SIGNIFICANT FACTORS INFLUENCING THE CHOICE OF FAMILY TAKAFUL

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ABSTRACT

The takaful market has become more diverse with a tremendous increase in the number of takaful operators worldwide. In overall, the growth of takaful has been consistently increasing since 2010. Nevertheless, there is a slight difference between family takaful and general takaful growth, unfavorably the family takaful. Thus, this research is carried out to examine the significant factors influencing the choice of family takaful among its participants. For that purpose, one takaful operator has been sampled out. The findings relate to three contributing factors to the demand of family takaful products: benefits, product features and quality services. Based on the findings, takaful operator should focus in improving the takaful agents’ knowledge.

Key words: Consolidation Analysis; Settlement; Silt Content, GIS.

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1. INTRODUCTION
The takaful industry has been blessed with remarkable growth and performance. As reported in the Global Takaful Report 2017, there are more than 100 takaful operators in the Gulf Cooperative Countries (GCC), Indonesia and Malaysia. The largest market in the world is Saudi Arabia as 100% of their insurance industry is shariah-compliant, with 34 operators. Meanwhile, the total global takaful contributions were estimated at USD14.9 billion in 2015, calculated at a 14% growth rate. A more detailed analysis showed a constant growth of 14% for the overall takaful industry involving the general and family takaful. The general takaful industry recorded the largest market share at 83% with estimated USD12.3 billion revenues at a 17% growth rate. Meanwhile the family takaful industry, only contributed 17% market share with an estimated revenues at USD2.6 billion, at a -1% growth rate. The unfavorable growth rate contributed to the slight decrease in the overall growth of the takaful industry. Looking into the overall potential of takaful industry, the significant imbalance between general takaful and family takaful performances need further scrutiny.

In Malaysia, the imbalance growth between family takaful and general takaful can be recorded since 2012. The family takaful growth had dramatically dropped in 2013 to only 3% from 29% in 2012. The growth continued with a slight decrease to 2% in 2014. However, in 2015, the growth increases to 4%. On the other hand, the general takaful business had shown a consistent trivial growth since 2012 until 2014 (Farzana, 2017). In addition, the family takaful business in Malaysia has been declining in terms of new business sales, from 44% in 2012 to 32% in 2015 due to higher capital requirements. Moreover, family takaful determinants has been less researched as compared to determinants of life insurance (Mohamed & Nor Azlina, 2013).

Analysing the unfavorable growth in family takaful business, this research delved into the rationale behind it. This study empirically examines the significant factors contributing to the selection to participate in family takaful. For that purpose, this study specifically analyses the relationship between the demand for family takaful with three variables; the benefits, product features and service quality. A total number of 80 questionnaires were administered among the customers of a takaful operator, headquartered in Kuala Lumpur. The questionnaires applied a five-point Likert scale to examine the tendency of selecting family takaful products towards three selected variables; the products’ benefit, features and quality of services. The respondents were customers of family takaful offered by one of the Malaysian licensed takaful operator established in 2005.

2. UNDERSTANDING THE TAKAFUL INDUSTRY
Looking into the equal exposure towards risks and catastrophes, protection is a necessity in life. Such protection is known to be fulfilled by insurance. Recognizing the importance of insurance, takaful or Islamic insurance emerges as an alternative for the Muslims. This is due to the fact that Muslim jurists supports the concept of protection from unexpected loss but condemn the elements of uncertainty, gambling and interest prevalent in the contract of insurance.

The system of takaful is actually innate in the practice of the pagan Arabs prior to the advent of Islam. Nevertheless, the practice had not been objected by the Prophet as the benefits are undeniable. Thus, the system of takaful which includes the system of ‘aqilah (mutual guarantee among tribes) and diyat (blood money to the heirs of victim) was approved by Prophet Muhammad (Sheila, Mustapha, Wan & Syed; 2015 & Mohd, Wan & Abdul, 2015). Even though the takaful system rooted long ago in Islamic civilization, it only came into existence in modern banking system, in the late 1970s. In 1979, Sudan was reported to initiate the first takaful institution. Later on, takaful companies was established in other parts
of the world including Asia, the GCC as well European countries such as London, France and Spain (Farzana et al., 2017). With the spirit of cooperation, protection, assurance and assistance, takaful has been accepted globally.

The takaful system basically is a mutual guarantee agreement between participants (the takaful policy holders) and the takaful operator. The participants agree to contribute a certain amount of contribution, which will be divided into two parts; Participant’s Fund (PF) and Participants’ Risk Fund (PRF). Both funds are to be managed by the takaful operator. The participants mutually guarantee each other against defined loss through their contribution in the PRF. Meanwhile, the PF remains their right after they surrender the policy, plus any surplus from investment activities (Guidelines on Takaful, 2013). Through the PRF, participants fulfil their responsibility to mutually help and guarantee each other from certain defined loss.

In Malaysia, takaful came into existence in the 1980s, as a complementary the Islamic banking and finance industry (Farzana et al., 2017; Asmak et al., 2008). Since then, various products has been introduced in the two main business divisions; general takaful and business takaful. The first refers to short term protection, normally within 12 months and renewable policy after the term expires. Meanwhile, the latter refers to long-term protection and savings either upon maturity or after five-years contribution at minimum, depending on the policy statements (Guidelines on Takaful, 2013; Archer, Rifaat & Nienhaus; n.d).

2. FACTORS INFLUENCING TAKAFUL PRODUCTS SELECTION

The literatures enlisted several factors influencing the demand of takaful products. A study by Razak et.al. (2013) highlights on the influence of perception, product features, promotion, benefits and service quality towards the acceptance of takaful. Their results indicated service quality as the most significant factor. Another study by Rahim and Amin, (2011) discovered the influence of attitude, subjective norms and takaful information to the demand of takaful product. In terms of the agents’ impact, Hamid, and Rahman, (2011) found a good relationship between agents’ commitment, motivation and attitudes with the performance of takaful industry.

Similarly, the three variables related to agents are consistently influential to the performance of insurance market. On top of that, the choice of takaful product in Malaysia is highly influenced by the rationale of choosing certain products over another. This is due to the Malaysian takaful industry has various takaful models and method of surplus distribution.

Another research by Abdul Hamid et.al (2010) proposed that performance of the takaful agents for human capital development should be improved as there are lack of enthusiastic agents to act as representatives, for human capital development in takaful.

Interestingly, Juliana et al. (2013) proposes a comprehensive conceptual model by identifying the main determinants that drive family takaful demand in Malaysia. There are several critical f determinants of family takaful demand, namely, agency system or wakalah, reputation of takaful operators, products and services, marketing and advertising of takaful product. By using time series data over the period 1985-2007, Hendon, et al., (2009) found that income per capita is a strong predictor of family takaful demand, while long-term interest rate and composite stock index have significant relationship with family takaful demand. However, other factors such as inflation and saving rates reported insignificant influence towards family takaful purchase.

Meanwhile, Mohamed and Nor Azlina (2013) demonstrate that income, Islamic banking development, education, dependency ratio and Muslim population are positively related to takaful demand. On the other hand, inflation, real interest rate, financial development and life expectancy appear to be the significant factors that adversely influence the total family takaful
consumption. Additionally, Zuriah et al. (2009), stress the importance role of goods, money and securities markets in promoting family takaful in Malaysia. The finding indicates that the goods market is the most significant market in promoting family takaful in Malaysia.

3. ANALYSIS AND DISCUSSION

Table 1 shows the minimum, maximum, mean and standard deviation for the first independent variable, i.e., the product’s benefits. Based on the results, the highest mean over 4.0 refers to the element of savings, monetary protection after risk occurrence and less worrisome to hospitalization costs. Interestingly, the respondents were not much influenced by the returns from investment. This is related to the large portion of protection as compared to investment. For instance, there are family takaful products which divide takaful contribution in the ratio of 30:70 for investment and protection (Waheed, 2010). Therefore, there will be not much returns from investment especially during the early years of contribution. Nevertheless, moving towards the maturity, the returns increased trivially (Guidelines on Takaful, 2013).

Table 1: Family Takaful benefits

<table>
<thead>
<tr>
<th>Summary of Psychometric properties</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monetary benefit</td>
<td>4.58</td>
<td>.552</td>
</tr>
<tr>
<td>Savings function</td>
<td>4.59</td>
<td>.550</td>
</tr>
<tr>
<td>Forfeit without charges</td>
<td>4.10</td>
<td>.759</td>
</tr>
<tr>
<td>Hospitalization without worries</td>
<td>4.28</td>
<td>.659</td>
</tr>
<tr>
<td>Good returns from investment</td>
<td>3.70</td>
<td>.800</td>
</tr>
<tr>
<td>Advantage of Tax exemption</td>
<td>4.23</td>
<td>.778</td>
</tr>
</tbody>
</table>

Table 2 shows the mean values for product features. The highest option is education plan, followed by medical coverage. The interest in education plan is not surprising as it is parallel with the findings of Wan, Norizan, Nor and Puspa (2012). Interestingly, the pilgrimage (hajj) savings policy are also targeted by the respondents. Apart from that, respondents were also attracted to the high returns from the investment policies. Theoretically, risks and returns are known for their positive correlation (Nik, 2005). Thus, takaful puts forward the advantage of yielding returns with protection from unexpected risks. Nevertheless, surprisingly, respondents were not much attracted to the continual financial support. This finding is rationalize by the fact that takaful compensation is not much as compared to insurance, due to the underlying conceptual and operational differences (Mohd, Wan & Abdul, 2015; Mher & Ahmad, 2011).

Table 2: Family Takaful Features

<table>
<thead>
<tr>
<th>Summary of Psychometric properties</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education plan plus protection and savings</td>
<td>4.30</td>
<td>.684</td>
</tr>
<tr>
<td>Investment link policy</td>
<td>3.93</td>
<td>.683</td>
</tr>
<tr>
<td>Saving for Hajj</td>
<td>3.94</td>
<td>.735</td>
</tr>
<tr>
<td>Medical expenses coverage</td>
<td>4.23</td>
<td>.659</td>
</tr>
<tr>
<td>Contribution post unexpected risks</td>
<td>3.75</td>
<td>.670</td>
</tr>
<tr>
<td>Continuation of financial support for the family</td>
<td>3.41</td>
<td>.623</td>
</tr>
</tbody>
</table>

Most of the respondents agree with the quality of service which attract their participation in takaful. The results is depicted in Table 3. All items yield means above 4.00, reflecting the selection of family takaful due to satisfaction, efficiency, friendliness, precision and competence of the takaful operator. Nevertheless, only item detailed information produces the less mean. The findings is supported by Marhanum, Nurdianawati and Siti (2013), as their
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research discover that takaful agents’ knowledge is discontented. Thus, takaful operators should emphasize on learning culture and environment in their respective organisations.

### Table 3: Family Takaful Quality of Services

<table>
<thead>
<tr>
<th>Summary of Psychometric properties</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction towards the takaful operator</td>
<td>4.49</td>
<td>.582</td>
</tr>
<tr>
<td>Efficiency</td>
<td>4.38</td>
<td>.570</td>
</tr>
<tr>
<td>Friendliness</td>
<td>4.56</td>
<td>.554</td>
</tr>
<tr>
<td>Detailed information</td>
<td>3.97</td>
<td>.696</td>
</tr>
<tr>
<td>Precise answers</td>
<td>4.00</td>
<td>.737</td>
</tr>
<tr>
<td>Competence of the staff</td>
<td>4.20</td>
<td>.668</td>
</tr>
</tbody>
</table>

### 4. CONCLUSIONS

Based on the analysis, the demand of family takaful is highly dependent on three factors; product benefit, features and service quality. Nevertheless, there are a few significant findings in this study. First is the less tendency to select family takaful due to financial support to the family. Although the finding may be explained by the smaller compensation of takaful as compared to insurance, the factor can be further empirically researched. Secondly, the ability of the takaful agents to provide detailed information to customers. Acknowledging the increased literacy and education level of the customers, the agents should be equipped with at least, the general knowledge of takaful along with other skills, to build up the customers’ confidence and subsequently increasing the growth of takaful business.

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