Unanswered Questions at Syarikat Takaful Malaysia Keluarga Berhad's 37th Annual General Meeting

The following are the responses to unanswered questions during the virtual AGM on 31 May 2022, which could not be covered during the AGM. Similar questions were consolidated.

Strategy/Business

1. What is the Group's future outlook, and its strategy to increase future revenue/profit?

We look forward to demonstrate a robust performance on the back of post Covid-19 economic recovery, takaful market low penetration, and continuous drive for Shariah compliant products. We are poised to retain our market leadership in bancatakaful, treasury, and employee benefits businesses. In order to ensure sustainable business in the future and to complement our existing core businesses, we are expanding our retail and regular contribution business. This includes pursuing Banca Advisory and Direct & Digital strategies. The General Takaful business will continue to be an imperative growth area, reinforced by our multi-distribution strategy, a new breed of corporate agents for quantum leap business expansion and greater demand for online motor takaful business.

2. Although the Group maintained as the top two leading takaful operators in Family Takaful business, its market share has dropped from 23% in FY2020 to 20% in FY2021. What are the rationale for the declining of market share in Family Takaful business?

Market share for Family Takaful business has declined to 20% in FY2021 mainly due to the business operations disruption during MCO/CMCO period as land offices, developers, LPPSA, law firms and some of the bank branches were temporary closed. As for Employee Benefits segment, the drop in sales production was mainly due to price war and budget constraint by our corporate clients.

3. What were the New Business Value (NBV) achieved by Family Takaful in 2019, 2020 and 2021?

We do have internal monitoring on NBV metric, but we do not publish our NBV. For single contribution products, NBV is similar to profit margin. Generally, we have been able to maintain the profit margin % of our products.

4. The Group's key officers have been disposing their company shares all year round, which created an impression that the Management has less confidence with the Group's performance. Any comment on this perception? Would the Group replace stock option with other form of remuneration for the key officers in the future?

Some of the key officers have been disposing the Company shares to generate cash to settle their personal financial obligations, which is not a cause of concern as the Group has been delivering good growth rates such as Equity growth, EPS growth, Sales growth, Assets growth and profit growth.

5. Would there will be any Merger/Acquisition plan in the pipeline?

We are well capitalized, and we believe that deploying that capital beyond organic opportunities is also another good opportunity for us. However, we are going to be very diligent and disciplined in how we evaluate those deployments.

6. Would the existence of new Takaful Operators cause any significant impact to the Group's business performance in near future? Who are the main competitors of the Group?

We believe that we have the requisite wholesome offerings to remain competitive in the market. Our competitors are all Takaful Operators in the family and general insurance/takaful space.

7. **Which retakaful operators that the Company is engaging with?**

   The retakaful operators that we engage are mainly SCOR Re, Munich Re and GIC India.

8. **Currently, how many Bancatakaful partner does the Company has been collaborating with and is there any plan to enter into new Banca Takaful agreement with more banks?**

   Currently we have 17 Bancatakaful partners. We continue to look for new opportunities to enter into arrangement with more bank partners.

9. **Does the Management see higher medical claims now due to postponement of non-essential treatment during the pandemic?**

   We expect to register higher medical claims now due to postponement of non-essential treatment during pandemic and we are prepared for this.

10. **Family Takaful business recorded increase in claims from RM184.3 million to RM295.6 million, mainly attributable to higher death claims. Please provide details on causes to the higher death claims and whether the claims amount is specific to the Company, or referring to industry-wide scenario?**

    The higher claims increase in 1QFY was mainly due to the late reported claims received for the death claims incurred during pandemic, and natural increase in claims cost due to business growth and marginal increase in Covid-19 related claims.

11. **What are the percentage of the current medical claims post pandemic as compared to pre-pandemic and when does this high claims is expected to reduce?**

    The medical claims was generally lower by 20-30% during the pandemic, mainly due to lower hospitalization rate. We expect the claims cost to reflect the normal trend or higher claims due to postponement of non-essential treatment / higher medical inflation in near future.

12. **The net benefits and claims for Family Takaful has increased substantially during 1QFY22. It was explained that "the increase was mainly attributable to higher death claims".**

    a) **Was the increase mainly due to Covid related death?**

       The higher claims increase in 1QFY was mainly due to the late reported claims received for the death claims incurred during pandemic, and natural increase in claims cost due to business growth and marginal increase in Covid-19 related claims.

    b) **Why does death claims a surge in 1Q22 despite most of deaths due to Covid occurred in 3Q21?**

       There was a delay in death claims submission by our banca partners mainly due to late processing & submission / delay in detecting non-payment of loan repayment for death claims due to the moratorium measures implemented / incomplete documentation obtained during the pandemic.

13. **With 2 digital Islamic banking licenses issued to AEON and KAF consortium respectively, how the Group would benefit from the existing tie up with AEON Credit?**

    We have spent significant resources in developing and providing digital services and operation support for bank partners to create our market competitive edge in supporting our market leadership in Bancatakaful business. We shall continue to tap on their customer base to deliver online products to their customers.

14. **Would there be any potential collaboration with other digital banking license holders?**

    Our digital capability and technology can be customised to support and digital banks for online takaful transaction. With our extensive experience in online digital takaful, we will be exploring new business opportunities with new digital banks.

15. Following a few major natural catastrophes that took place in Malaysia, Insurers and Takaful Operators were reported to have incurred monetary losses from their underwriting activities.

a) What was the size of the payout by the Group due to natural disasters in FY2021?

Flood cover is usually offered as part of fire cover and as an optional cover for motor and other classes of general takaful products. As of 31st March 2022, the total claim amount incurred is approximately RM122 million for December 2021 flood losses.

b) Has the Group incurred monetary losses from the underwriting activities? If yes, what is the size of losses incurred?

The Group has put in place an adequate and well-structured retakaful arrangement on the risk exposures relating to flood events. After the retakaful recoveries and additional retakaful costs paid, the Group incurred a net loss of approximately RM11 million as a substantial portion of the flood losses is protected by the retakaful arrangement.

c) Does the Group face increasing takaful payout over the years due to the occurrence of natural disasters? How has the pricing and coverage changed over the years?

We have observed large flood events occurring every few years in the past. However, with our prudent underwriting assessments and appropriate retakaful arrangement in place, we have been able to mitigate and contain the risk exposure.

However, we expect large flood events to occur more frequently in the future, which may affect the cost of the retakaful program. Therefore, we will continue to monitor and assess claims experience and market needs to develop and offer new products and adjust the pricing accordingly.

d) Does the Group expect any significant impact from climate events on its underwriting performance, especially with the frequent flood occurred in Peninsular Malaysia recently?

Similar to our response to the preceding question, we expect large flood events to occur more frequently in the future and an increase in claims costs arising from more frequent natural catastrophes.

The underwriting performance can be mitigated through repricing, retakaful arrangement and portfolio mix adjustment. At the same time, we will continue to look for other options to provide more affordable and suitable products for our customers.

16. What are the opportunities and risks to Insurers and Takaful Operators due to climate events? How does the Group capture such opportunities and contain its associated risks when it comes to family and general takaful businesses?

We observe greater awareness by the market to seek protection from natural perils. Therefore, we expect higher demand for flood protection products. As for family takaful business, climate events may not have an obvious impact on product demand.

The increase in the number of flash floods may eventually affect the cost of cover for customers due to higher claims and retakaful costs. We will also continue to look for other options to provide more affordable and suitable products for our customers.

At the same time, the Group focuses on adopting responsible investment into our investment strategy as part of our efforts to positively impact society as a whole and to better mitigate risks and increase long-term returns.

17. Which type of insurance coverage does not bring profit to the Group?

None of our takaful products are loss making.

18. What is the market share expectation in the next few years? Will it be downtrend due to newer industry players?

We believe that we have the requisite wholesome offerings to remain competitive in the market. We are also enhancing our digital capabilities in the face of rapid competitions and ongoing tech-driven disruptions. Our competitors are all Takaful Operators in the family and general takaful space.

19. What are the claim ratio, expense ratio and combined ratio of the Group's Takaful Family Business and Takaful General business separately?

The claims ratio for the year 2021 for the Group's Takaful Family Business was 43%, and for Takaful General Business was 44%. Combined ratio is not applicable to Takaful Operator.

20. How many buildings owned or rented by the Group?

The Group owned 38 properties and rents 11 office spaces.

Finance / MFRS 17

1. What is the estimated Embedded Value (EV) of Family Takaful as of FY2021 and what is the key assumptions used for the estimation made?

We do not publish EV for Family Takaful as it is privy information.

2. Is it possible to disclose detail income distribution for each type of product?

The gross contribution by product as follows:

Family Takaful

Product	YTD Dec 21 (RM'mil)
Credit related	1,481
Medical	208
Term	56
Individual	64
Investment linked	71
Total	**1,880**

General Takaful

Class of business	YTD Dec 21 (RM'mil)
Fire	293
Motor	468
Accident	115
Others	42
Total	**918**

3. Due to BNM's interest hike, would there will be any impact on the Group's profit after tax due to unrealised losses?

Most of our Sukuk are classified as fair value OCI. As such, with the interest rate hike, it will not impact the profit after zakat and tax. However, it will impact the fair valuation of Sukuk and thus, less opportunity for capital gain.

4. Net earn contribution for family takaful had reduced for the past 2 quarter?

a) What is the cause for declining in net earn contribution?

The net earned contribution ("NEC") for the past quarters as follows:

(In RM'000)	2022Q1	2021Q4	2021Q3	2021Q2	2021Q1
Net earned contributions	486,324	513,879	383,614	411,892	445,936

For 4th quarter 2021, the NEC was all time high as compared to the previous quarters, mainly attributable to sales caught up from the dip in 3rd quarter 2021 mainly by Banca and LPPSA channel, as a result of CMCO uplift.

b) What is the Group's counter measure in order to address this matter?

Family takaful has registered a growth in NEC for Q1 2022 of RM486.3 million as compared to same quarter in 2021 of RM445.9 million.

5. Due to Company's CAGR in EPS higher than 10% from 2017 to 2021, will company's profit recovery be less than 5 to 6 years?

Under MFRS 17, the profits for the initials years will be lower compared to profits recorded prior to financial year 2023 and it will take the Company to normalise the profit within 5 to 6 years. Profit CAGR will be lower over 6 years because the recognition of profit is now spread over longer time horizon as compared to MFRS 4. Post MFRS 17, the unearned profit (contractual service margin "CSM") shall be taken into account to assess the profitability and quality of business written by Insurers/Takaful Operators. CSM will be one of the key KPI to be considered for valuation of insurance/takaful business.

6. The MFRS 17 implementation has created an overhang on share prices. Where retained earnings and ROE derived from today financial statements could look different under MFRS 17.

a) Given that the magnitude of changes in profit, retained earnings and ROE is defined as the ratio of profit to shareholders' equity, retained earnings and therefore shareholders' equity will decline by a larger magnitude than profit. Would ROE actually increase as a result of MFRS 17?

Yes, ROE will increase upon transition, from 16%+ to 23%+ as presented in the MFRS 17 Updates.

b) With regard to medium term profit growth rate post MFRS 17, please explain as to how MFRS 17 will result in lower profit?

Under MFRS 4, we are allowed to recognised profits at the time a takaful contract is issued. However, under MFRS 17, this treatment is not allowed. Under MFRS 17, we are required to defer the profits and record as CSM under Takaful Contract Liabilities. CSM will then be amortised into the income over the lifetime of the contract as services are provided. Therefore, the profits emergence under MFRS 17 will be smoothened over the lifetime of the contract as compared to profits emerged under MFRS4. Hence, post MFRS 17, profit is expected to be lower in the initial years.

c) The dividend payout of the Company had been reduced over the past 2 to 3 years despite higher earnings. Is the Management trying to conserve the capital to prepare for this. Would the dividend payout be impacted by MFRS 17?

The lower dividend payout for the 2 years was not impacted by MFRS 17 as the current capital adequacy ratio is way above the statutory level of 130% and above the industry average. Our priority is to deploy the capital to those investments with high potential growth businesses such as renewal of banca partnership arrangements, establish presence in the retail market focusing on regular contribution products to diversify our business portfolio and to further expand our general takaful business, in order to create value over time and as well as to attain long term sustainability.

d) The reduction in equity will be inevitably reduce the Capital Adequacy Ratio ("CAR") or BNM capital requirements when considering dividend payout, why do the Management say that it will not affect the dividend payout?

CAR impact would depend on the revision of Risk Based Capital Takaful framework. If CSM is credited as Total Capital Available, then CAR will have minimal impact.

e) What is the short-term and long-term financial impact of MFRS 17 to the Company? Would it affect the Company's cash flow, CAR, and dividend payout?

The financial impact of MFRS 17 as follows:

1. Upon transition, the establishment of CSM for in-force block of business will lead to a reduction in Equity by 30%-45%;
2. Post MFRS17, profit for the year is expected to be lower by 15% to 20%;
3. ROE will improve and expected to be in the range of 22% to 25%;
4. Impact on CAR remains outstanding pending revision of Risk Based Capital Framework for Takaful;
5. MFRS 17 does not impact the cash flow of the Company.

7. **How does cukai makmur and minimum wage affect the Group?**

   We expect the effective tax rate to increase from 24% to 33% for financial year 2022. Cukai Makmur is only applicable for FY2022. Minimum wage does not impact the Group.

8. **How much is the overhead per year, including Director fees, benefit, staff salary, bonus, rental, office equipment, company car, petrol, mileage, stationery, insurance, etc?**

   The Group incurred overhead of RM474.1 million per year, whereas the Company incurred RM318.1 million per year.

9. **Will the Company declare any dividend FY2022 and when will it be paid to the shareholders?**

   The Company is expected declare interim dividend in respect of financial year ended 31 December 2022 and will be paid in January 2023 upon regulatory approval.

10. **Dividend received is reduced from 20 cent to 12 cent. Will the shareholders receive a higher dividend for next year?**

    The Company's dividend quantum is driven by regulatory solvency and dividend payment is subject to regulatory approval. The Company needs to strike a balance between payout to shareholders and retaining surpluses for business growth and to meet it solvency requirements.

Indonesian Subsidiary

As far as Indonesian operation is concerned, is there a way to scale up & grow the business? Is the current lackluster performance in Indonesia due to local Indonesia leadership issue rather than intense competition?

The current lacklustre performance by Indonesian subsidiary is due to intense competition. We expect Indonesian operation to be challenging to grow its business and sustain its profit as it requires high capital expenditure on IT back-end systems to support digital platforms and costly talent pool. We continue to explore ways to further grow the business to capitalize on the huge market potential.

Corporate Affairs

1. **How much does the Company spend to hold virtual AGM, including remote participation & voting (RPV)?**

   The Company spent around RM45,000 and RM28,000 in 2020 and 2021 respectively to hold virtual AGM.

2. **What are the Management plan in the near future, will there still be hybrid virtual meeting and physical meeting although the physical meeting is allowed?**

   In support of the Government effort to curb the spread of Covid-19, the Company has decided to hold a virtual AGM for this year. This decision will be re-evaluated based on the state of the public health and Government recommendation in the future.

3. **Page 75 of AR mentions "a summary of the key matters discussed at the AGM was also published on the STMKB's website". However I could not find it. Please provide the specific link.**

   Key matters discussed at AGM will be covered in 2022 AGM minutes to be uploaded in the Company's website by 23 June 2022.

4. **Will the Board consider giving door gift such e-voucher or e-wallets for those participating in this AGM as a token of appreciation?**

   The Board has agreed to discontinue giving out gift vouchers or premium gifts to the shareholders of the Company at the AGM. This measure is taken in view of the fact that it will ultimately result in better maximization of value for all shareholders.

Investment

1. Please explain the Company investment strategy and breakdown of the type of investment.

Overall strategy was skewed towards defensive play as the COVID-19 pandemic continue to impact economic activities globally and locally.

In terms of allocation, more than 90% from the Group's total AUM of RM10,012 billion is in stable assets generating recurring income represented by sukuk (63%), deposit instruments (25%) and Institutional Trust Account (6%). The allocation into equity has remained low with exposure is less than 2%. The balance are in the property (3%), unit trust (1%) and investment in linked funds (below 1%).

2. The recent BNM raised the OPR 25 basis point, what is the impact to the Company?

The recent increase in OPR has immediately resulted in higher profit rate for deposits as offered by the banks, which is apositive impact for our new deposit placements.

However, the impact is less evident to our sukuk portfolios given that the market has already priced in the expected OPR hike earlier whereby we have seen the increase in sukuk yields since end of 2021. On this note, we would be able to invest in the new Sukuk at higher and better profit rate which are positive to our overall investment strategy.

3. How is the Company reacting and adjusting to higher interest rates environment as far as fixed income investment is concerned?

Our investment strategy is being guided by our long term strategic asset allocation where the key factors that have been taking into consideration among others are the asset and liability profile of both Family and General business and the economic and market outlook including interest rate outlook.

For the year, we are targeting to gradually increase our Sukuk allocation. This would also enable us to capitalise on and benefit from the higher yield bringing up our overall sukuk portfolio yield and enhancing fixed and recurring income. At the same time our focus is also given to asset and liability management whereby we closely monitor and manage the duration of our sukuk investments to minimise any duration mismatch with our takaful fund liabilities as to immunise or mitigate the impact from significant changes and volatility in interest rate to our asset values and liability values.

4. Family Takaful recorded fair value losses of RM35.6 million due to equity market performance. How many percent of the funds were invested in equity? Is it invested in local equity market or foreign market?

Our exposure to equity is fairly small at less than 2% of our asset under management with exposure only to local equity market. We shall maintain a low exposure to equity at this juncture as the equity market continues to be very volatile.