Unanswered Questions at the 38th Annual General Meeting ("AGM") of Syarikat Takaful Malaysia Keluarga Berhad ("Takaful Malaysia Keluarga")

The following are responses to unanswered questions received during 38th AGM, which could not be covered during the AGM on 31 May 2023. Similar questions were consolidated.

A. <u>Strategy/Business</u>

1. Will FY2023 be better than FY2022 or be worse because of new challenges? What are the top challenges for FY2023?

Takaful Malaysia remains cautiously optimistic for the FY2023 outlook. The business growth trajectory for Family and General Takaful businesses will continue despite the challenges.

For our family takaful business, the mortgage takaful business may witness a slowdown due to more cautious property-buying decisions among customers, in view of the market uncertainty. However, we expect greater takaful business opportunities for personal loans. Banks are targeting more personal loan business to address the short-term financial needs of customers.

For our general takaful business, with the ongoing liberalisation of the motor and fire market, we foresee the market competition to be intense, putting downward pressure on the overall margin of general insurance / takaful business. To remain competitive in the long run, we will continue to penetrate the targeted segment with better claims experience using a pricing segmentation approach to ensure the sustainable profitability of the general takaful business.

2. "The Family Takaful industry achieved a compound annual growth rate of 19.6% in the past five years" (page 27).

During the 5-year period, Takaful Malaysia's family takaful gross earned contribution grew from RM1,264 million in 2017 to RM2,177 million in 2022, at a CAGR of 11.5%. While Takaful Malaysia's growth has been impressive, it still lags behind the industry.

What are the reasons that Takaful Malaysia did not keep pace with the industry?

Is Takaful maintaining its number 1 position in Family Takaful so far this year?

One of the key contributors to the family takaful industry growth in the past five years is the mySalam scheme (a takaful assistance scheme by the Government, managed by one Takaful operator), which is estimated to comprise approximately one-quarter of the total industry growth during this period.

Apart from mySalam, Takaful Malaysia Keluarga remains among the top 2 biggest contributors to the overall industry growth over the past five years in terms of business volume due to the large market size of our family takaful business.

Takaful Malaysia has maintained its market leader position for family takaful business as of March 2023.

3. Do you face, or expect to face stiff price competition due to fire and motor insurance detariffication?

With the ongoing phased liberalisation of the fire and motor insurance/takaful market, we expect the market competition to remain intense, including downward pressures in the contribution rate and widening coverage offered.

4. How successful is Takaful Malaysia Am in persuading clients of general insurers to switch to General Takaful products, especially for the motor segment? Any statistics?

We have recruited more than 400 corporate agents from conventional insurers to increase our market penetration and the numbers are growing.

For the motor business, we have secured more than RM25 million of contribution through these agents.

5. Since the expiry of Sales and Service Tax (SST) exemption for new vehicle purchase, has the motor takaful business shown sign of slowing down now?

Based on the data from the Malaysian Automotive Association (MAA), the year-to-date (YTD) sales volume for April was 10% higher than similar corresponding period for year 2022. For the first quarter of 2023, the motor insurance and takaful business registered double-digit growth. There is no clear sign of slowing down for now. However, we continue monitoring vehicle sales as part of our business strategy monitoring and planning.

6. One of the 2022 achievements under General Business was "Improved our business retention from 57% to 66% compared to the prior year". What is the scope and how is it calculated? What is the industry average?

Refer Note 38.4, page 318, "Allowance for impairment". Lifetime ECL has steadily built up to RM24.6 million in 2021 and RM33.6 million in 2022. What are the main reasons?

For FY2022, the renewal ratio of Syarikat Takaful Malaysia Am Berhad's ("Takaful Malaysia Am") General Takaful business has reached 66% based on the renewal certificate basis for the total product portfolio. There is no industry data for the industry average at a total product portfolio level, but retention ratios by key business lines. Among major key business lines, our Motor, Medical & Health, and Miscellaneous lines have outperformed the industry.

The higher ECL in 2022 was mainly due to rating of a downgraded sukuk from AA3 to BBB2.

7. In 2020, LPPSA (Lembaga Pembiayaan Perumahan Sektor Awam) Wakalah fees were reduced from 40% to 25%. Do you foresee pressure for further reduction in LPPSA or other channels due to competition?

We do not foresee pressure for further reduction in LPPSA or other channels due to competition.

8. According to the statistics, fire insurance claims ratio has been the lowest among different segment (car, medical and others)

1) Why do fire insurances have a significantly lower claim ratio?

2) Does this suggest that fire insurances are a more profitable business?

If that is the case, why is our company not focusing on underwriting fire insurance business?

The fire insurance / takaful claims ratio has historically been significantly lower than other business lines due to the fire tariff.

With the ongoing deregulation of the fire insurance tariff, we foresee the fire insurance / takaful market to be more competitive, putting downward pressure on the overall margin of general insurance / takaful business.

Our fire business mix is higher than the industry average, and the fire business is one of the key business lines we focus on growing our general takaful business.

9. Refer to the classification of Family Takaful risk (Note 37a, page 287).

1) The share of "mortgage" products has increased steadily over the years to 68%. Why is there greater success with mortgage products versus others?

2) Does the category "term" consist mostly of personal financing products?

3) Why "endowment" products are declining?

The greater success with mortgage/personal financing products is mainly attributable to increase in the share of Islamic financing to 41% as compared to 38% in 2021.

Yes, the category "term" mainly consists of personal financing products.

Endowment products were discontinued many years ago. However, we have started carrying endowment products again since early 2022 via the Bancatakaful channel.

10. The General Takaful gross earned contributions exceeded RM1 billion. However, 45% or RM462 million has been ceded to retakaful (page 176).

In comparison, the Family Takaful retains most of the risk.

What are the considerations that prevent General Takaful from taking on more risk?

Generally, General takaful business may require a higher portion of retakaful arrangement due to the following reasons:

- Certain lines of general takaful business are expected to have more volatile claims experience.
- It is also required to manage the large accumulation of loss for catastrophic events (massive floods) or large commercial risk.

11. Please elaborate on the challenge mentioned on page 91, "Continued competition between bancatakaful and conventional banking services"

How does it affect the Group?

How can the Group influence its "bank partners to increase the composition of Islamic financing"?

Generally, some of our bank partners have the same sales force for conventional and Islamic products. Thus, it is important that we can offer more competitive products and marketing campaigns for our bank partners to push for more Islamic banking and takaful products. At the same time, our commitment to bank partners for efficient and excellent sales and operational support is another key factor to our bank partners to push more takaful products. Thus, we always look at all perspectives on how to render our partners the required support for sales, marketing, products, services and technology investments to differentiate us from other players.

12. One of the key focus of Takaful Malaysia is retail strategy, and the Group will continue to work closely with bank partners. What are the differences of this new retail strategy versus the past business through bank partners, which also sell to bank retail customers?

Existing business through banks is mainly single contribution credit-related products for mortgage and personal financing.

For the retail business strategy, we have accelerated the development of our Bancatakaful advisory distribution to support the retail business development plan of our major Bancatakaful partners and the development of direct and digital distribution of affordable regular contribution protection.

13. How does Takaful Malaysia Keluarga plan to increase its presence in online channel sales as currently there are a lot of Insurtech companies and traditional insurance companies playing in this field? Or online channel is not the priority for the organization to penetrate?

How does the company plan to increase market share in the takaful industry? too many competitors in Malaysia

The presence of more Insurtech and insurance companies in online sales is an important and healthy competition to significantly elevate the awareness and receptiveness of digital distribution of insurance / takaful products by consumers, and to drive new product innovations with lower cost to benefit consumers in accelerating the significant growth of online sales.

We continue to see greater customer demand to look for more affordable products to address their savings and protection needs. With great promising business opportunities, we are accelerating the development of direct and digital distribution of affordable regular contribution protection. We have set out our road map for digital and direct distribution through digital technologies to strengthen our presence in the retail market to provide Malaysians with greater access to comprehensive and affordable protection solutions, ranging from general to family takaful products.

14. Based on the ISM Yearbook, the Management Expense ratio of Takaful Malaysia Am is in the range of 50% or higher, versus the General Takaful industry average at around 30%.

What are the unique differences in Takaful Malaysia Am business model that contribute to its higher Management Expense ratio?

Management Expense ratio, published in the ISM yearbook, reflects the allowance for the wakalah fee margin. The setting of Allowance for Management Expenses (Wakalah Fee for takaful business) depends on the business model and management philosophy of the individual Takaful Operator.

We have been managing the general takaful business on an overall portfolio basis to continuously bring value to our stakeholders with the most efficient use of the capital. With prudent underwriting, product pricing that reflects the characteristics of the risks underwritten, and adequate Retakaful arrangement in place, our net claims ratio for FY2022 is 51% versus the industry of 55%. This allows the company to set a higher wakalah fee compared to our peers.

15. **Which sectors are making profit and which are loss making?**

    Both family takaful and general takaful businesses are generating profit.

16. **Is Bank Islam still a shareholder of Takaful Malaysia Keluarga, who are the substantial shareholders of Takaful Malaysia Keluarga now?**

    BIMB Holdings Berhad ("BHB") transferred its listing status to Bank Islam Malaysia Berhad ("BIMB") in October 2021. The corporate restructuring involved the distribution of BHB's entire shareholdings in BIMB and Takaful Malaysia Keluarga to its shareholders.

    This has resulted in Takaful Malaysia Keluarga becoming a standalone Takaful operator with diversified and strong institutional shareholders.

    Thus, Bank Islam is no longer a shareholder of Takaful Malaysia Keluarga. The current substantial shareholders of Takaful Malaysia Keluarga are Lembaga Tabung Haji (28.2%), Employees Provident Fund (EPF) (12.73%) and Kumpulan Wang Persaraan (KWAP) (6.88%).

B. Finance / MFRS 17

1. **The Group's Profit After Tax was much lower in FY2022 due to higher tax, in part due to the Prosperity Tax. However, there was also a huge drop of "Items not subject to tax" which was only RM1.289 million compared to RM114.627 million in FY2021 (Note 31 - Page 279 of AR)**

    What are the "Items not subject to tax"?

    Why is the amount so much lower in FY2022 vs FY2021?

    Items not subject to tax are wakalah fee income and tax-exempt dividend income. It was much lower in FY2022 mainly due to a change in tax requirement on adjusted income for family takaful business. Effective from the year of assessment from 2022, wakalah fees and any other fees received by Shareholders' fund in relation to Family Fund are taxable.

    The main profit driver is wakalah fee income, and therefore, taxable income increased significantly.

2. **There is no more "cukai makmur" for FY2023, but with the taxability of wakalah income, what is the expected effective tax rate from 2023 onwards? Will profit after tax (PAT) grow higher than in FY2021?**

    The effective tax rate is expected to be around 27% at the Group level.

    FY2023 profits will be based on the MFRS 17 accounting standard. The impact of MFRS 17 is still consistent and in line with our earlier expectations released in the previous AGM.

3. **May I know if the Company has a dividend payout policy?**

    Noted Dividend payout ratio:

    1. 2018- 60% 2. 2019- 42% 3. 2020- 45% 4. 2021- 27% 5. 2022- 27%

    Why is the dividend payout ratio in decreasing trend? If dividend payout is governed by government, why 2018 could not achieve 60%?

    Will the dividend rate for FY2023 remain unchanged from or increased compared to FY2022?

    We do not have a rigid dividend payout policy. However, key considerations are the robustness and resilience of our capital position for risks / uncertainties ahead, regulatory solvency requirements, reinvestment into the company's operational excellence, business growth and expansion plans, as well as the fluid regulatory landscape, whilst we continuously strive to deliver more value creation, enhancement and sustainability for more superior shareholders' reward.

    Past dividend payout ratios and quantum were determined as part of our rigorous assessment of the above key factors and other relevant factors, subject to regulatory review and approval.

4. **The declining Return On Equity (ROE) is a concern to investors. How are you going to maintain the ROE to above 20% apart from increasing profits? One option is to return excess capital to investors via increased dividend and share buy back.**

The ROE of 16.8% remained strong and competitive in the financial industry.

The reduction of ROE is mainly due to the wakalah tax of family takaful business and Cukai Makmur. Under the previous tax treatment, the ROE would be approximately 21.5%.

The reduction in ROE was also partially affected by the increase in the shareholders' equity to support the business growth and expansion plan.

With the implementation of MFRS 17, we expect the ROE will be higher under the new accounting standards. Based on the transition impact analysis for FY2022, the ROE under MFRS 17 is estimated to be around 20%-25%.

5. **A multiple year of share price sliding is of concern despite EPF increasing its shareholding. Does the management believe in potential of this business as I've yet to see a share buyback?**

What's the Board's plan with the new private placement?

There are many factors which drive the share price movement, although the company's fundamentals are strong despite achieving commendable top-line growth over the years. We are optimistic about potential takaful growth opportunities.

While we also acknowledge the benefits of share buyback, our priorities lie in allocating capital towards initiatives that will drive greater value over time and growth for our business.

We do not have any plans to propose a share split, private placement, consolidation or rights issue for this year.

6. **The Claims Paid during the year for both Family Takaful and General Takaful have increased substantially to RM1.613 million in FY2022 (Note 16 - Page 251 of the AR)**

   1) **What are the reason(s) for the higher claims paid for these 2 business segments?**

   2) **Will similar rates of claims payout be expected for FY2023 based on the current claims trend?**

For the family takaful business, the medical claims were generally lower by 20%-30% during the pandemic, mainly due to a lower hospitalization rate. With the reopening of the economy in 2022, we observe that the medical claims experience have been normalised to the pre-pandemic level.

However, Takaful Malaysia has been maintaining a healthy medical portfolio due to our disciplined underwriting and pricing to ensure the long-term sustainability of our medical business. We consider the hospitalization rate is now normalised, except average claims cost will be subject to medical inflation.

For general takaful, the impact is mainly due to the motor business, which has reverted to the pre-pandemic level. However, our general takaful fund remains resilient despite claims normalisation. We monitor motor claims experience regularly and conduct timely and detailed claims analysis to adjust pricing for segments with deteriorating experience in line with the de-tarrification risk pricing approach.

7. **Cash position of the group has increased substantially from RM846 million in 2021 to RM2067 million in 2022. May I know why is there such a substantial increase in cash? As opposed for it to be invested in investments or distributed as dividend.**

This is attributable to the strong new business growth, of which there has been a resultant increase in the Takaful Malaysia Keluarga industry ranking for the record-breaking performance in the new business achievement. Similar growth applies to the Takaful Malaysia Am new business production as well. The Company will continue to invest in operational excellence and internal capabilities for more sustainable growth in the future.

8. **The Professional Fees paid in FY2022 increased more than 165% to RM74.187 million compared to the RM27.967 million incurred in FY2021.**

   1) **What are the components of the Professional Fees paid?**

   2) **What are the reason(s) for the huge increase in the Professional Fees in 2022 vs 2021?**

   Professional fees mainly comprise information technology expenses, MFRS 17 implementation and manpower outsourcing.

   There is an outsourcing arrangement of manpower resources between Takaful Malaysia Keluarga and its subsidiary Takaful Malaysia Am since the splitting of composite licence, where Takaful Malaysia Am has outsourced some business and operational functions to Takaful Malaysia Keluarga for cost efficiency. The substantial increase is mainly attributable to the reclassification of outsourcing of manpower resources by Takaful Malaysia Am from "other expenses".

9. **The category "other expenses" made up RM192 million or 37% out of total management expenses of RM522 million (Note 28, page 272).**

   Please give examples of "other expenses".

   Other expenses were mainly attributable to Bancatakaful marketing expenses and sales incentives.

10. **Refer Note 29, page 275. Compensation for "other key management personnel" has shifted from "Long Term Incentive Plan" towards "Salaries and bonus". What is the reason behind the shift?**

    Long term incentive plan was not shifted to salaries and bonus. It was genuinely lower than in 2021.

11. **In the previous AGM, it was projected that after the MRFS 17 implementation, profit will decline 15% to 20%; retained earnings will decline by 30% to 45%. Is the guidance still valid? If not, what is the latest projection? When will a full analysis be published?**

    Can CEO further elaborate what is Contractual Service Margin (CSM), and why it is better to reflect group profit? And where is this information located in the annual report?

    Yes, the previous projection remains valid based on the latest results compiled, as presented during the 37th AGM.

    Under MFRS 17, CSM represents unearned profits. It reflects the profitability of the in-force business, which will be gradually amortised over time as services are provided.

    This promotes long-term financial stability:

    1) Through the amortisation of CSM in future, it contributes to the sustainability of future earnings

    2) If the future incoming business is booming to generate more CSM, fuelled by the company expansionary plan, the dividend distribution capacity may be enhanced with the steady release of in-force CSM.

    We will continuously grow our new business, bolstered by our capital strength and financial resilience, for higher CSM growth and more sustainable future earnings.

    Currently, the CSM details are not available in the annual report, which captures the financial highlights for 2022. CSM details of MFRS 17 will only be available for Financial Year 2023 financial statements.

12. **We have witnessed the Q1 results of Allianz & Manulife which showed that MFRS 17's impact on their financial performance to be minimal. Takaful is going to announce its Q1 result today. Are we likely to see similar experience like the peers as far as MFRS 17 is concerned?**

    During last year's AGM, the management had guided on the impacts of implementing MFRS 17, which are Retained Earnings will be decreased by 30-45% and year 1 profit will decline by 15-20%.

    1) **What is the latest estimation?**
    2) **Why does our company experience significantly higher adverse impact than its peers? Does this suggest that our past years' profit recognition had been too aggressive?**
    3) **The significant reduction in retained earnings will reduce capital adequacy ratio, will this impact our capability to underwrite businesses?**

    Due to the different profile of our family business with more single contribution business, and different business mix of general takaful business, it may not be directly comparable on the transition impact compared with the peers.

    Under MFRS 4 requirement, new business gains are recognised immediately in the income statement and whereas under MFRS 17, the new business gains are required to be deferred and recorded in "contractual service margin" and recognised over lifetime of the contract. The change in accounting standard and does not impact the fundamentals of our business, including financial strength, claims paying ability, product profitability or dividend distribution ability of Takaful Malaysia Keluarga. Our capability to underwrite businesses remains resilient.

    Impacts associated with MFRS 17 implementation in 2023 are consistent and in line with our earlier expectations released in the previous AGM. Despite its impact on retained earnings, as explained in the previous question, the CSM represents unearned profits, which reflects the profitability of our business and enhances long-term financial stability and future earnings.

C. Indonesian Subsidiary

1. **The Indonesian operations reported a weaker profit in FY2022 despite a higher gross earned contributions. What is Management's target for its Indonesian operations in terms of business growth and profitability in FY2023?**

   There are challenges to achieving higher profits due to the small size of Indonesian operations in a competitive environment with escalating competition from various Shariah insurance windows that have been spun off from well-established industry players. We aim to maintain moderate business growth. However, we adopt a cautious approach in managing our Indonesian operation, and we shall continue to explore the best option moving forward.

2. **What is your plan for the difficult Indonesia market? Will you not rule out exiting the market?**

   We adopt a cautious approach in managing our Indonesian operation, and we shall continue to explore the best option moving forward.

D. AGM Matters

1. **My prayer is for good health and well-being of chairman, directors and staff of takaful and family members. Your well-being will result in strong performance of takaful and definitely beneficial to shareholders. It is my wish also for the AGM in future be conducted in Bahasa malaysia as majority shareholders are local. Insyaallah**

   We sincerely thank you for the valuable feedback. We seriously review each feedback we receive and will consider implementation where applicable.

E. Investment

1. **What is the contribution of investment income to overall financial performance in 2022? Hence, what is the outlook for the investment income in FY2023?**

   Investment income contributed RM431 million to the Group's total operating revenue of RM3,760 million in 2022.

   For Financial Year 2023, we expect to record a higher investment income year-on-year, supported mainly by our stable fixed-income investment.

2. **How do you navigate the volatility in the movement of bond prices/investment in Malaysia? They are being buffeted by external factors such as still sticky US inflation rate and federal reserve's higher for longer rate stance.**

Overall, our investment strategy remained defensive as the aftermath of the COVID-19 pandemic and the war in Ukraine have caused a prolonged high inflationary environment, impacting the costs of food and doing business.

Hence, in terms of strategic asset allocation, we plan to allocate more than 90% to be in stable assets that generate recurring investment income. The allocation into equity shall remain low with less than 3% exposure. As for direct foreign investment, we are not planning to have any exposure at this juncture.

F. Products and Services

1. **Will the company increase the maximum age for the takaful coverage up to 105 years old or maintain at the max current age of 75-80 years old?**

What would the company do regarding pandemic or virus diseases claim?

We ensure that our product offerings are comprehensive and competitive in the market. The existing age limits are considered reasonable and in line with the market.

Any communicable diseases requiring quarantine by law fall under the standard exclusions for medical products. However, we offer coverage for communicable diseases requiring quarantine by law with an additional contribution for group medical products of our Employee Benefits business.

2. **Do you see business potential in underwriting Electric Vehicles insurance in Malaysia? How do you intend to tap the market?**

Takaful Malaysia Am is open to all opportunities available in the market, which will bring value to our stakeholders.

The development and increasing popularity of Electric Vehicles give us a business potential in providing insurance / takaful coverage for this segment. This is part of our commitment to ESG initiatives. Our general takaful arm is enhancing our general takaful products to penetrate the EV market through various distribution channels.

3. **i-Lindung program allows EPF members to buy insurance products using account 2. However, our company is not within one of the participating insurance companies:**

1) Please explain why our company did not participate in this program?

2) Will this create competition for our products?

EPF is expected to launch phase 2 of the i-Lindung program, which will be open to more insurers and takaful operators.

Given our wide range of product offerings, we do not foresee any competition to our products from the i-Lindung program.