assist customers.</td>
</tr>
<tr>
<td><strong>Increase Competitiveness</strong></td>
</tr>
<tr>
<td>VBIT has the potential to enhance TOs to actively evolve and develop their value propositions, skills and creativity in order to maintain competitiveness in the market.</td>
</tr>
<tr>
<td><strong>Effective Ecosystem</strong></td>
</tr>
<tr>
<td>A strong Takaful ecosystem can reinforce expertise in risk management and supply chain processes. This creates opportunities for growth and business success in the Takaful industry, while offering solutions in overcoming societal problems.</td>
</tr>
<tr>
<td><strong>Enhance Corporate Image</strong></td>
</tr>
<tr>
<td>Over time, TOs can establish strong corporate brands in the local and global markets, while gaining the ability to attract talent with a better corporate image by offering substantial value propositions in their business.</td>
</tr>
</tbody>
</table>

All the benefits stated above will subsequently contribute to sustainable returns to the relevant stakeholders.
PART THREE

<table>
<thead>
<tr>
<th>PART 3</th>
<th>VBIT UNDERPINNING THRUSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>Financial Resilience</td>
</tr>
<tr>
<td>26</td>
<td>Community Empowerment</td>
</tr>
<tr>
<td>28</td>
<td>Good Self-Governance</td>
</tr>
<tr>
<td>30</td>
<td>Best Conduct</td>
</tr>
</tbody>
</table>
In the process of creating more value for all the stakeholders involved, TOs are well positioned to facilitate the community and economy in transitioning towards a sustainable future.

The implementation of VBIT as a comprehensive framework that coordinates TOs and key stakeholders can take place gradually to provide ample time for the industry to comprehend the framework and adapt its current practices.

Therefore, a set of clear underpinning thrusts is developed to guide the adoption of VBIT by all TOs in Malaysia to create positive value and sustainable impacts for the respective stakeholders. This integrated set of thrusts serves as a compass for TOs in the journey of implementing VBIT.

### WHAT IS IT?

Resilience is the ability to return to one’s original state after a disturbance. In the context of society, this is the process of adapting well in the face of adversity, trauma or tragedy.

Financial resilience is the ability of an individual, business owner or family to bounce back from a financial shock. In other words, the strength to withstand life events that impact one’s income and/or assets. For example, financially stressful events such as unemployment, divorce, disability and health problems affect people individually.

Resilience in climate change is also important to address financial risks. The extreme weather patterns associated with changing climate – rising of sea-level, frequent flood, stronger hurricanes, larger wildfires etc. - will impact financial stability and long-term prosperity. Takaful industry can reduce the climate-related costs by encouraging certificate holders to prepare for extreme weather events.

### HOW CAN TOOS DEVELOP FINANCIAL RESILIENCE WITHIN SOCIETY?

- Play a key role in empowering society by developing offerings and solutions that provide a safety net.
- Expand Takaful offerings and services further to serve the distinctive needs of the various segments by addressing risks specific to them.
- Ensure affordability and accessibility of Takaful products and services, which may also be achieved through alternative distribution channels.
- Act as an intermediator to channel wealth from different sections of society to those who are less financially resilient.
- Provide a robust payment system to ensure that funding reaches the intended beneficiaries in an efficient manner.
- Go beyond product offerings and provide advisory support for holistic risk management, enabling society to make better financial decisions.

### POTENTIAL IMPACT INDICATORS:

- Number of affordable certificates sold via digital channels.
- Financial health of families after death/illness in the family.
- Amount of coverage for businesses in flood-prone areas.
- Duration the deceased's family can sustain adequate daily basic needs with the death benefits.
- Number of businesses engaged in sustainable due to Takaful coverage.
- Number of individuals equipped with financial literacy.
- Implementation of early warning systems to reduce risk of flooding.
- Development of flood sensor technology.
- Number of customers/penetration rate in the underserved and unserved market segments.
Affordable and accessible products offered to help the deceased’s family withstand adverse life events:

**AIA i-Starter Plan**
- An affordable Family Takaful plan under the Petindung Tenang initiative that provides coverage in the event of death.
- Available directly online with no intermediaries involved.
- Contribution starts as low as RM39 annually.

**FWD Kasih**
- An affordable Family Takaful plan specifically designed for the lower-income segment (B40).
- Participants aged between 19 and 39 years old can secure RM10,000 in coverage in the event of death for as low as RM2 a month.

Source: AIA PUBLIC Takaful Bhd. Website

Source: FWD Takaful Berhad Website

Products that incorporate the value of inclusivity and improve financial resilience:

**PRUDENTIAL BSN Takaful**

**Microtakaful Jariyah**
- Provides full-year basic life protection coverage for B40 breadwinners, offered via PruBSN Prihatin.
- The programme is fully backed by PruBSN Prihatin’s zakat and charity fund.
- PruBSN Prihatin works closely with the Implementation Coordination Unit (ICU) of the Prime Minister’s Department in Malaysia to reach out to the segments registered in the national poverty database, eKasih.
- To ensure more families will benefit from PruBSN Microtakaful Jariyah, funds are raised via the iSalam ride (customer) and the Giving@Workplace initiative (employee).

Source: Prudential BSN Takaful Berhad Website

**mySalam**
- A national health protection scheme that aims to provide free Takaful health protection to 8 million individuals aged between 18 and 65.
- A one-time RM8,000 cash payout upon diagnosis of one of the 45 Critical Illnesses.
- RM50 daily hospitalisation income replacement of up to RM700 per annum at any government, military or university hospital.

Source: mySalam Website

**FWD Kasih**
- An affordable Family Takaful plan specifically designed for the lower-income segment (B40).
- Participants aged between 19 and 39 years old can secure RM10,000 in coverage in the event of death for as low as RM2 a month.

Source: FWD Takaful Berhad Website

Products that improve the financial resilience of the farming community against adverse weather conditions:

**Crops Takaful Coverage (Growing Trees) for Farms/Plantation**
- Provides Takaful coverage for growing trees in a plantation. The perils covered are Fire & Lightning, Damage caused by Wild Animals, Flood, Windstorm, Riot, Strike, Malicious Damage and Aircraft Damage.
- An extension of cover granted to include deliberate burning of undergrowth, plants or trees within the estate.
- Contribution rate and coverage are based on Fire tariff.
- Covers Rubber, Oil Palm and Cocoa Sectors, as per tariff.

Source: Etiqa’s Representative for VBIT Task Force

**Crop Coverage for Food Security**
- The usual coverage for crops supports the management of farming risks, while the new benefit enhances food security. These types of coverage provide farmers with financial replacements in the event their crops are affected by weather hazards such as floods and droughts or by a reduction in quality and yield of the agricultural output. Despite facing adversity, the availability of crop coverages enhances the farmers’ financial resilience to continue their efforts in ensuring food security and sustainability. This also means that supply chains are minimally affected and quality products are delivered.

Source: Etiqa’s Representative for VBIT Task Force
Community empowerment is defined as the process of enabling people to gain control over the factors and decisions that shape their lives and well-being and/or that of the community. Community empowerment is intended to improve the quality of life of communities and their surrounding environments.

Empowering the communities must go hand-in-hand with empowering the individuals within the communities. It is about making the individuals feel confident that they are supported by systems and processes that aid them in gaining control over their lives, whereby their needs are met and fulfilled.

One of the keys to successful community empowerment is communication, which if done correctly, will help to raise awareness and increase people's knowledge. This will then encourage discussions and debates whereby individuals can obtain more insights about the factors that shape their lives and inspire them to take charge, initiating their own decision-making processes that are more informed and holistic.

TOs can play a significant role in encouraging individuals to gradually adopt best behaviours for positive impacts in a wide spectrum of areas, by:

1) Promoting noble charitable causes for the community.
2) Equipping the community with better financial awareness and literacy.
3) Encouraging self-care and health empowerment.

How can TOs empower customers and their respective communities?

- Simplify and customise approach in presenting offerings to a wider audience.
- Provide avenues for society to participate in becoming more accountable to improve their quality of life via TOs' offerings and programmes.
- Instil positive values (i.e. sense of safety, contentment) in the offerings to meet the distinct needs of different segments.
- Create awareness and a sense of urgency among people to trigger their active participation in Takaful.
- Facilitate and provide suitable platforms for communities to assist one another in becoming financially resilient.
- Expand outreach via digitalisation and partnerships, creating efficient synergies to educate and improve financial literacy among the community.
- Empower micro, small and medium enterprises (MSMEs) communities in boosting their full market potential by offering affordable Takaful protection or profitable investment opportunities.
- Complement economic sectors that have embarked on sustainable projects such as environmentally friendly manufacturing sectors and social impact services.
- Influence society to normalise the practice of giving back to others, which is in-line with social obligation, whereby those who are capable have the responsibility to assist those who are not capable via effective distribution of wealth such as sadaqah (12), waqf (13) and hibah (14) among others, and by playing a key role in empowering society through developing offerings and solutions that provide a safety net.

Potential Impact Indicators:

- Number of solutions offered to underserved and unserved segments.
- Number of individuals recovering from mental health issues after receiving Takaful-covered treatment.
- Number of individuals making full use of mobile phone health applications in changing eating habits and lifestyles.
- Number of individuals who progress from being obese to having optimal weight.
- Number of reduced sick days of employees.
- Number of people who opt for the charitable contributions rider.

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(12) Sadaqah: voluntary charity; donation for the poor, for the sake of Allah’s reward in the hereafter (usually).
(13) Waqf: a declaration of dedicating usufructs of a valuable property perpetually for general public use or benefit – usually for religious, charitable or pious purposes as recognised by Islamic law.
(14) Hibah: giving one's wealth to others voluntarily without the expectation of any replacement or exchange with the transferring effect of ownership during one's lifetime.
Charitable giving through TOs’ offerings:

**AIA PUBLIC TAKAFUL**

- **A-Plus Infaq Rider**
  - The A-Plus Infaq rider is available for participants to donate a sum covered to a chosen charitable organisation such as the Malaysian Medical Relief Society Malaysia (MERCY) and National Cancer Society Malaysia (NCSM).
  - The rider costs as low as RM30 per month for sums covered up to RM100,000.
  
  Source: AIA PUBLIC Takaful Bhd. Website

**PRUDENTIAL BSN TAKAFUL**

- **Prudential BSN Ihsan Rider**
  - The PruBSN Ihsan rider is available for participants to make donations to Microtakaful Jariyah Account to sponsor 1-year coverage worth RM10,000 for eligible and selected breadwinners from poor families.
  - Participants are encouraged to become donors with donations as low as RM5 per month.

  Source: Prudential BSN Takaful Berhad Website

TOs’ efforts in equipping the community with financial awareness and knowledge:

**Fun[(d)] for Life**

- **Fun[(d)] for Life**
  - FWD has partnered with Arus Education to enhance financial literacy in students, especially awareness on Takaful.
  - Targeting underprivileged students of B40 families, a fun, structured and practical approach was developed to infuse skills and knowledge in technology to solve real-life financial problems.

  Source: FWD Takaful Berhad Press Releases

**Etiqa**

- **Etiqa Cares**
  - Etiqa Cares supports and aims to complement the United Nations Sustainable Development Goals (SDGs) and Value-Based Intermediation (VBI) initiatives in improving the lives of underprivileged communities as well as the environment.
  - Since Etiqa embarked on this social journey in 2007, we have contributed more than RM75 million in helping to change the lives of many people, and to shape a better world.
  - Etiqa Cares Fundamental principles are:
    - Helping to improve the lives of underprivileged communities through the provision of various basic infrastructure
    - Investing in initiatives and programmes to nurture the minds of more than 10,000 young Malaysians
    - Empowering people – developmental programmes targeted at individuals of diverse backgrounds
    - Collaborating with healthcare organizations to provide free health screenings to various communities

  Source: Etiqa Website

TOs’ efforts to encourage self-care and health empowerment:

**AIA Vitality by AIA**

- **AIA Vitality by AIA**
  - A unique insurance and health programme that actively supports and rewards customers for making healthy choices.
  - AIA Vitality Points are awarded to customers who achieve specific health goals.
  - Greater rewards are given to customers with higher AIA Vitality rankings.

  Source: AIA Vitality Website

**Pulse by Prudential**

- **Pulse by Prudential**
  - A mobile application that caters for individual health and fitness needs.
  - Sophisticated services are offered to users through deep learning and artificial intelligence or AI, which include:
    - Symptom checking
    - Real-time dengue outbreak alerts
    - Health assessments
    - Tracking of health and wellness goals
    - Online doctor consultations

  Source: Pulse by Prudential Website
WHAT IS IT?

Self-governance is a culture of self-discipline and restraint embedded within an organisation. Although all procedures and guidelines are in place, the principles of righteousness within individuals and the executor must also be practised.

Good self-governance is defined as the ability to effectively exercise all necessary functions of regulation without the necessity of intervention by an external authority\(^{15}\). In the business context, good self-governance means conducting operations in a way that is considered ethical and socially responsible, without being forced to do so by external pressures, such as regulators.

Currently, governance has been driven primarily by rules and regulations enacted by the authorities. Moving forward, TOs are envisaged to embrace good self-governance proactively without dependence on regulatory intervention.

How can TOs uphold good self-governance in their operations?

• Achieve good self-governance through two (2) aspects:
  a. Inculcate organisational discipline (self-restraint); and
  b. Ensure meaningful participation of all stakeholders in the governance framework.
• Embrace good self-governance proactively without dependence on regulatory intervention.
• Internalise personal compliance behaviour such as self-control and self-accountability in fulfilling the company’s contractual obligations while safeguarding the rights of stakeholders.
• Proactively engage with stakeholders to deliver the desired value expected, driven by a common moral outlook for the ultimate good of all stakeholders.
• Incorporate VBIT within the institutional leadership and culture of TOs. This can be done through the following strategies:
  a. Instil self-discipline among leaders, staff and other stakeholders through transparent commitment and continuous monitoring of VBIT progression;
  b. Shape the right behaviour through positive culture and improvement in overall Takaful operations;
  c. Strive to achieve continuous improvement through commitment to adopting best practices & standards, either at the international or domestic level.

Potential Impact Indicators:

• Compliance with relevant global standards advocated by the United Nations (UN), such as Principles for Sustainable Insurance (PSI) and the Paris Agreement.
• A reduction in the number of internal fraud cases.
• Fulfilment of investment KPIs in sustainable/green assets.
• Employee empowerment with active participation in long-term decision-making and opportunities for personal development, such as leadership grooming and career advancement.

EXAMPLE

Good self-governance in human resource management:

**PRUDENTIAL BSN**

**Prudential BSN Takaful Berhad**

Incorporates value-based principles in human resource management to ensure sustainable business growth.

**Training & Development**

• Annual online refresher training on risk and governance together with the necessary certification for all employees. This is to internalise personal compliance behavior; self-control and self-accountability among employees.
• Leadership Development Programme (LDP) provides opportunities for personal leadership development for employee career advancement.

**Employee Engagement**

• Introduced Tellme app that provides more flexible platform to give and receive feedbacks instantly in order to drive feedback culture.
• Culture that focuses on obtaining candid feedback from employees is emphasised by Human Resource.
• Volunteering activities among employees are encouraged.

Source: Prudential BSN Takaful Berhad Website

**Good self-governance practice in investment policy:**

**AIA Responsible Investment Policy**

• AIA is a member of the United Nations-supported Principles for Responsible Investment’s Climate Action 100+ investor initiative.
• ESG is incorporated within the investment decision-making process by assessing ESG factors and engaging with management at investee companies.
• ESG performance is assessed by applying good ESG knowledge and monitoring specific ESG criteria in the areas of environmental, social and governance.
• ESG issues are addressed across asset classes, i.e. fixed income, equities and real estates, by investing in companies which have demonstrated sound ESG performance and are committed to further improvement.
• AIA is committed to helping people live Healthier, Longer, Better Lives across the region, and addressing the risk factors associated with non-communicable diseases. As such, AIA excludes any institutions involved in tobacco manufacturing from its investment portfolio.

Source: AIA Responsible Investment Policy
MNRB’s sustainability governance being incorporated into its overall organisational structure and culture:

**MNRB Holdings Berhad**
- A clear and well-defined governance structure was developed to manage the sustainability risks and opportunities, adopting the UN Sustainable Development Goals (SDGs) as a framework for the Sustainability Approach.
- MNRB’s key sustainability themes, which are Embracing a Sustainable Future, Empowering Our People and Enriching Our Community, provide the guidelines to implement the sustainability agenda that includes the meaningful participation of all stakeholders.
- This involved a four-step approach to harmonising business needs with stakeholder interests. A stakeholder engagement exercise was implemented to identify stakeholders based on the level of influence and dependence on MNRB Group’s operations.

*Source: MNRB Annual Report 2020*

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### Sustainability Governance

<table>
<thead>
<tr>
<th>Role</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board of Directors (Board)</strong></td>
<td>Accountable for overall management of corporate strategy and performance, taking into account the EES impacts related to business operations.</td>
</tr>
<tr>
<td><strong>Risk Management Committee of the Board (RMCB)</strong></td>
<td>Oversees the delegation of duties by the Board related to the implementation of strategies and overall management of sustainability matters.</td>
</tr>
<tr>
<td><strong>Operational Risk Management Committee (ORMC)</strong></td>
<td>Assists the Board and RMCB to monitor the implementation of strategies and oversees the process of identification, monitoring and management of sustainability matters. Responsible for the identification of material sustainability matters, and for monitoring and reporting relevant measures and indicators, based on support provided by sustainability champions across various departments. The SWG provides progress updates on sustainability performance to the ORMC and RMCB periodically.</td>
</tr>
<tr>
<td><strong>Sustainability Working Group (SWG)</strong></td>
<td>&gt; Review the outcome of the Impact Assessment Exercise to determine the significance of the sustainability matters to the business, by taking into account the degree of impact and likelihood of occurrence of events associated with/in the context of the identified sustainability matters.</td>
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**Harmonising Business and Stakeholders’ Perspectives**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Review Existing List of Sustainability Matters</strong></td>
<td>Refer to both internal and external references such as business risks presented in the risk registers, emerging risks reported in industry-specific publications and international voluntary reporting standards.</td>
</tr>
<tr>
<td><strong>Impact Assessment</strong></td>
<td>Review the outcome of the Impact Assessment Exercise to determine the significance of the sustainability matters to the business, by taking into account the degree of impact and likelihood of occurrence of events associated with/in the context of the identified sustainability matters.</td>
</tr>
<tr>
<td><strong>Stakeholder Engagement</strong></td>
<td>Review the outcome of the Stakeholder Prioritisation Exercise to identify key stakeholder groups with a high level of influence and dependence on the MNRB Group. Engage with our key internal and external stakeholder groups through surveys to gauge their views on the importance of each sustainability matter to the MNRB Group.</td>
</tr>
<tr>
<td><strong>Validation &amp; Approval</strong></td>
<td>Present the outcome of the overall materiality assessment, i.e. the Materiality Matrix, to the ORMC and RMCB for deliberation and approval.</td>
</tr>
</tbody>
</table>
WHAT IS IT?

Best conduct is defined as the practice that has been proven to be the most superior form of management because it leads to the best results. Best conduct can consist of a set of guidelines or ethical principles that represent the prudent and effective course of action in any given situation with the clear purpose of bringing value to all stakeholders. The best conduct shall be guided by the principle of doing the right thing, in the right way, with the right people, which will then lead to the best results.

Why is it necessary for TOs to adhere to a best conduct standard?

• From TOs’ perspective, the best conduct is the adoption of practices that improve the TOs’ offerings, processes and treatment of all stakeholders.
• It is a form of institutional behaviour that drives continuous improvement and innovation to satisfy the market’s demand for better overall experience.
• By upholding fair and transparent business conduct, TOs can build strong goodwill in the market while ensuring the rights of all stakeholders involved.
• Adoption of VBIT empowers all stakeholders by making all important information available and easily understood.
• TOs can elevate the professionalism of their employees and distributors while avoiding any misrepresentations and non-disclosure issues by encouraging the exercise of transparency and good faith.

Potential Impact Indicators:

• Number of customers’ and employees’ complaints.
• Customer satisfaction index.
• Employee retention rate.
• Employee training hours.
• Number of employees who have obtained professional certificates.
• Enhanced level of transparency.
• Sustainable end-to-end Takaful value chain.
• Number of sustainable solutions (e.g. create social value, positive environmental and climate-related impact) offered.
• Amount of cost savings/increased quality of work through improved staff competencies.

Best conduct that improves the customers’ experience:

**FWD Takaful Berhad**
FWD minimises exclusions by ensuring higher inclusion in protection whereby there are currently only three (3) exclusions for FWD Family First and FWD Future First, which are self-inflicted acts, unlawful acts and acts of war or any similar events.

Source: FWD Takaful Berhad Website

**SunAccess E-Hibah**
• Client mobile application enhancement: Allows SLMT clients to perform Conditional Hibah digitally via the client app, SunAccess.
• Improves TAT and empowers clients.

Source: Sun Life Malaysia Website

**Takaful Malaysia’s Click for Cover**
• An online sales portal as a beginning of the company’s venture into digital Takaful.
• Designed with easy-to-use interfaces for customers to access the company’s products online with e-payment facilities and real-time underwriting capabilities.
• As part of the company’s Responsible Finance to increase operational efficiency and integrate digital transformation.

Source: Takaful Malaysia’s Press Release

Best conduct in business operations:

**Menara Prudential at Tun Razak Exchange (TRX)**
• TRX is the first in Malaysia to achieve both provisional GBI Platinum Township and LEED (US) Neighbourhood Development Gold certifications for its overall master plan.
• Constructed with materials that reduce heat with a smart building management system that optimises the lighting and temperature within.
• It is equipped with a rainwater collection and recycling system that allows sustainable water supply within the building.

Source: Prudential Malaysia Press Release

**AIA Operating Philosophy**
• The AIA Operating Philosophy drives how business objectives are achieved. Business ethics – a clear and rigorous discrimination between right and wrong – govern everything that they say and do.
• This fundamental philosophy ensures that employees consistently act honestly and professionally, and this is the paramount principle that is adopted by all members of the organisation.

Source: AIA Website

**Menara Etiqa at Bangsar**
• Designed and constructed with the conservation of the environment in mind.
• The building was developed using environmentally friendly construction materials, a green wall façade and energy-saving lighting to ensure a green workplace for occupants.
• Certified with MSC status, Green Building Index (Gold) and GreenRE Platinum Rating with dual-source power supply at 100% redundancy.

Source: Escape by Etiqa & Turner Construction Website
## IMPLEMENTATION STRATEGIES FOR INDUSTRY-WIDE ADOPTION

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<td>Key Implementation Strategies (Focus Areas):</td>
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<td>• Inclusive Stakeholder Engagement</td>
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<td></td>
<td>• Value-driven Solutions</td>
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<td></td>
<td>• Impact-based Assessment</td>
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<td></td>
<td>• Constructive Collaboration</td>
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IMPLEMENTATION STRATEGIES FOR INDUSTRY-WIDE ADOPTION

VBIT implementation involves a structured mechanism that systematically integrates the underpinning thrusts of VBIT into existing Takaful operations. This can be envisaged via a dynamic process cycle as illustrated below.

The implementation of VBIT begins with the formation of the corporate value intent, followed by development of the key implementation strategies and the respective comprehensive measurements. Subsequently, the respective TO’s VBIT efforts, deliverables and impacts are communicated to all stakeholders via timely impact-based disclosures.

CORPORATE VALUE INTENT

Corporate Value Intent (CVI) articulates the TO’s institutional intent or commitment, specifically in delivering Shariah propositions through Takaful business activities. The CVI integrates the key underpinning thrusts of VBIT into existing TOs’ operations, practices, conduct and offerings. This forms the basis for the formulation of all business strategies, operational models and corresponding policies established for managing the business. The development and execution of the CVI reflects the passion and belief of all stakeholders involved in the business, articulated with support in terms of the tone from the top, i.e. from the board of directors and group office counterparts.

The CVI extends beyond the company’s slogan. It acts as a voice for the aspirations of the TO’s leadership. It expresses the specific desirable future that the TO is committed to achieving – a goal which balances the creation of value for all stakeholders.

Takaful Malaysia
• Takaful Malaysia aims to exceed customer expectations through operational excellence, technology driven capabilities, product innovation and a performance-oriented culture while delivering superior shareholder value.
• A set of pillars has been identified and incorporated into different operational areas including talent development, responsible finance and ethical practice, corporate sustainability, stakeholder engagement and materiality assessment.

Source: Takaful Malaysia’s Annual Report 2019

MNRB Holdings Berhad
• MNRB aims to achieve its objective of being a “High Performing Organisation” that delivers sustainable performance and good stakeholder value while ensuring long-term value creation.
• MNRB remains committed to balancing economic performance with responsible environmental and social considerations across the MNRB Group.

Source: MNRB Holdings Berhad Annual Report 2020
Bank Islam Malaysia Berhad

- Bank Islam develops its strategies in line with its vision and mission:
  - “That advances prosperity for all”;
  - “To provide solutions that deliver value”.

Source: Bank Islam Malaysia Berhad Annual Report 2019
**KEY IMPLEMENTATION STRATEGIES**

The execution of VBIT by TOs may be conducted by focusing on identified key implementation strategies. The way the institution delivers its CVI and implements its value-based strategies shall be based on four (4) interlinked areas of focus.

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**INCLUSIVE STAKEHOLDER ENGAGEMENT**

**WHAT IS IT?**

A TO shall effectively engage with its various stakeholders in determining its strategic initiatives and key action plans to achieve the objectives of its CVI. In this manner, stakeholders’ views and responses are effectively included in the development of the CVI.

**Why is effective engagement with stakeholders important?**

Holistic and effective stakeholder engagement is important to ensure that the decision-making process towards achieving the CVI is conducted based on comprehensive and transparent information. The scope of engagement with stakeholders should include both internal and external stakeholders. This includes ongoing engagement with:

- Customers, distributors and shareholders to understand their interest in and appetite for value-based products and services;
- Civil society organisations (CSOs) and local communities on an ongoing basis to obtain information about the actual and expected impact of the TOs’ products, services and overall portfolio;
- NGOs and technical experts to gain insights about emerging trends and understanding of credible approaches (e.g. tools, standards) to mitigate risks; and
- Policymakers and regulators to understand regulatory expectations and support the transition to a sustainable finance system.

The engagement process is critical in facilitating stakeholder involvement to create awareness and garner support for the TOs’ CVI and VBIT journey.

**How this can be done?**

In pursuing inclusive stakeholder insights, a TO may undertake relevant approaches to engage with its various stakeholders. The consideration includes (but is not limited to) the identification of the relevant parties, the method and frequency of engagements and the creation of proper response channels.

The TO shall consider both the internal and external stakeholders’ views and responses in the decision-making process and development of strategies to deliver the CVI objectives. In this manner, there will be a greater alignment between the expectations of stakeholders and business interests during key decision-making processes, i.e. product development, risk management and resource allocation.

**Ideal inclusive stakeholder engagement ideas:**

- Engage with relevant internal stakeholders on the approach to be implemented and impact of key VBIT initiatives.
- Engage with relevant stakeholders to understand their interests, needs, expectations and issues for TOs to align their offerings or solutions.
- Engage with relevant stakeholders to collect feedback about the implemented VBIT initiatives for continuous improvement of TO offerings.
- Collaborate with NGOs and local communities, including government agencies, to understand customer needs and how best TOs can contribute to address any social and environmental issues.

---

(16) Civil society organisations: According to the World Bank, these are the wide array of non-governmental and not-for-profit organisations that have a presence in public life and express the interests and values of their members and others, based on ethical, cultural, political, scientific, religious or philanthropic considerations.
Stakeholder engagement to create value for society:

**Tokio Marine Insurance Group**
- The company aims to be a “Good company trusted by all people and society by supporting customers and society in times of need”.
- Different stakeholders are actively engaged to ensure the delivery of “Good Company” value.
- Customers’ feedback received through various engagement platforms is considered during strategy formulation.
- Media releases are utilised to communicate timely information to keep all stakeholders informed.

Source: Tokio Marine Sustainability Report 2019

**Etqa Accelerator Programme**
- This programme is suitable for individuals who are planning to set up a start-up or early stage start-ups. The 3-month programme will provide guidance for the start-ups to make their products and offerings better a range of activities and interventions to take start-ups to the next level.
- The business idea for the start-up should address any of the themes below but individuals should remain open to hear any other business ideas if they are truly compelling:
  - **Artificial Intelligence**
    - How to bring AI to insurance and Takaful for claims processing, fraud detection, customer profiling, buying behaviour, product analysis, etc.
  - **Work From Anywhere - Productivity**
    - With the impact of COVID-19, how can the new workforce be more productive, while maintaining collaboration with peers and intimacy with customers?
  - **Financial Inclusivity**
    - Protection for all. What can be done to address the high numbers of uninsured and underinsured in our community? How can we address the issues of awareness & education, communication, channels, products or behaviours?
  - **Environmental, Social & Governance (ESG)**
    - Which part of the insurance & Takaful ecosystem can be better aligned to the sustainability goals of ESG?
  - **Improving the Customer Experience**
    - How can the experience of purchasing insurance & takaful be more informed, relevant, convenient, efficient and trusted

Source: Etqa Digital Website

**AXA Research Fund**
- Active engagement with outstanding researchers and scientists to solve global societal challenges related to Life & Health, Data & Technology, Climate & Environment and Economics.
- £250 million was granted to 597 research projects across 36 countries.
- Funding is made available every year to eligible awardees through transparent scientific and academic assessment processes.

Source: AXA Research Fund Website

**TOKIO MARINE INSURANCE GROUP**

**Etiqa Accelerator Programme**

**AXA Research Fund**

**Stakeholder engagement to create value for society:**

**Toward a safe, secure and sustainable future**

<table>
<thead>
<tr>
<th>Solve social issues</th>
<th>Continuously enhancing corporate value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>CSR Initiatives</td>
</tr>
<tr>
<td>Shareholders and Investors</td>
<td>Dialogue and Cooperation</td>
</tr>
<tr>
<td>Business Partners</td>
<td>Three Core CSR Themes</td>
</tr>
<tr>
<td>Local Communities and Societies</td>
<td>CSR Charter</td>
</tr>
</tbody>
</table>

Source: Tokio Marine Sustainability Report 2019

**Implementstration Strategies for Industry-Wide Adoption**

**Inclusive Stakeholder Engagement**

**Value-Driven Solutions**

**Impact-Based Assessment**

**Constructive Collaboration**
VALUE-DRIVEN SOLUTIONS

WHAT IS IT?

Value-driven solutions refer to TOs’ offerings, business practices and infrastructure that provide meaningful and valuable experience to relevant stakeholders. This will then support the achievement of the TOs’ respective CVIs and demonstrate VBIT’s underpinning thrusts.

Why are value-driven solutions important?

A value-driven solution with distinct features can motivate a TO to always take a competitive stance in order to create and deliver more meaningful value to specific communities. With renewed strategic focus to deliver impactful value, TOs’ innovative offerings will address the relevant needs of specific segments over a longer term and in a timely and cost-efficient manner.

A targeted value-driven solution will expedite the implementation of value-based offerings towards the ultimate achievement of Maqasid Shariah, specifically, in the protection of life and protection of wealth, which form the foundation of Takaful offerings.

How this can be done?

This can be reflected in three ways:

1. Design of Products & Services
2. Business Best Practice
3. Enhancement of Current Infrastructure & Capacity Building

Value-driven solutions:

Blue Marble Microinsurance

- Blue Marble is a start-up that aims to provide socially impactful and commercially viable microinsurance protection to the underserved.
- Farmers are protected against any vulnerabilities caused by extreme weather conditions under the microinsurance scheme.
- Blue Marble remains financially viable and sustainable with good governance and skilful talent from eight (8) multinational insurance entities.

Source: Blue Marble Website
1. Design of Products & Services

- Creation of innovative products and services, with a focus on providing solutions for specific pain points or to fulfil the actual needs of a specific segment of society.
- Organise corporate social responsibility (CSR) activities that promote the application of social finance (waqf, sadaqah & zakat) with a long-term plan to enhance the financial resilience of those segments.
- Potential solutions:
  - Introduce differentiated methods in providing product and service offerings to expand reach to different market segments.
  - Offer flexible and customised needs-based coverage at affordable rates to fit the needs of the individual’s life events or changes in lifestyle.
  - Provide holistic advisory services or tailor-made products for business entities to improve their risk management against financial losses.
  - Encourage customers to become responsible investors through Shariah compliant instruments or green investments.

2. Business Best Practice

- Adoption of best practices in products & services development, marketing, sales process and after-sales services, aiming to create more value for customers.
- Development of products or services that is backed by robust research & development (R&D) which considers inclusive insights from relevant stakeholders.
- Leverage on strengths of relevant strategic partners for their expertise, infrastructure and networks that extend beyond Takaful offerings.
- Potential solutions:
  - Conduct research and utilise big data in the process of product development.
  - Ongoing engagement with customers including regular advisory support to address their evolving needs.
  - Simplify claims process to expedite payment to those in need of financial support in times of distress.

3. Enhancement of Current Infrastructure & Capacity Building

- Aims to improve customer’s experience of and accessibility to Takaful offerings, i.e via digitalisation, e-payment/e-wallet.
- Potential solutions:
  - Adopt modern technology and automation of manual processes to reduce carbon footprint and increase work efficiency.
  - Accessible facilities and robust network capacity to ensure uninterrupted service delivery to stakeholders.

Takaful Mulia

- Takaful products linked to Islamic economic development concepts and specifically targeted at providing meaningful benefits to the Takaful participant and/or to the wider community:
  - Waqf allows a facility to be developed benefiting all parties (incl. non-Muslims)
  - Zakat allows the less fortunate to fulfil their basic needs (food, clothing, education, medicine)
  - Hibah allows beneficiaries to receive direct benefits to survive in the event of death
  - Allows charitable activities from money given
  - Humanitarian aid shows concern for the plight of others for various reasons

Source: Sun Life Malaysia Website
IMPACT-BASED ASSESSMENT

WHAT IS IT?

Impact-based assessment is an analysis of the potential impacts from an Environmental, Social and Governance (ESG) perspective, which are integrated into underwriting and investment procedures based on the company's risk appetite. An evaluation of this will enable the TOs to better understand the impacts of undertaking specific activities on society and the environment. Thus, negative externalities that bring harm to society and environment, such as pollution and deforestation, can be gradually reduced over time.

The impact-based assessment may cover discussions on tools, parameters or methodologies that can be utilised in considering VBIT-related initiatives.

Why do TOs need to consider an impact-based assessment?

TOs will be able to better understand the impacts of the specific business activities on the economy, the community and the environment. Hence, the decision whether to embark on the relevant initiative will be influenced by its positive impact on the stakeholders. Where necessary, reviews of unfavourable initiatives may be undertaken prior to commencement, to mitigate the corresponding impact such that the outcome will be favourable from an ESG perspective.

Underwriting Consideration

A customised underwriting approach will be more suitable for customers as it will be more tailored to the specific risk profile or health condition of the participant. Upon undertaking a comprehensive impact-based assessment, a TO may be able to consider a risk-based underwriting approach, or practise a simplified or customised underwriting approach, to heighten the value of its offerings.

Investment Procedures

Further to current investment practices that are already based on Shariah considerations, TOs may include ESG considerations in their investment decisions, e.g. investing in green assets or businesses which support sustainability objectives. From this perspective, TOs' investment decisions involve a more holistic approach that is not only acceptable but is good and beneficial for all.

A targeted value-driven solution will expedite the implementation of value-based offerings towards the ultimate achievement of Maqasid Shariah; specifically, in the protection of life and protection of wealth, which form the foundation of Takaful offerings.

How this can be done?

Approaches to impact-based assessment:

- Give credit to those who have been diligently practising a healthy lifestyle by providing discounts/preferential rates for Takaful contributions.
- Practise different underwriting guidelines for specific segments based on their health profiles, i.e. diabetic customers or customers with previous cancer histories.
- Exercise simplified underwriting or auto acceptance (no underwriting) for customers with controlled risks or exposures.
- Promote ESG concerns in the local business market by offering preferential rates to business customers adopting sustainable practices and conduct.
- Increase customers’ financial resilience to a changing climate by offering protection on climate-related risks and incentivise customers who implement preventive measures.
- Promote the transition to more climate-friendly mobility concepts:
  - Usage-based Takaful: contributions rate charges are based on the usage of the vehicle. Lower rates are charged when the vehicles are used less frequently to encourage the usage of public transportation and reduce carbon emissions.
  - Lower rates for electric and hybrid vehicles.
- Incentivise the improvement of energy-efficient practices in daily operations and reduction of greenhouse gas emissions by providing preferential rates for customers who:
  - Use renewable energy equipment
  - Increase contribution of renewable energy in power generation
  - Have solar farms, biogas power plants or hydropower plants
  - Optimise energy consumption
  - Promote energy-efficient and energy savings-based projects
  - Encourage low carbon mobility
  - Use energy-efficient vehicles and transport
  - Promote green buildings
  - Adopt green technology in the construction, management, maintenance and demolition of buildings
Impact-based assessment:

**Munich RE**

**Energy Efficiency Insurance**
- HSB Engineering Insurance, part of Munich Re, has recognised the crucial need to provide the right insurance coverage for energy-saving projects.
- The scheme is exclusively designed for investors in energy conservation measures, energy service companies and energy efficiency projects.
- Coverage is provided on the asset installed, revenue generated from the project and shortfalls in energy-savings realised each year.
- The creditworthiness of energy-saving projects is improved when the performance of the project is protected.
- The scheme promotes sustainable practices in the long run.

*Source: Munich Re Website*

**The Re.Banjir**
- This home-grown Malaysian Flood Model is a risk assessment tool to assist primary insurers and Takaful operators to better estimate flood exposure in their property portfolios.
- The model assesses flood exposures for risks in Peninsular Malaysia, with plans to expand the model further to cover East Malaysia. Member companies have direct access to the model and generate the results on their own or request the assistance of the Re.Banjir Support Team.
- The results generated reflect the flood risk exposures of the respective portfolio and allow a risk-based pricing of the portfolio. Where the exposure profile is largely located in less flood-prone areas, the rate chargeable will be lower compared to a portfolio that comprises more flood-prone areas.

*Source: Malaysian Re Website*
TOs may consider venturing into strategic alliances with other strategic partners in delivering their value-driven solutions and other value-added services to their stakeholders prior to commencement, and mitigate the corresponding impacts such that the outcome will be favourable from an ESG perspective.

### Why is constructive collaboration important?

Constructive collaboration with a wide range of partners can create greater positive impact by leveraging on their competencies, skills, networks and infrastructure.

A well-considered value-driven proposition may also facilitate further collaboration between the TOs and charitable donors or commercial contributors to provide meaningful assistance to the more vulnerable segments of society. While a TO specialises in providing coverage towards sustainability of livelihoods and financial resilience, further assistance from other contributors can provide for improved life experiences and enhanced values.

In instances of fostering expansion of Takaful values to wider and deeper segments of the population, TOs need to look into more efficient means to reach out to the masses via digital platforms, collaborations with network providers or engagements with various social media. These will also reduce carbon footprints in support of further environmental sustainability.

### How this can be done?

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<thead>
<tr>
<th>Potential constructive collaborations</th>
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<tbody>
<tr>
<td>• Collaborate with online platforms, insurtech and fintech to promote greater accessibility to Takaful via digital means.</td>
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<tr>
<td>• Leverage on established networks and databases of CSOs and NGOs to promote and create awareness on the importance of Takaful protection, and to facilitate the process for underserved segments to obtain Takaful protection.</td>
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<tr>
<td>• Partner with selected stakeholders to develop a suitable financial literacy syllabus in the effort to increase financial knowledge that focuses on financial risk management, i.e. wealth management.</td>
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Constructive collaboration:

**UN, WWF and Selected Global Insurers**

- The first insurance industry statement of commitment to protect valuable and irreplaceable assets for current and future generations.
- The guide was developed by the UN Environment Programme’s Principles for Sustainable Insurance Initiative (PSI), WWF and UN Educational, Scientific and Cultural Organization (UNESCO) World Heritage Centre and supported by ECOFACT.
- Comprehensive practical guidance is provided to guide the insurer on ways to reduce and prevent the risk of insuring and investing in companies/projects whose activities contribute to the destruction of World Heritage Sites.

Source: WWF’s Press Release

**SENANG**

- Several insurance and Takaful operators have collaborated with the start-up, Senang, to offer hassle-free insurance to MSMEs, especially to e-commerce companies.
- MSMEs are able to obtain instant insurance quotes customised for their businesses across different industries.
- MSMEs can manage their policies and claims via the platform with minimal effort.

Source: Senang Website
COVID-19: How it has changed the way we live and how it has impacted the Takaful and insurance industry

When the news of the COVID-19 outbreak in China was reported at the end of 2019, many were ill-prepared to face the unforeseen changes it brought to every aspect of human life, especially those who were vulnerable to economic shocks and such unexpected events. In response to the news of the outbreak, the Ministry of Health (MOH) swiftly devised standard operating procedures and guidelines to manage and curb the spread of the disease nationwide. The exponential rise in COVID-19 cases prompted the government to impose a Movement Control Order (MCO) which limited movement within the country and at the borders, prohibited mass gatherings and closed educational institutions, and government and private premises, except those involved in essential services.
This occurrence forced many companies to rethink their cost structures, business strategies and work procedures. As such, some accelerated Work from Home (WFH) or agile working arrangements (18) to ensure their business continuity. However, it is also important to note that not all companies had the proper and appropriate technology in place to embrace these arrangements, and some were not equipped to adopt digitalisation due to the premium price tag attached to digital strategy implementation.

On a positive note, this serves as a stepping stone for the industry to revolutionise the current business model and strategise to adopt digitalisation and future technologies as part of the industry’s transformation agenda. There is no doubt that the pandemic has changed the way the public perceives Takaful and insurance products, hence the industry must now consider unlocking its full potential to address the immediate needs of the public and to cater for the needs of the future.

On a positive note, this serves as a stepping stone for the industry to revolutionise the current business model and strategise to adopt digitalisation and future technologies as part of the industry’s transformation agenda. There is no better time for the Takaful Operators to leverage on their respective strengths, review their business aspirations and innovate their business strategies accordingly. It would be wise for Takaful Operators to consider incorporating the utilisation of data analytics tools and the Big Data Platform (BDP) as part of their respective business plans to obtain valuable insights to understand the distinct customer needs available out there.

It is hoped that with the VBIT Framework, industry players can address unfamiliar challenges and prepare for unpredictable future events and unexpected crises such as the COVID-19 pandemic. In a nutshell, the ideas and concepts shared in the VBIT Framework can influence TOs and RTOs to think beyond conventional ways to achieve the industry’s aspirations while remaining resilient against future challenges.
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WHAT IS IT?

In embarking on the VBIT journey, the Comprehensive Measurement or Comprehensive Key Performance Index (KPI) assesses the progress and effectiveness of the VBIT initiatives implemented by TOs. The measurements address both financial and non-financial indicators under the four underpinning thrusts of VBIT, which are financial resilience, community empowerment, good self-governance and best conduct.

Why is comprehensive measurement important?

a) It is a quantifiable measurement to indicate the progress of VBIT implementation. By measuring goals in a quantifiable manner, TOs will gain the ability to observe the effectiveness of the initiative and subsequently make decisions that will further enhance their efforts to set more practical targets in accomplishing VBIT objectives.

b) Comprehensive measurement will guide TOs in identifying whether they are progressing in line with their respective CVI.

c) The usage of comprehensive KPIs will create an atmosphere of learning and innovation for the TOs. It will help TOs to identify gaps for improvement in their current initiatives and encourage them to be more progressive towards attaining long-term sustainability for the economy, community and environment.

d) Comprehensive KPIs can be an effective tool to promote workforce motivation and job satisfaction. Hence, it is imperative that corresponding KPIs on VBIT are established for the workforce to garner commitment in embracing the VBIT principles and executing actionable items. This will enrich TOs’ working culture and ultimately enhance TOs’ sustainability performance.

How this can be done?

Comprehensive measurement that focuses more on the non-financial aspects can shape positive and proactive behaviour among industry players. A competitive environment encourages industry players to compete in creating positive and sustainable impacts on their wider stakeholders. This will create balanced motivation to achieve short-term and long-term outcomes.

Potential VBIT Comprehensive Measurement Indicators:

- Number of individuals who receive medical treatment and survive illnesses because of timely claim payments.
- Number of individuals subscribing to Takaful after financial literacy and community empowerment engagements conducted by TOs.
- Number of individuals deriving benefit from microtakaful.
- Number of individuals benefiting by reducing their carbon footprints through lower vehicle mileage for lower contribution payments.
- Number of individuals participating in Takaful via online platforms with simple questionnaires.
- Number of businesses revived post-unexpected life events.
- Measurement of protection gap over time of identified segment.

Malaysia’s Healthiest Workplace by AIA Vitality

The Healthiest Workplace by AIA Vitality is a comprehensive survey of the health and well-being of employees. It provides an overview of employees’ health and well-being profiles which gives employers insights to identify and carry out effective interventions to improve the health of their workforce and to help their organisations be more productive.

Employers who participate in the survey will be provided with a comprehensive Organisational Health Report, which will give a holistic view of their employees’ health and well-being so that effective interventions can be identified to help organisations be more productive.

Employees who complete the survey will immediately receive a personal health report outlining their AIA Vitality age and key lifestyle and health risks, together with suggestions for improvements.

Source: AIA Malaysia Press Release
WHAT IS IT?

It demonstrates TOs’ accountability towards VBIT commitment and discloses the TOs’ commitment in delivering sustainability values. It reflects the progress and effectiveness of the VBIT initiatives in deliberating relevant impact-focused information. The criteria for disclosure items include consistency, reliability, comparability and meaningfulness.

Why is impact-based disclosure necessary?

a) By publicly sharing their comprehensive measurements, TOs may enhance the understanding of stakeholders of the role of the Takaful industry. Takaful value propositions become more attractive to all stakeholders with enhanced levels of transparency that disclose both financial and non-financial aspects of the VBIT initiatives.

b) Stakeholders will be able to make more informed decisions and better understand the TOs’ strategic intent and VBIT commitment and the impact and outcome of the initiatives undertaken by respective TOs.

c) This encourages TOs to be more disciplined in implementing VBIT initiatives and to create sustainable impacts for their stakeholders while upholding their respective commitments to VBIT.

How this can be done?

- The scope, context, level of detail and frequency of the disclosures can be appropriately tailored to the needs of the different groups of users of the disclosures.
- Policies for impact-based disclosure can be formulated individually by each TO. The policies can be embedded as part of the TO’s comprehensive disclosure framework.
- The impact-based disclosure can be done through various platforms such as corporate reports (annual report, sustainability report), social media engagements, and bite-sized information-sharing on the TO’s website or by other relevant means.
- Local and international transparency and disclosure frameworks relevant to sustainability, such as those issued by Bursa Malaysia, TCFD, Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB), can be considered when defining materiality and providing disclosure.

Guide for impact-based disclosure:

- **Means of disclosure include:**
  - Annual Report;
  - Sustainability Report;
  - Press/Media Release;
  - TOs’ Websites.

- **Areas of disclosure include:**
  - VBIT Roadmap;
  - Number of Value-driven Solutions Offered and the Value Created;
  - Constructive Collaborations;
  - Penetration Rate of the Underserved and Unserved Market Segments;
  - Signatory to International Standards;
  - Investment Strategies and Profit in ESG-related Projects;
  - Gaps Identified and Solutions Provided to Address the Gaps.

**Example:**

**Tokio Marine: Measurable impact and economic value created by mangrove-planting**

- Tokio Marine & Nichido appointed Mitsubishi Research Institute Inc. to conduct a survey and assessments on the benefits of mangrove-planting activities.
- Mangrove-planting is known to be useful in mitigating global warming and preserving biodiversity.
- The project was proven to benefit around 1.41 million people living in the area.
- The numerical representation showed quantitative proof to both shareholders and the public of the benefits of mangrove-planting.

Source: Tokio Marine Holdings Sustainability Report 2019
**AFTERWORD: EMBRACING VBIT IS A JOURNEY**

The ultimate intended outcome of implementing the VBIT agenda is to achieve Maqasid Shariah, within the ideals of Economy, Community and Environment (ECE). This framework articulates the structure of how VBIT should be implemented for the industry to achieve its transformational purpose – to deliver positive impacts and sustainable positive financial returns.

However, it is important for TOs and RTOs to understand and recognise that VBIT is a journey of continuous advancement, which should not be rushed but implemented in stages to ensure utmost effectiveness.

A TO or RTO may choose a path to execute VBIT initiatives based on its Corporate Value Intent and focused on identified key implementation strategies and develop it over time. The implementation of VBIT initiatives needs to be holistic, while TOs and RTOs have the flexibility to prioritise initiatives that give meaningful and measurable value to their respective stakeholders.

As TOs and RTOs continue to adopt and progress to execute VBIT initiatives, they need to continuously envision the future to drive the transformation of the industry towards becoming more sustainable and resilient. TOs and RTOs need to ensure that all the VBIT initiatives executed support the industry’s aspirations to take the Malaysian Islamic Finance industry to the next level, and to the global level.

When an initiative is declared as part of the VBIT agenda, it needs to be validated against the underpinning thrusts of VBIT which are financial resilience, community empowerment, good self-governance and best conduct. TOs and RTOs must then ensure that the initiatives implemented are comprehensively measured against the intended outcomes with appropriate disclosures shared with all relevant stakeholders.

Besides the continuous commitment by all TOs and RTOs, key success factors include raising awareness among the public on the importance of self-risk management, employees’ capacity building related to sustainability and solid coordination between stakeholders.

As the world rapidly evolves, digital connectivity is transforming consumers’ behaviour and demands. It is hoped that the dynamic process cycle that began with the formation of the CVI will enable TOs and RTOs to deliver quality offerings in their respective value creation journeys to achieve the industry’s aspirations.
ACKNOWLEDGEMENTS

The establishment of Value-based Intermediation for Takaful required guidance and assistance, especially in identifying the suitable path to explore. Below is a non-exhaustive list of individuals, organisations and institutions that contributed directly and indirectly towards the development of the VBIT Framework.

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Encik Mohd Raizal Bin Mohd Rais
Puan Nadiah Binti Mohd Suhuli
Puan Nor Ailis Binti Suheli
Puan Norfazilah Arsat
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**LIST OF ABBREVIATIONS**

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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>B40</td>
<td>Bottom 40% Income Households</td>
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<tr>
<td>BNM</td>
<td>Bank Negara Malaysia</td>
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<tr>
<td>CAGR</td>
<td>Compounded Annual Growth Rate</td>
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<tr>
<td>CIIF</td>
<td>Chartered Institute of Islamic Finance Professionals</td>
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<tr>
<td>CVI</td>
<td>Corporate Value Intent</td>
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<td>DOSM</td>
<td>Department of Statistics Malaysia</td>
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<td>ESG</td>
<td>Environment, Social, Governance</td>
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<td>GRI</td>
<td>Global Reporting Initiative</td>
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<tr>
<td>IBFIM</td>
<td>Islamic Banking &amp; Finance Institute Malaysia</td>
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<td>ICAAP</td>
<td>Internal Capital Adequacy Assessment Process</td>
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<td>IFSA</td>
<td>Islamic Financial Services Act 2013</td>
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<tr>
<td>INCEIF</td>
<td>International Centre for Education in Islamic Finance</td>
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<td>ISRA</td>
<td>International Shari’ah Research Academy</td>
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<tr>
<td>KPI</td>
<td>Key Performance Index</td>
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<tr>
<td>LIFE</td>
<td>Life Insurance and Family Takaful Framework</td>
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<td>MTA</td>
<td>Malaysian Takaful Association</td>
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<td>PSI</td>
<td>Principles for Sustainable Insurance</td>
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<td>RBCT</td>
<td>Malaysia’s Risk-based Capital Takaful Framework</td>
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<tr>
<td>SAC</td>
<td>Shariah Advisory Council</td>
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<tr>
<td>SASB</td>
<td>Sustainability Accounting Standards Board</td>
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<tr>
<td>SDG</td>
<td>Sustainable Development Goal</td>
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<tr>
<td>SGP</td>
<td>Shariah Governance Policy</td>
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<td>SOP</td>
<td>Standard Operating Procedure</td>
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<tr>
<td>TCFD</td>
<td>Task Force on Climate-related Financial Disclosures</td>
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<td>TO</td>
<td>Takaful Operator</td>
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<td>TOF</td>
<td>Takaful Operational Framework</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNEPFI</td>
<td>United Nations Environment Programme Finance Initiative</td>
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<td>UNESCO</td>
<td>United Nations Educational, Scientific and Cultural Organization</td>
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<td>VBI</td>
<td>Value-based Intermediation</td>
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<td>VBIT</td>
<td>Value-based Intermediation for Takaful</td>
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<tr>
<td>WWF</td>
<td>World Wide Fund for Nature</td>
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