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INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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**LIFE INSURANCE IN MALAYSIA - PREMIUM
COMPARISON BETWEEN ISLAMIC AND
CONVENTIONAL COMPANIES**

BY

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**MASTER OF ECONOMICS PROGRAMME
DEPARTMENT OF ECONOMICS
FACULTY OF ECONOMICS AND MANAGEMENT**



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RESEARCH PAPER

This is to certify that Bro. / UGI SUHARTO
has written the Master of Economics research paper entitled:

LIFE INSURANCE IN MALAYSIA - PREMIUM COMPARISON
BETWEEN ISLAMIC AND CONVENTIONAL COMPANIES

under my supervision. The relevant comments made on the paper during its presentation have been incorporated in the present version of the paper to my full satisfaction.

I have pleasure in recommending that the graduate committee may approve the paper in partial fulfilment of the requirements for the degree of Master of Economics.

Name of Supervisor : DR. MUHAMMAD ANWAR

Date: 29/4/93 Muhammad Anwar
(Signature)

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LIFE INSURANCE IN MALAYSIA - PREMIUM COMPARISON BETWEEN ISLAMIC AND CONVENTIONAL COMPANIES

I. INTRODUCTION

A. Brief Review Of Life Insurance In Malaysia

The first recorded life insurance contract took place in England in 1583. In Malaysia, insurance activities began on the heels of the British system because of the advent of colonialism. As late as 1955, the foreign insurers' domination of the local insurance market was about 95% of the total insurance business. After independence in 1957, however, efforts were made to introduce domestic insurance companies. During early 1960's a number of domestic life insurance companies were formed. But the performance of companies was far from satisfactory, due to unsound operations and inadequate technical background. So the government introduced the Insurance Act 1963 to regulate the insurance industry. The general supervision and control of the insurance industry is exercised by the Director General of Insurance, functioning under the Ministry of Finance.¹

With the introduction of the New Economic Policy in 1971, the government of Malaysia restructured many foreign companies to improve local equity participation. A total of 41 foreign insurance companies were domesticated into 31 Malaysian-incorporated companies by the end 1987.² At present there are 57 insurance

¹Actuarial Society of Malaysia (ed.), The Malaysian Life Insurance Industry: Perspectives, Kuala Lumpur, The Malaysian Insurance Institute, 1988, p.8.

²Malaysia, Money and Banking in Malaysia, Kuala Lumpur, Bank Negara Malaysia, 1989, p. 282.

companies and 18 of them offer life insurance.³ The life insurance companies account for about two-thirds of the total assets of the insurance industry.⁴

The life insurance industry experienced a high growth level up to 1991. The number of new policies issued increased by 26.9% from 1990 to 1991. New annual premiums grew from RM 243.3 million in 1987 to RM 572.5 million in 1991 reflecting average increase of 29.2% annually. Sum insured for new policies also increased from RM 12.9 billion in 1987 to RM 30.9 billion in 1991 representing 34.9% increase per year.⁵

A significant development took place in Malaysia's insurance industry with the establishment of Syarikat Takaful Malaysia Sendirian Berhad. The company, incorporated on 24th November 1984, began its operation on 1st August 1985 to provide insurance (Takaful service) in accordance with Islamic principles on commercial basis.

Syarikat Takaful is experiencing, like other life insurance companies, a steady growth over the years. The total assets of Syarikat takaful have increased significantly from RM 10.8 million in 1986 to RM 58.5 million in 1992 reflecting an average increase of about 33% per year.⁶

³Malaysia, Insurans Laporan Tahunan Ketua Pengarah (Insurance Annual Report of Director General), Kuala Lumpur, Bank Negara Malaysia, 1991, p. xii.

⁴Michael T. Skully (ed.), Financial Institutions and Markets in Southeast Asia: A Study of Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand, Hongkong, Micmillan, 1984, p. 150.

⁵Annual Report 1991/92, Kuala Lumpur, Life Insurance Association of Malaysia, 1992, p. 15.

⁶Annual Report 1992, Kuala Lumpur, Syarikat Takaful Malaysia sendirian Berhad, 1992, p. 42.

B. The Nature Of Life Insurance.

A life insurance contract is a legal contract between the life insurance company (insurer) and the person proposing for insurance (insured). The insurer agrees to pay the insured a certain amount of money (sum insured) and any accrued bonus on the happening of some specified contingencies such as the death of the insured or his survival to the end of the contract. The insured agrees to pay a regular sum (premium) periodically to the insurer for a specified term or until the insured's death.

Life insurance has social and economic implications. It is an important financial planning tool through which the insureds can obtain financial security for their families. It is also an important channel through which capital is made available to investors for economic growth.

Nevertheless, people generally do not realise the need for purchasing life insurance because, perhaps, they do not really account for the economic value of a human life and the magnitude of their exposure to the peril of premature death. The economic value of a human life is easier to observe for a wage earner. Assume that a worker is 25 years old, is currently earning RM 15,000 per year, and intends to work for 30 years. In such situation the income loss to the family of the wage earner, if he dies prematurely, could be up to RM 450,000.

But Muslim 'Ulama⁷ is on the opinion that most of present insurance practices are not in line with Shariah. Under an Islamic economy, as Siddiqi suggests, the insurance activities "have to abjure all practices that involve interest (*riba*),

⁷For example, Yusuf Qardhawi, Al-Halal wa Al-haram fi Al-Islam, Siria, The Holy Koran Publishing House, 1987, pp. 254 - 258.