Volume 5 / June 2018

KDN No: PP 18395/03/2014 (033834)
RM 25.00

Journal of Wealth Management & Financial Planning

RM25.00 05
ISSN 2289-6937
9 772289 693006

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Publisher
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Editor-in-Chief's Note

It is with great pleasure that we bring you the fifth issue of the Journal of Wealth Management and Financial Planning (JWMFP). As you may know, JWMFP is being evaluated for indexing by SCOPUS, which will bring our journal numerous benefits and enable us to contribute greatly to the financial services industry, to other researchers and of course all our readers. JWMFP aims to be the leading journal for research and studies in Wealth Management and Financial Planning both in Malaysia as well as internationally.

Within a relatively short time, JWMFP has been evolving into a journal that brings to attention topical research in a wide range of critical issues within the financial industry. The journal is served by what I would term a very competent editorial board along with a network of scholars from all around the world. The journal includes up-to-date, high-quality and original contributions – research papers, news and views, and book reviews. As an example, the article *A Preliminary Evaluation of Financial Literacy in Malaysia* provides a good understanding of the status of Malaysians regarding their financial management. Our News and Views column features an article on *Ridesharing and Carsharing, A Better Option?*, a popular topic in current times for many Malaysians. We also have a review of *The Colour of Inequality: Ethnicity, Class, Income & Wealth in Malaysia*, a book that is a must-read and remains relevant to be comprehended even after the recent watershed general election.

I would like to express my thanks to all the reviewers and authors who contributed their articles, making the fifth issue of JWMFP possible.

We look forward to any feedback on JWMFP. Please submit your feedback to us by email at mfpc@mfpc.org.my.

Until the next issue, enjoy this issue!

Assoc. Prof. Dr Mohamad Fazli Sabri
Editor-in-Chief

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A Preliminary Evaluation of Financial Literacy in Malaysia

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ABSTRACT

Malaysians have been adversely affected by the greatly increased cost of living in the last decade. The majority of them are feeling as if they are not able to cope with the current standard of living relative to the level of income they are generating. Many have been forced to work two jobs and it is not surprising that these challenges have made them desperate and susceptible to financial fraud and falling victims to financial scams. Economic challenges have impacted the way Malaysians save, spend, manage risks and invest in order to preserve their normal daily livelihood. Among the factors for this are the lack of understanding of how best to manage their finances and financial literacy. This research aims to reveal the financial literacy of Malaysians with information regarding financial understanding, knowledge, and skills that respondents possess. It applies a quantitative study method with a self-administered questionnaire to obtain relevant data from a sample of 2000 respondents across a wide selection of: i) public sector employees; ii) private sector employees; iii) FELDA/rural area residents; and iv) youth in institutions of higher learning. Findings reveal that the majority of Malaysians believe that expenses can be higher than income and possess inadequate understanding of risks and investment.

Keywords: Cash Flow, Credit, Financial Literacy, Savings and Investment

Malaysia was adversely affected by the Global Financial Crisis in 2008 but recovered rapidly, posting growth rates averaging 5.7% since 2010. Nevertheless, the Economic Planning Unit reported recently that the average income per person in Malaysia has fallen by as much as 15% from US$10,345 in 2013 to US$8,821 in 2016 (Economic Planning Unit, 2016). Furthermore, the

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increasing cost of living experienced by Malaysians in recent years has made individuals and families more frugal in their spending. At the same time, all these challenges have made Malaysian more desperate and prone to making imprudent financial decisions, with a number resorting to seeking quick and easy ways to make money. Malaysians generally lack clear understanding of financial risk and return, resulting in their not being able to make rational financial decisions. Many Malaysians are still susceptible to financial fraud, falling victim to financial scams.

A 2015 Bank Negara Malaysia (BNM) survey on financial literacy showed that three out of four Malaysians found it difficult to raise even RM1,000 for an emergency (Bank Negara Malaysia, 2015). Further, less than a quarter had any kind of investment. The survey also showed that a majority of Malaysians tended to spend for instant gratification instead of planning for the long term. This can be seen where only 40% of Malaysians considered themselves financially ready for retirement, despite the steadily increasing life expectancy of Malaysians. The findings also showed that the majority of the over 3,000 Malaysians surveyed did not have a proper budget plan nor practised financial discipline to manage their spending and debt (The Malay Mail online, November 2015).

All this underscores the crucial need for financial education to encourage consumers to be financially savvy in managing their finances, plan for the future and manage risks associated with financial matters. Individuals ought to be able to engage themselves in comprehensive and thorough financial planning either via self-management or by appointing a qualified financial planning practitioner. Nevertheless, personal financial planning is found to be very much still in the infant stage in Malaysia (Mansor, Hong, Abu, & Shaari, 2015) and Malaysians have been generally found not taking ownership of their own financial affairs (Citi, 2008). Though they are aware of the importance of personal financial planning, many remain lacking in a thorough understanding of the significance of personal financial planning and of the numerous benefits that may be derived from such planning (Citi, 2008). This study intends to determine the financial literacy of the respondents in terms of cash and credit management, savings and investment as well as financial institutions.

LITERATURE REVIEW

The increasing cost of living among Malaysians in present times has made individuals and households more conscious of their financial management. Economic challenges have made an impact on how Malaysians spend, save, invest and manage risks in order to protect their standard of living, especially for the long term. The current higher level of consumer indebtedness and increasing focus on individual responsibility for financial planning indicate that there is a growing need for better financial management understanding among Malaysians. Thus, there is an ever increasing need for them to properly manage their finances.

In an effort to continuously implement effective consumer education, BNM conducted a survey to measure the level of financial capability of Malaysian consumers (BNM, 2015). The survey found that the level of financial capability is still low, thus affecting the financial situation of individuals and households. The effects of financial incapability do not only result in the financial problems of individuals, households and consumers as a whole but also lead to greater levels of stress and financial exclusion (Taylor, 2009; Lenton & Mosely, 2008). Financial incapability among Malaysians is also due to lack of knowledge and skills, thus leading to lower financial well-being.

One of the reasons for personal financial problems is financial illiteracy faced by individuals and households (Lusardi & Tufano, 2009). Apart from that, the combination of financial problems such as high debt, low income, and low level of financial literacy may adversely affect the financial well-being of individuals and households. Income uncertainty, rising petrol prices and physical pain for instance, have a more drastic influence on well-being. In recent times, with increasing public knowledge supporting public confidence, there is a higher rate of participation in capital market activities, which is central to capital market development and assists Malaysians in becoming more financially prudent and savvy.

Investors with sufficient information and knowledge about the financial market generally make rational asset allocation decisions to expand their financial welfare in both the short and long term (Hamada, Sherris, & Hoek, 2006). Financial education creates an awareness of stock, mutual fund, bond and investment alternatives among consumers and it has positive relationship towards household income and wealth (Guiso & Jappelli, 2004). Financial literacy enables individuals to understand the importance of saving money for retirement and to earn income during their retirement period. As investors invest in financial assets and generate return, they are able to increase future wealth. At such a time when they are unable to work and earn regular income, the income generated from invested financial assets serve as substitutes and would alleviate the problem of old age poverty (Lusardi & Mitchell, 2008; Hilgert, Hogarth & Beverly 2003; Bernheim, Garrett & Maki, 2001). This is supported by Rooij, Lusardi, and Alessie (2007) who found that knowledge about financial markets will increase a household's financial market participation and lack of understanding of economics and finance is a significant deterrent to investment.

It was found that improvement in financial literacy leads to a positive impact on the individual's personal livelihood. People with a high level of financial knowledge are reported to have less stress and less financial disputes among their families (Taft, Hosein, & Mehrizi, 2013). Fox, Bartholomae and Lee (2005) agreed that people who grow up in a family with higher financial knowledge reported better financial well-being and productivity. Financial literacy helps individuals and households to meet their financial goals and secure their financial well-being in terms of social inclusion (Securities & Investment Commission, 2011). Thus, financial literacy not only increases knowledge of money matters but also helps and empowers consumers to make better financial decisions that lead to greater financial well-being (Sabri & Zakaria, 2015).

The need for more knowledge about different aspects of financial planning services has been highlighted by scholars of many disciplines, and calls for more in-depth studies of this practice have been put forward. Findings show that the important aspects of financial planning services have been previously neglected. The characteristics of gender are shown to have importance both for consumers and planning perceptions of the different aspects of the core elements of financial planning services. Research has revealed that individual consumer characteristics affect consumer risk assessment (Harris, Jenkins, & Glaser, 2006; Weber, Blais, & Betz, 2002); investment behaviour (Hira, Sabri & Loibl, 2013; Hira & Loibl, 2008; Sundén & Surette, 1998); and the decision to engage advisers (West, 2012). It is therefore vital to have some preliminary understanding of financial literacy in order to tailor the necessary financial education programme.

METHODOLOGY

This study engages the approach of quantitative analysis where a purposive sampling technique is conducted to select the sample throughout Malaysia. Self-administrative survey questionnaires were distributed to a sample that covered a wide section of the population. The sample was separated into four categories: i) public sector employees; ii) private sector employees; iii) FELDA/rural area residents; iv) youth in institutions of higher learning. These four categories are noted to have the representation of the population for the results to be generalized. According to the sampling size calculation by Krejcie & Morgan (1970), for a population which is equal to or greater than 1,000,000, the required sample size is about 1,500 with confidence interval of 95% and margin of error of 2.5%. This study collected relevant information from a total of 2,000 respondents in order to compensate for incomplete and unusable responses.

All questions in the questionnaire were developed in close-ended form by providing possible choices of answers. This method could prevent bias and allow the data to be analyzed in the most appropriate way. Data was collected from April to August 2017. A pilot study was conducted among forty respondents to check the suitability of research instruments in a preliminary small-scale study. This assisted the researchers to decide on the most appropriate approach to conduct such a large-scale research project and to ensure the appropriateness of the proposed methods and instruments. Some instruments were revised and the instructions clarified after the pilot study due to respondents' problems in understanding them. This enhanced the reliability and accuracy of the questionnaire.

The questionnaires requested the respondents' demographic and socio-economic information in terms of age, gender, ethnicity, family size, financial status and income adequacy. The respondents' financial literacy was measured by testing their financial knowledge with questions developed by Sabri, MacDonald, Hira and Masud (2010) based on the Malaysian context. As for the measurement of financial literacy, the survey provided questions in eight areas including cash flow management, credit management, savings and investment, retirement planning, risk management, Shariah-compliant products, estate planning and financial institutions. The data was then compiled according to the respondents' correct or incorrect answers.

DEMOGRAPHICS AND SOCIO-ECONOMICS

The information on demographics and socio-economic characteristics is shown in Table 1. The sample comprised 55.3 per cent married individuals and 44.7 per cent who were still single. In terms of gender, a larger percentage (54%) of respondents was female. This is consistent with the national overall population averages. The study is also representative in terms of ethnicity where 64% of the sample was Malay, 27.9% Chinese, 5.9% Indians and 2.2% of other ethnicities. The majority of the respondents (57%) had a monthly income of less than RM3,000, which put them in the B40 category. Respondents with a monthly income of between RM3,000 to RM4,999 comprised 25.5% and those earning between RM7,000 to RM8,999 comprised 3.3% and last but not least, those with income of above RM9,000 comprised only 4.8%. The highest percentage of respondents were in the age group of between 20 to 29 years (31.7%), followed by 30 to 39 years (24.7.0%) and more than 50 years (18.4%). Respondents in the range of 40 to 49 years of age and those aged less than 20 years comprised 15.3% and 9.9 respectively.

Table 1: Demographics and Socio-Economic Characteristics

Characteristics	N (%)
Gender	
Female	1080 (54.0)
Male	920 (46.0)
Marital Status	
Married	1106 (55.3)
Single	894 (44.7)
Ethnicity	
Malay	1280 (64.0)
Chinese	558 (27.9)
Indian	118 (5.9)
Other	44 (2.2)
Income (RM)	
< 3000	1140 (57.0)
3000 – 4999	510 (25.5)
5000 – 6999	188 (9.4)
7000 - 8999	66 (3.3)
> 9000	96 (4.8)
Age (years)	
< 20	198 (9.9)
20 – 29	634 (31.7)
30 - 39	494 (24.7)
40 – 49	306 (15.3)
> 50	368 (18.4)
Household Size (no. of persons)	
< 4	900 (45.0)
5 – 6	696 (34.8)
> 7	404 (20.2)
Asset to Debt Ratio	
Asset value < Debt	1050 (52.5)
Asset value = Debt	440 (22.0)
Asset value > Debt	510 (25.5)
Income Adequacy	
Enough & able to save money	338 (16.9)
Enough for most of things	472 (23.6)
Enough for basic needs	944 (47.2)
Not sufficient	246 (12.3)

In addition, 45% of the respondents had a household size of less than four persons, 34.8% were those in households of between five to six persons and only 20.2% were in households comprising more than seven persons. This is very much reflective of the national household size distribution, which stands at 4.13 persons. Slightly more than half of the respondents (52.5%) had a very low asset to debt ratio. There is definitely a need for more information and guidance in financial readiness for this group of relatively younger respondents. Almost half of the respondents (47.2%) had income that was only sufficient for basic needs. With depressed real wage growth, the data provides an indication that the respondents were just able to meet day-to-day expenses with only 16.9% having enough to live comfortably with some savings. A worrying total of 12.3% of the respondents indicated that they did not have sufficient income for living expenses.

Parallel with this study's objective in identifying the status of the financial literacy of the respondents, they were provided with eight domains to evaluate their financial knowledge and ability to manage their finances. The information was captured and the findings are discussed in the next section.

FINDINGS

A set of general questions was provided to indicate overall financial literacy and this is shown in Table 2. As for the findings on credit management, it is comforting to note that 81.4% of the respondents knew that credit card holders cannot spend without limit. Nevertheless, 18.6% believed that they could spend an unlimited amount with their credit card. Meanwhile, 21.9% of the respondents misunderstood that the longer the repayment period, the lower the overall loan cost. This is a worrying finding and some action must be taken to rectify the misconception. The majority (61.2%) did not understand that debt cannot be inherited from a legal standpoint. In addition, 81.3% understood the function of Central Credit Reference Information System (CCRIS), indicating that the Central Bank has been successful in explaining the functions of CCRIS. However, more can still be done as 18.7% of the

Table 2: Percentages of Respondents with Correct Answer in Financial Literacy

STATEMENT	CORRECTLY ANSWERED (%)	WRONGLY ANSWERED (%)
CREDIT MANAGEMENT		
Credit card holders can spend without limit.	1628 (81.4)	372 (18.6)
The longer the repayment period, the lower the cost of the overall loan.	1562 (78.1)	438 (21.9)
Debt cannot be inherited.	776 (38.8)	1224 (61.2)
Central Credit Reference Information System (CCRIS) is a credit bureau that collects, processes, stores and creates credit information.	1626 (81.3)	374 (18.7)

Table 2: Percentages of Respondents with Correct Answer in relation to Financial Literacy

STATEMENT	CORRECTLY ANSWERED (%)	WRONGLY ANSWERED (%)
CASH FLOW MANAGEMENT		
Sometimes, expenses can be higher than income.	326 (16.3)	1674 (83.7)
A shopping list helps us to control our expenses.	1869 (93.5)	131 (6.5)
One needs to save before spending.	1853 (92.7)	147 (7.3)
SAVINGS AND INVESTMENTS		
All types of investments are profitable and low risk.	1630 (81.5)	370 (18.5)
All investments in Malaysia are legal.	1485 (74.3)	515 (25.7)
An individual needs to save a minimum of 10% for emergency purposes.	1773 (88.7)	227 (11.3)
RETIREMENT PLANNING		
One can depend on EPF savings for living after retirement.	1124 (56.2)	876 (43.8)
If my retirement fund is insufficient, I will continue working.	1622 (81.1)	378 (18.9)
Private Retirement Scheme is only for Government employees.	1548 (77.4)	452 (22.6)
We can depend on our children after retirement.	1689 (84.5)	311 (15.5)
RISK MANAGEMENT		
If I can afford to bear the risk, I don't have to buy insurance.	861 (43.1)	1139 (57.0)
All types of risk can be insured.	1196 (59.8)	804 (40.2)
SHARIAH-COMPLIANT FINANCIAL PRODUCTS		
Shariah products are only available for Muslims.	1241 (62.1)	759 (38.0)
Shariah products are free from risk.	1229 (61.5)	771 (38.6)
Everyone can buy insurance / Takaful whenever they wish to do so.	565 (28.3)	1435 (71.8)
Shariah products generate reasonable returns similar to conventional products.	1337 (66.9)	663 (33.2)
ESTATE PLANNING		
I can distribute all my assets through my Will.	1636 (81.8)	364 (18.2)
Wills cannot be modified once written.	736 (36.8)	1264 (63.2)
Only if I have assets, I will write a Will.	956 (47.8)	1044 (52.2)
My Will can include EPF and insurance savings nominees.	466 (23.3)	1534 (76.7)
UNDERSTANDING FINANCIAL INSTITUTIONS		
Credit Counselling and Debt Management Agency (AKPK) offers financial loans.	1115 (55.8)	885 (44.3)
Bank Negara Malaysia's role is only to print currency	1502 (75.1)	498 (24.9)
Bursa Malaysia is a stock exchange operator and offers a complete range of services covering trading, clearing, depository and settlement.	1548 (77.4)	452 (22.6)
Securities Commission Malaysia ensures proper conduct of market institutions and licensed individuals.	1680 (84.0)	320 (16.0)

respondents were unaware of CCRIS, its role and functions.

It is surprising that almost 83.7% of the respondents allowed expenses to be sometimes higher than income in their general management of cash flows. The results reveal that respondents felt that it is all right to overspend, revealing a worrying trend among Malaysians. Only 16.3% of the respondents actually understood that expenses cannot be higher than income. Fortunately, the majority of them (93.5%) agreed that a shopping list helps to control expenses and one need to save before spending.

It is disturbing to note that 18.5% were of the opinion that all investments in Malaysia are profitable and low risk. In addition, 25.7% of the respondents believed that all investments in Malaysia are legal and only 74.3% of the population was aware that not all investments are legal. As participants of investment instruments, they must be vigilant to various measures that may be used by unscrupulous platforms/channels that may entice them to channel their funds into illegal investment. This thinking must be corrected to help ensure that Malaysians are able to differentiate between legal and non-legal investments. It is essential that the concept of saving for emergencies is instilled into the 11.4% of respondents who did not see the need for a 10% buffer fund as an allocation for emergency events.

With regard to the retirement planning domain of financial literacy, the study reveals that only 56.2% of the respondents knew that they could not depend on their Employees Provident Fund (EPF) savings for living after retirement. The majority (81.1%) were aware that they would need to continue working if their retirement fund was insufficient. Alarmingly, 43.8% of the respondents believed that they could depend on their EPF savings for their living expenses after retirement. However, this belief in the adequacy of EFP savings to meet retirement needs contradicts the findings of a study to determine the adequacy of retirement income delivered by Alaudin, Ismail and Isa (2017). In addition, according to the EPF, as reported by The Star in October 2017, more than two-thirds (68%) of EPF members aged 54 had less than RM50,000 in EPF savings. With the household poverty line income at RM930 monthly, RM50,000 in savings will only last 4½ years. 70% of members who withdraw their funds at age 55 used up their savings in less than a decade after retirement. Most EPF savings are therefore not sufficient to enable retirees to stay out of poverty after retirement.

Another worrying trend is that 22.6% of the respondents were of the view that the Private Retirement Scheme (PRS) is only open to government employees. As such, the Private Pension Administrator (PPA) would need to do much more to educate Malaysians on the PRS. Whilst pointing this out, it must also be noted that the majority of the respondents (77.4%) were aware the PRS is for all.

While Malaysians are generally known to be attentive to the need to take care of the elderly, the majority (84.5%) knew that having their own financial retirement plan is essential.

More than half of the respondents (57%) were illiterate in risk management as they did not understand the need to buy insurance. For them, insurance was a "nice to have" instead of a "need to have" on their list of priorities. Only 59.8% of respondents agreed that not all types of risks can be insured.

Many were unaware that insurance/takaful companies perform risk analysis and implement holistic risk measuring approaches before agreeing to insure an individual and 71.8% of the respondents believed that they could purchase an insurance/takaful policy at any point in their lifetime. While 38% of the respondents were unaware that Shariah-compliant financial products are not limited only to Muslims, the majority (62%) were aware that Malaysians of all religious backgrounds can purchase these products, as the essence of Islamic finance is the concept of inclusiveness. With Malaysia leading in the Islamic financial front and the increasing growth of Islamic financial institutions, the general populace is aware that Shariah-compliant financial products are able to generate reasonable returns. This is as 66.9% of the respondents were aware of this. In terms of knowledge of Shariah-compliant financial products, the majority of the respondents were literate in terms of Islamic products as more than 60% answered correctly for 3 out of the 4 items in this domain. Finally, it is alarming to find 38.5% of respondents believed that Shariah-compliant financial products are 100% risk-free.

As for estate planning, about one-third of the respondents (36.8%) was unaware that Wills can be modified after they have been written. There remains a misconception among the respondents of the need and purpose of a Will as 52.2% of the respondents answered that one can only write a Will if one has assets. A surprising 47.8% did not know that they could also assist their loved ones by writing a Will even if they do not have assets. The respondents did not understand that nominees cannot be included in one's Will as only 76.7% were unaware that a Will cannot supersede a nomination.

With regard to knowledge of financial institutions in Malaysia, only 55.8% of the respondents in this study were aware of the role of AKPK. 44.2% of respondents thought that AKPK's role is to offer financial assistance to support an individual in times of financial distress. Nonetheless, the respondents were aware of the roles of Bank Negara Malaysia, Bursa Malaysia and Securities Commission Malaysia, with more than half responding correctly. This reflects that the respondents did have knowledge of Malaysia's financial institutions and their respective roles and functions. However, it is also essential to note that 24.9% of the respondents thought that

Bank Negara Malaysia's role is only to print currency to ensure an adequate supply in the market. Despite the assumptions of many that the majority of rural residents may be unaware of the roles of the Securities Commission; this study reveals that 84% of the respondents were aware of the existence and role of the SC.

CONCLUSION

The findings in the section on financial literacy show that more than 80% believed that expenses can sometimes be higher than income; and they could depend on their EPF savings to meet living needs after retirement (43.8%), and that they did not need insurance if they could afford the risk (43.0%). An important and surprising finding is that a large proportion (44.2%) of them believed that AKPK offers financial loans.

Financial knowledge regarding cash flow management revealed that 83.7% of the respondents had expenses higher than income. In addition, 61.2% believed that debt can be inherited. This shows that there is definitely a knowledge gap credit management is concerned. It is also alarming to learn that more than a quarter of respondents had the idea that all investments in Malaysia are legal. Finally, 43.8% of the respondents said they could depend on EPF for their living expenses after retirement. Several other concerns were revealed as the respondents were not fully aware of the differences between conventional and Islamic financial products. The overall findings signify that the respondents were not fully equipped with sufficient financial knowledge to make informed decisions regarding their financial affairs.

With regard to financial literacy and education, it is vital that the values of financial sustainability are disseminated so that Malaysians understand that one's income must always be able to cover expenses and one must never live beyond one's means. Malaysians must be educated to control their credit card spending, save for rainy days and unexpected incidents, and have enough insurance to cover unforeseen circumstances. Malaysians should also be educated on retirement planning as well as on estate planning for their golden years and beyond. Some basic understanding of the types of financial institutions and their functions is definitely necessary so that one knows where to seek assistance when the need arises. Most importantly, a basic understanding of risks and investment is vital in order not to fall prey to unscrupulous investment schemes.

RECOMMENDATIONS

Continuous financial education for the public to create awareness of the importance of setting financial goals and taking the necessary actions to achieve their financial goals is vital for Malaysians. Other than that, the development of financial literacy programmes tailored to meet the differing needs of the various segments of society is highly encouraged. The training format should be kept simple and relevant to the participants' day-to-day lives. Emphasis should be on learning by doing and linking to the benefits, and knowing how to use available financial products and services. In addition, financial education should be made mandatory in continuous professional development and personal growth programmes in the public and private sectors.

There is still a lack of financial understanding in differentiating between legal investments and scam schemes in Malaysia with quite a number falling into these traps. The undesirable result of this is that one out of four investors has the potential to enter into a 'get-rich-fast' scheme. Hence, our recommendation is for the SC to aggressively interact with the general public to educate them on the real nature of investment as compared to potential scams. Intermediaries such as MFPC can be appointed as ambassadors to bridge the information and knowledge gap on behalf of the SC. Besides that, on-the-job training should be provided to enhance skills and ensure relevant personnel perceived to be financial planners i.e. AKPK Counsellors and Wealth Managers are professionally certified. At the least, they should be made to acquire Registered Financial Planner or Shariah RFP qualification so as to promote financial planning and provide quality and appropriate advice to the public.

ACKNOWLEDGEMENT

The researchers wish to extend our sincere appreciation to MFPC and for grant provided by Capital Market Development Fund (CMDF) in funding this research. Special thanks also go to those who have directly or indirectly assisted us in the research process: Desmond Chong, Anthony Ang, Chung Kar Yin, Thechinamoorthy Subbiah Chettiar, Mervin Anthony and Syed Mohd Khalil Syed Mahmood in our research committee. ■

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Volume 5 / June 2018

Crowdfunding: Issues Pertaining to Financial Reporting and Assurance in Malaysia

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ABSTRACT

Crowdfunding is used as a platform to fund new business enterprises and is also a good platform to gather funds for non-profit projects. With the advent of alternative funding, issues pertaining to financial reporting and assurance have become issues that are relevant to investor relations of the new forms of funding. Traditional funding has been long subjected to various legislatures that require the unit to comply with the various financial reporting requirements of the various regulators in the country. There is a need for the regulation of crowdfunding and the various forms of alternative funding for the protection of the backers of such schemes. The current legislation that is related to crowdfunding and alternative funding was reviewed and matched against current requirements of financial reporting and assurance of traditional forms of business such as listed companies. It was found that ownership rules, financial reporting regulations and governance are minimal and there is a need for tighter regulations to govern this form of funding here in Malaysia and internationally.

Keywords: Audit and Assurance, Accounting Standards, Crowdfunding, Corporate Governance

INTRODUCTION

Throughout history, mankind has created various forms of platforms for funding – legal or illegal, big or small, regulated or unregulated. Even though traditional forms of finance such as banks and capital markets are still a popular form for entrepreneurs and charities to source funding, the internet has opened up new funding avenues for them. Crowdfunding is used as a platform to fund new business enterprises and also as a platform to gather funds for non-profit projects. With the advent of alternative funding, issues pertaining to financial reporting and assurance have become issues that are relevant to investor relations of the new forms of funding.

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Crowdfunding is a form of funding whereby many small amounts of money are raised from a large number of people to finance a project or venture. Crowdfunding has been used to fund a wide range of for-profit entrepreneurial ventures and also non-profit ventures such as community-oriented social entrepreneurship projects. One example of one successful crowdfunding project is the Grammy Award winning "Voyager Golden Record" project in 2017. The public was asked to pledge between US$10 to US$490 on Kickstarter. Kickstarter is an American public-benefit corporation that maintains a global crowdfunding platform focusing on creative arts such as films, music, stage shows, comics, journalism, video games, technology and food-related projects. As at 28 January 2018, the day the project won the "Best Boxed or Special Limited Edition Package" Grammy, over US$1.3 million had been raised from their backers. Peer–to-peer (P2P) financing is a web-based application that allows entrepreneurs and small business owners to raise capital from a pool of individual investors in small amounts and provides a quick turnaround time to obtain financing for their businesses, through an online digital platform.

There are currently two forms of crowdfunding. The first is equity crowdfunding (ECF) and the other is non-equity crowdfunding. The website Investopedia defines "investment crowdfunding" (or equity crowdfunding) as "a way to source money for a company by asking a large number of backers to each invest a relatively small amount with it. In return, backers receive equity shares of the company." The definition further says "backers receive equity shares of the company". The legality of the above quotation will be discussed later in this paper. There is no official terminology to date for crowdfunding for non investment purposes. In this paper the second form of crowdfunding will be referred to as "non-equity crowdfunding".

Financial Reporting for Traditional Funding

Traditional funding has been subjected to various legislatures that require the unit to comply with the various financial reporting requirements of the various regulators in the country. The Companies Act 2016, the Societies Act 1966, the Partnership Act 1961, the Limited Liability Partnerships Act 2012 and the Companies Commission of Malaysia (CCM) Act 2001 regulate the establishment of businesses and societies in Malaysia while Bursa Listing Requirements and the Malaysian Code of Corporate Governance regulate the conduct of listed entities on Bursa Malaysia. Bank Negara Malaysia regulates financial institutions in the country. Issues pertaining to the reporting and disclosure of financial information, auditing and governance are laid out clearly in the aforesaid regulations. The Malaysian Accounting Standards Board (MASB) established under the Financial Reporting Act

1997 (the Act) acts as an independent authority to develop and issue accounting and financial reporting standards in Malaysia. The MASB determines how accounting issues are addressed and how financial results are published and reported.

The Case for Financial Reporting for Equity Crowdfunding in Malaysia

Malaysia introduced a regulatory framework to facilitate equity crowdfunding in 2015 and another for P2P financing in 2016. At the time of writing, there are minimal rules and regulations on financial reporting for alternative funding i.e. non-equity crowdfunding, ECF and P2P financing in Malaysia. Most of the regulations pertaining to alternative funding lie in the Guidelines on Recognized Markets issued by the Securities Commission of Malaysia (SC) in 2015 and revised in 2016.

The Guidelines on Recognized Markets focuses mostly on the financial reporting aspects of the set-up of the Recognized Market Operator (RMO) and reporting to SC. Paragraph 1.03 of the Guidelines makes it clear that all RMOs must be a body corporate or a limited liability partnership (LLP). This brings all RMOs to be either under the Companies Act 2016 or the Limited Liability Partnerships Act 2012. Unlike practices overseas, societies or non-profit organisations per se, like many promoted on Kickstart, are not permitted to become RMOs. The only way non-profit organisations can become RMOs is for those organisations to be registered either as companies or as LLPs.

Paragraph 7.01 requires all RMOs to submit their latest audited financial statements within three months after the close of each financial year to the SC and similar filings must be made at the CCM as required by the Companies Act 2016 or the Limited Liability Partnerships Act 2012. However, since the RMOs are not public companies, the audited financial statements of the RMOs are not published to the public.

Current listing requirements require public listed companies to publish regular reports (as regular as quarterly) to their shareholders so that shareholders are made aware of the financial performance of their investment. Regulators require unit trust companies to publish their results to their trust holders. ECF works in a way similar to unit trusts. Unit holders provide small amounts of funds to unit trust companies to invest in various companies or businesses, while crowdfunding collects small amounts of capital from many backers. RMOs are not subject to such rigorous reporting requirements unlike unit trust companies. RMOs are not obliged to publish their financial results to their backers since the backers are in the legal sense not shareholders of the business. Backers would have to go to the CCM to purchase a copy of the audited accounts if they want information about the financial results of their RMO.

Is the financial information available at the CCM useful for the backers for decision making – if they decide to spend money to retrieve the information? It is not thought so. The Companies Act 2016 requires an RMO file the financial report of the whole enterprise and not different projects crowdfunded in that particular RMO.

There are gaps in company law pertaining to the ownership of an ECF. The Guidelines on Recognised Markets make it a requirement that information on the promoters of the ECF must be provided to SC during the process of registration. A similar procedure is applied to traditional companies when those companies plan to place an Initial Public Offer (IPO) on Bursa Malaysia.

However there is not much clarity regarding the ownership of an ECF. Are backers shareholders of the ECF? Investopedia mentions that "backers receive equity shares of the company". The Companies Act 2016 is silent on this. In traditional companies including those over-the-counter or private companies, successful applicants to a new company are allotted shares by the promoters and upon the payment of the allotted share capital, the applicant will become a shareholder. Shareholders are then owners of the company. The legal statuses of ECF backers are currently unclear in company law. Backers should be allotted shares in the entity and backers should be able to participate in General and Extraordinary Meetings of the ECF. ECFs should be managed like any company with a proper Board of Directors, independent directors and a capable Audit Committee for better governance.

The Case for Accounting Standards and Assurance

"Regulation Crowdfunding" issued by the Securities and Exchange Commission (SEC) of the United States (US) in 2015 requires all financial statements of ECF entities to include balance sheets (also known as statements of financial position), statements of comprehensive income, statements of cash flows and statements of changes in owners' equity prepared in accordance with generally accepted US accounting principles (GAAP). Financial statements prepared in accordance with a comprehensive basis of accounting other than U.S. GAAP, special purpose frameworks and Private Company Council alternatives will not be acceptable. An independent public accountant or auditor must review and audit the financial statements of the ECF like traditional companies. The US regulators are very particular about the adoption of approved accounting standards for the preparation of accounts and proper practices when it comes to assurance. In Malaysia, the regulators are silent as to which accounting standards should be used when preparing crowdfunding accounts – i.e. the more comprehensive Malaysian Financial Reporting Standards (MFRS) or the Malaysian

Private Entities Reporting Standard (MPERS). In normal practice, the MFRS is adopted by non private entities and the MPERS by private entities. The Writer feels that the MFRS is more suited to crowdfunding entities as crowdfunding sources funds from the general public. Looking at the practices of traditional fund institutions such as banks and insurance companies, all these institutions adopt the MFRS when preparing their financial statements. The same rigour should be applied to crowdfunding establishments for the protection of their backers.

In Malaysia, paragraph 12.23 of the Guidelines on Recognized Markets issued by SC requires any crowdfunding issuer to submit audited financial statements (for offerings above RM500,000 or for issuers that have been established for at least 12 months), or management certified financial statements where audited financial statements are not available (e.g. for newly established issuers) to the ECF operator before the fund can be hosted. However, this is not enough. Assurance should be a continuous process. Not only should the audited or certified report be required when the fund is initially hosted but also at every financial year end. Again, it would be pointless that the ECF operator gets to read these reports. These reports should be made available in print or online to all backers. How would the backers know the performance of the projects when the backers cannot easily get the financial results of their investment? Investment appraisal techniques applied to conventional businesses cannot be used if accounts (which should have been audited) are not easily available to backers and potential backers. The suggestion is that the SC think about setting up a web-based depository like what Bursa Malaysia does so that the public can access the audited financial statements of the funds.

The Case for Non-equity Crowdfunding

Earlier, the issues pertaining to ECF were discussed whereby backers put in funds to help fund a project or business in a manner similar to the traditional company. What is the case for crowdfunding projects whereby the whole purpose of the venture is not-for-profit and for the betterment of the public? The writer's opinion is that non-equity crowdfunding (a term introduced by this paper) operates like societies or non-profit organisations. In Malaysia, societies and non-profit organisations are governed by the Societies Act 1966. Registered societies are required to keep proper accounts and to publish and file their audited financial statements with the Registrar of Societies. Members of the registered society will vote whether to buy off the financial statements or not in a general meeting.

There are currently no such requirements for non-equity crowdfunding; in fact, there are no laws in Malaysia governing such organisations. Even in the United States, there are no regulations pertaining to the governance of such projects. As there are no regulations pertaining to the governance, no government department tracks the performance of these projects. These are “businesses” that operate outside the official government statistics. Backers of the “Voyager Golden Record” are given project updates. Financial reports have yet to be published to the backers at the time of writing.

There are some who that argue that certain forms of non-equity crowdfunding such as case donations for disaster relief and personal medical pleas should not be regulated.Currently, similar forms fundraising are not fully regulated. Regulators would prefer the donors to channel their funds to approved institutions under Section 44(6) of the Income Tax Act 1967. Donors of institutions which have not been approved would not be entitled to a tax deduction. This does not stop people from donating. The suggestion is not the banning of all unregulated non-equity crowdfunding. Instead, the suggestion is amendment to Section 44(6) of the Income Tax 1967 to cover non-equity crowdfunding. The current rules to register institutions as charities under Section 44(6) are cumbersome. Simpler regulations to regulate non-equity crowdfunding are needed under the Income Tax Act 1967.

There is a need for non-equity crowdfunding to be regulated. Forbes reported that the size of crowdfunding in the United States was $2.1 billion in 2015. By 2016, $3.5 to $4 billion was raised through this platform. The growth rate was 75-100%. With the current growth rate, one day, crowdfunding would be as large as conventional funding. The World Bank predicted that by 2025, crowdfunding investments will be a $96 billion a year market in developing countries alone. Without proper financial reporting, assurance and governance rules, unscrupulous promoters might use the platform to swindle the public, to conduct illegal activities or to money-launder. Again, the authorities must revisit current laws pertaining to societies to make sure that non-equity crowdfunding is properly regulated like the traditional societies and non-profit organisations.

CONCLUSION

To fulfil the ever changing needs for corporate finance, practitioners of finance will come out with new methods of financing to suit the needs of current businesses. Crowdfunding is a form of alternative funding. Alternative funding such as “blockchain”, “cryptocurrencies” and “money games” have been in the news recently. “Money games” have both the elements of gambling and alternative funding. “Money games” have been known to use some of the funds collected towards the running of businesses such as mini-markets, film studios, malls and hotels. It is the job of legislators and regulators to update current rules pertaining to accounting, governance and assurance to include all new forms of alternative funding for the protection of backers and investors. The U.S. Congress is now trying to come out with laws to regulate illegal cryptocurrency public coin offerings. In the 1980s, the Malaysian Chinese community pooled funds to invest in large cooperatives. The run on cooperatives prompted Bank Negara Malaysia in 1986 to regulate cooperatives. The cooperatives have now been absorbed into the traditional banking system. In time to come, alternative funding such as "crowdfunding" will be better regulated and will soon mature and become part of traditional finance.

ACKNOWLEDGEMENTS

A word of thanks to Mr Lim Peng Keat CGMA, FCMA for reviewing this paper. ■

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Determinants of Claims for Takaful Householder and Houseowner Policies

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ABSTRACT

Takaful operators are expected to process claims submitted within a reasonable period and to disburse claims accordingly once the requirements have been met. Nevertheless, a large number of claims will affect the financial position of takaful operators since the compensation will be paid out from the participants' special fund (PSA). If a takaful operator does not address the factors that affect takaful claims, then this will interrupt the takaful operator's business expansion. Therefore, this paper aims to appraise the factors that influence takaful claims, particularly for householder and houseowner policies, based on the experience of one takaful operator in Malaysia. Data from 2010 until 2016 was gathered and non-parametric tests were used to analyse them due to the short period of observation. Findings in this study indicate that fire, flood and fraud cases did not significantly influence the payout claims, although in terms of correlation, all factors had positive relationship with the takaful claims of houseowner and householder policies, except for claims due to floods. The data also revealed the magnitude of claims in terms of amount and value that the takaful operator processed for the past seven years, which showed a significantly high cost of payouts.

Keywords: General Takaful, Householder Policy, Islamic Insurance; Insurance Claim, Takaful Claims

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INTRODUCTION

A takaful claim is a demand from a policyholder to a takaful operator requesting compensation to be issued according to the terms and conditions of the takaful policy. The "crux of transactions" for a bank's depositors is depositing and withdrawing money, while for insurance or takaful policyholders it is the buying of a policy and submitting a claim.

There has not been much research on the factors that influence houseowner and householder policy claims even though the impact from this is significant since it can be detrimental to the financial position of the takaful operator, can interrupt the takaful operator's business expansion in the future as well as affect the capability of the company to issue compensation.

To put the issue into perspective, too many takaful claims will affect the takaful operator because the compensation will be paid out from the participants' special fund (PSA), and if the PSA fund is depleted or insufficient, then the takaful operator, through the shareholders, has a fiduciary duty to be performed – that of granting interest-free financing to top up the deficit in PSA. The interest-free loan will be recovered from future premiums paid by policyholders or from the future investment profits of the PSA.

Therefore, this paper aims to appraise the factors that influence takaful claims particularly for householder policies, based on the experience of one takaful operator, TO1, in Malaysia (this name is used due to the confidentiality of the data).

The paper is organized as follows: the next section is the literature review discussing the features of householder and houseowner policies, the nature of takaful claims, and the factors that influence householder and houseowner policies. The next section covers the research method, followed by the findings and conclusion.

LITERATURE REVIEW

Features of Householder and Houseowner Takaful Policies

Householder and houseowner takaful policies are products or policies that come under the general takaful category and are specifically designed to compensate policyholders against identified perils. In general, both policies concern the house. However, a houseowner policy covers the building or its structure against loss or damage, while a householder policy covers the contents in the house including fixtures and fittings. Therefore, choosing the right policy is essential so that the policyholder knows which items have been insured for claims in the future if an unfortunate event occurs.

These types of takaful policies cover property against catastrophe events, either natural disasters or "man-made disasters". The list of perils covered are (examples from Syarikat Takaful

Malaysia Berhad[1], Takaful Ikhlas Berhad[2] and Etiqa Takaful Berhad[3]):

- Fire
- Lightning
- Explosion
- Aircraft Damage
- Impact Damage
- Bursting and Overflowing of Tanks
- Theft (forcible entry into the house)
- Hurricane, Typhoon, Cyclone, Windstorm
- Loss of Rent

The protection can be extended according to the additional contribution that the policyholder is willing to make. These three major takaful operators offer competitive rates in order to attract new clients by offering 15% cash back or return if there is no claim during the coverage period.

Takaful Claims

In the conventional insurance claim process, the payout or compensation will be distributed from the insurer's coffer; however, for a takaful company, the payout will be from the participants' special fund (PSA) that is solely for compensation. The main difference is that for a conventional insurer, too many claims will affect the insurer's financial performance while for a takaful operator, too many claims will cause the PSA to be depleted and if it becomes insufficient, the Islamic Financial Act (IFSA) 2013 requires the takaful operator to grant *qard hassan* (zero interest loan) to the PSA for the claims purpose. In other words, claims management is important for both conventional insurance companies and takaful operators. Gonga and Sasaka (2007) emphasise that a lower loss ratio indicates a stronger financial performance of the insurance company or takaful operator.

Nevertheless, claims from policyholders must be honoured and processed timely since they are the crux of the insurance business. In general, most takaful operators in Malaysia state that for general takaful claims like the houseowner and householder policies, they require 14 days to process the documents and conduct investigation. The minimum 14 days' period is still viewed as "too long" since the underlying motive for buying insurance or a takaful policy for most people is to ease their burden during an unfortunate event. The minimum period can be longer (Gomez, 2018). The period will be extended if the takaful operators require additional documents or if the catastrophe is a mass disaster such as floods that affect a large number of people.

Tardiness in processing the claims will affect the takaful operator's image as well as the image of the industry as a whole (Muhamat, Jaafar, & Alwi, 2017).

[1]https://www.takaful-malaysia.com.my/products/general/Pages/myhouseowner.aspx, 30 April 2018.
[2]https://www.takaful-ikhlas.com.my/our-products/personal/home-solution/ikhlas-houseowner householder-takaful, 30 April 2018.
[3]http://etiqa.com.my/en/houseowner-takaful, 30 April 2018.

Joji Rao and Pandey (2013) clarify that general insurers in India received three times more complaints than life insurers due to the slow claim process.

Therefore, it is clear that takaful operators need to address the determinants that potentially affect takaful claims for houseowner and householder policies, and at the same time ensure the claims will be processed timely. Thus, based on previous literature, the three factors postulated to influence houseowner and householder policy claims in the context of the situation in Malaysia are flood cases, fire cases, and fraud cases.

Factors that Influence Takaful Claims for Householder and Houseowner Policies

- Flood Cases

According to the Insurance Information Institute, the term "catastrophe" in the property insurance industry refers to a natural or man-made disaster that is typically severe. A natural disaster is expected to have a variety of serious consequences, some of which will have long-term impacts, such as the spread of disease and sea level rise, while some have immediate short-term impacts like extreme rain and flooding (Anderson, 2006). Natural disasters can be in the forms of drought, earthquake, flood, landslip, wildfires, extreme temperature, hurricane and cyclone, to name a few (Tschoegl, 2006).

Mills (2007) suggests that extreme weather will bring negative impact to the economic activities of the country, which Botzen and Bergh (2008) describe as inflicting the insurance industry in terms of high compensation or significant payout issuances. Viscusi and Born (El-Gamal) concur with Botzen and Bergh (2008) by emphasising that natural disaster brings about harmful effects on the insurance firm as well as the insured party. Increased natural disaster cases inflict pressure on insurance companies or takaful operators. Hence, a natural disaster is a "business problem" for the insurance industry because the insurer may face insufficient resources to cover for the misfortunes arising from the insureds' demands (Dlugolecki, 2006). Mills and Evan (2005) cautions insurance companies and takaful operators on rising claims from property insurance policies due to natural disaster as compared to other types of losses. This scenario, as mentioned before, will affect takaful operators' or insurance companies' plans to grow and expand their businesses if they do not address this issue urgently.

The financial implication of natural disasters can be seen in the natural disaster cases in the United States that have cost US$20 billion per year, borne by US the government as well as the insurance industry (Masozera, Bailey & Kerchner, 2006). In the context of Malaysia as presented in this study, Table 1 shows the natural disaster that commonly occurs in Malaysia, which is flood, and the flood cases recorded

Table 1: Flood Cases and Claims

Year	Total Claims (RM)	Flood Claims (RM)	Flood Cases
2010	287,793,000	8,600,000	2,300
2011	218,351,000	792,000	192
2012	472,790,000	9,400,000	2,900
2013	479,313,000	31,770,000	5,500
2014	501,268,000	101,000,000	11,000
2015	648,027,000	320,000	104
2016	603,225,000	515,000	185

from 2010 until 2016 as well as the compensation issued throughout the period against the total claims of general takaful business of TO1.

Table 1 depicts the overall total claims and flood claims experienced by one takaful operator over a period of seven years. The figures are varied as during an "extremely bad period", the claims can go up to more than RM100 million and this is just for flood claims which are equivalent to 20.1% of the total claims made by policyholders in 2014. The year 2014 was categorized as the worst flood disaster for Malaysia since 1969, and states like Johor, Kelantan, Terengganu, Pahang, Kedah, Perlis and Sabah were severely affected. In Kelantan alone, more than 1,500 houses were destroyed (Mohd Dan, 2015). Importantly, Table 1 indicates flood claims for one takaful operator only and there are several other takaful operators that provide flood or houseowner policies which means that the claims figures for flood disaster are expected to reach millions of ringgit every year. The average claim as per the observation period is more than RM21 million.

- Fire Cases and Takaful Claims

Fire is a catastrophe event that is in the "common list of disasters" in Malaysia. This can be a natural disaster like wildfires as a result of La Nina or a drought season in the country or this can be a man-made disaster which happens either with or without intention (Rahim, 2015). Fires can cause fatalities and severe injuries to dwellers of the affected building and inflict serious damage to the property and its contents (Ramachandran, 1999). While claims of fire cases are not as numerous as claims for motor takaful (Ismail, 2013), statistics for fire break-outs in Malaysia indicate an upward trend year by year (Tan, Akashah, & Mahyuddin, 2016). An average of 6,000 premises are destroyed every year (Masriwanie, 2016). This means that in terms of claims, claims for motor takaful policies are higher but fire cases (for houseowner and

Table 2: Fire Cases and Claims

Year	Total Claims (RM)	Fire Claims (RM)	Fire Cases
2010	287,793,000	48,110,000	184
2011	218,351,000	8,500,000	86
2012	472,790,000	928,000	18
2013	479,313,000	11,000,000	58
2014	501,268,000	64,800,000	140
2015	648,027,000	74,300,000	252
2016	603,225,000	619,000	10

householder policies) show additional cases with more compensation to be issued with RM5 billion losses due to fire as at 2017 (Bernama, 2018). It is also reported that child deaths occur every two weeks due to fire and burn injuries (Moh, 2017).

Therefore, takaful operators need to assess the property value to determine how much the insured must be reimbursed and how the payments are apportioned (Cabrales, Armengol, & Jackson, 2003). Table 2 indicates the fire cases and claims from 2010 until 2016 against the total compensation issued throughout the period for the general takaful business of TO1. The highest number of claims issued was in 2015, which were more than RM74 million and the lowest was in 2016, at RM619,000. Even though the figures fluctuated, the average claim during the period was more than RM29 million.

- Fraudulent Claims and Takaful Claims.

A fraudulent claim is a serious problem in the insurance sector. Fraudulent takaful claims occur when a formal claim procedure is submitted with additional financial implication. The Insurance Information Institute (2017) estimates that in general, about 10% of the property or casualty insurance industry incurs losses and loss adjustment expenses each year due to fraud. Derrig (2002) suggests the use of the Electronic Fraud Detection (EFD) system to mitigate fraud attempts during the insurance or takaful claim process. Donald Cressy's Triangle Fraud Theory categorizes fraud attempts into three components: pressure, opportunity and rationalisation (Powell, 2017). Muhamat et al. (2017) describe the Triangle Fraud Theory as:

"The financial pressure that the policyholders faced in their lives might prompt the policyholders to commit the act, or opportunity to dishonestly claim for compensation on damages which do not occur as a result of the accident because they are confident they will

Table 3: Fraud Cases and Claims

Year	Total Claims (RM)	Fire Claims (RM)	Fire Cases
2010	287,793,000	121,765	4
2011	218,351,000	65,000	1
2012	472,790,000	90,000	3
2013	479,313,000	316,500	9
2014	501,268,000	89,700	2
2015	648,027,000	140,500	6
2016	603,225,000	727,000	12

not be caught, and the policyholders will tend to rationalise this by using the excuse that they have paid premium for the takaful service or protection."

Moreover, policyholders have the chance to utilize their informational advantage about the occurrence of misfortune that never happened (Schiller, 2002). Insurance fraud is a worldwide economic problem that threatens the financial strength of insurers and threatens the existence of the insurance institution (Yusuf & Babalola, 2009). Derrig (2002) describes insurance fraud as a major issue in the United States towards the start of the 21st century. The aggregate cost of insurance fraud is assessed to be more than 40 billion US dollars every year (Federal Bureau Investigation, n.a.). Viaene and Dedene (2004) state that insurance fraud is detrimental beyond insurance companies or takaful operators since it affects the whole process or ecosystem in the industry which, at the end of it, affects the country's economy.

Table 3 depicts the number of fraud cases from 2010 until 2016, as well as claim amounts which are categorized as fraud and detected against the total claims for the general takaful business of TO1. It can be concluded that in general, fraud claims can reach up to RM100,000 each year and this is only based on the cases that were detected by TO1. The actual amount could be higher than that.

RESEARCH METHOD

This study employed secondary data gathered from TO1. TO1 was chosen due to the its significant size and experience as a takaful operator in the country. TO1 is one of the composite takaful operators in Malaysia. Permission to publish the data was requested and approved by the TO1 on the condition that the takaful operator's name was not disclosed. Accordingly, it is referred to as TO1. The data was tested with several non-parametric tests due to the short period of observations and the data was normally distributed

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Table 4: Kolmogorov-Smirnov Test

	Year	FIRE	FLOOD	FRAUD
		7	7	7
	Mean	7.0135	6.6471	5.1879
Normal Parameters[a,b]	Std. Deviation	.85772	.95749	.36833
Most Extreme Differences	Absolute	.211	.211	.258
	Positive	.174	.211	.258
	Negative	-.211	-.189	-.154
	Kolmogorov-Smirnov Z	.558	.559	.682
	Asymp. Sig. (2-tailed)	.579	.913	.741

but the non-parametric tests were able to provide rigorous analysis comparable to the parametric tests. A previous study by Boadi, and Opoku (2017) on factors affecting outstanding claim provision of non-life insurance also used limited observation data for only six years (2007-2012) but managed to present meaningful findings. Muhamat et al. (2017) also faced the same constraint and thus employed only descriptive and correlation tests. However, the study managed to achieve its objective and produced significant findings albeit at the expense of more rigorous analysis.

Accordingly, for this study, the Chi-Square test, the Kolmogorov-Smirnov test and Spearman's rho correlation were employed.

FINDINGS

i. Kolmogorov-Smirnov Test

Data is considered as good and decent for research when it is normally distributed (Brother SPSS, 2015), and Kolmogorov-Smirnov provides the test for goodness of fit for the data. Based on the output of the Kolmogorov-Smirnov test above, it can be concluded that the data was normally distributed since all values are more than 0.05 (0.558 for fire, 0.559 for flood and 0.682 for fraud. This indicates that even though the data was quite limited in terms of the observation period, in this study, it meets the requirement of normality for non-parametric test which is needed for small sample size to ensure stability of the model.

ii. Chi-Square Test

Table 5 shows that all factors depict p to be more than 0.05. Hence it is not significant and fails to reject the null hypothesis. Therefore, the three factors

Table 5: Chi-Square Test

	FIRE	FLOOD	FRAUD
Chi-Square	.000[a]	.000[a]	.000[a]
df	6	6	6
Asymp. Sig.	1.000	1.000	1.000

which are fire, flood and fraud do not have significant influence on the claims of houseowner and householder policies as per this research which is seemly at odds with the literature. Martz (2013) describes that failing to reject the null hypothesis does not mean totally accepting the null hypothesis but rather to indicate that as per this study, the availability of the data failed to reject the null hypothesis. Therefore, further data is required for this in future analysis.

iii. Spearman's (Rho) Rank Correlation

Table 6 shows that claims have a positive but low correlation with fire at 0.286 with a non-statistical significance relationship, $p = 0.535 > 0.05$. Furthermore, claims have a low and negative correlation with flood at -0.286 and have a non-statistically significant relationship, $p = 0.535 > 0.05$. On the other hand, claims have a moderate correlation with fraud at

Table 6: Spearman's (Rho) Rank Correlation

		CLAIMS	FIRE	FLOOD	FRAUD
CLAIMS	Correlation Coefficient	1.000	.286	-.286	.607
	Sig. (2-tailed)	.	.535	.535	.148
	N	7	7	7	7
FIRE	Correlation Coefficient	.286	1.000	.071	-.179
	Sig. (2-tailed)	.535	.	.879	.702
	N	7	7	7	7
FLOOD	Correlation Coefficient	-.286	.071	1.000	-.321
	Sig. (2-tailed)	.535	.879	.	.482
	N	7	7	7	7
FRAUD	Correlation Coefficient	.607	-.179	-.321	1.000
	Sig. (2-tailed)	.148	.702	.482	.
	N	7	7	7	7

0.607 but a non-statistically significant relationship at $p = 0.148 > 0.05$. From the correlation results, all the variables except flood have positive correlation. In addition, fire and fraud show higher p-value that exceeds 0.05.

In this research, the p-value for fire is 0.535 and with a positive correlation. If the fire factor is increased by one per cent, takaful claims will increase by 0.286 per cent. The positive relationship of fire and claims as shown in this research is further supported by the study by Zurich Municipal (2014) that reveals that fire and insurance claims are positively related and that claims will increase as arson cases increase. The p-value for flood is 0.535 with negative correlation, signifying that takaful claims will decrease by -0.286 per cent for every one per cent increment of flood factor. This factor looks at odds with others; however, it can be put into perspective that even though submission for claims due to flood increases, it does not necessarily mean that payout (claims) for this will also increase since it will depend on the amount of coverage as stated in the policy. Next, the p-value for fraud is 0.148 with positive correlation. If there is an increment by one per cent, takaful claims will increase by 0.607 per cent. The finding for the fraud factor concurs with the findings of Muhamat et al. (2017) that the relationship between insurance fraud and claims is highly significant and has a positive impact on general takaful claims.

CONCLUSION

The conclusion from the findings in this study indicates that fire, flood and fraud cases did not significantly influence the payout claims of TO1, although in terms of correlation, all factors had positive relationship with houseowner and householder takaful claims except in the case of flood. The limitation of this study is that the period of observation was only seven years and confined to one takaful operator. Therefore, for future studies, the observation period needs to be extended so that more rigorous analysis can be done but this needs the consent of the takaful operator since such data is confidential.

Regulators as well as takaful operators need to monitor the claim amount from time to time so that any anomalies can be detected at an early stage. While it is the policyholders' right to submit claims, as discussed earlier, too many claims will affect the financial performance of the participants' special fund (PSA) and this will put pressure on the shareholders and management of the takaful operator.

Thus, education on the prevention of calamity is needed and protection should be the last resort after every alternative has been considered.

Nevertheless, this study reveals the determinants that will influence houseowner and householder takaful claims although consideration needs to be given to the limitation of the study. The data gathered from TO1 also signified the magnitude of claims in terms of amount and value that the takaful operator processed for the past seven years, which is a significantly high cost of payouts.

Moreover, this suggests that the takaful industry needs to give immediate attention to this issue because if this issue is not managed properly, it will cause negative financial implication to takaful operators. ■

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Volume 5 / June 2018

Exploring Motives of Malaysian Muslims for Participating in Family Takaful

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ABSTRACT

This study explores the motives of Malaysian Muslims for participating in family takaful. The qualitative approach was uitilised with four focus groups involving 22 volunteer participants who owned family takaful policies. The findings show five main motives of participating in a family takaful policy: as preparation for rainy days, for a child education plan, to meet rising medical costs, to meet debt payment, and for investment or saving purposes.The findings from this study will help takaful operators in their efforts to develop marketing strategies that can encourage more Malaysian Muslims to participate in family takaful.

Keywords: Consumer Behaviour, Takaful, Motives

INTRODUCTION

Takaful is an insurance system that complies with the Shariah or Islamic law. The Malaysian takaful industry has experienced encouraging growth since its inception in 1985. Family and general takaful grew by 7.5 per cent and 5.9 per cent respectively in the first half of 2017, compared with 5.2 per cent growth for conventional life insurance and 1.8 per cent contraction for conventional general insurance (The Edge Markets, 2018). The total assets of Malaysia's takaful industry amounted to USD6.7 billion as at 2016 (Malaysian Takaful Association, 2016). Malaysia's penetration rate for insurance is low at 14.3 per cent for takaful and 40.1 per cent for conventional insurance, representing a good opportunity for takaful to further expand and grow (The Malaysian Reserve, 2017). In a report published in *The Star*, a Malaysian newspaper, (2012) a large potential market for takaful in Malaysia still remains untapped to its fullest and a significant component of this untapped market comprises Malaysian Muslims. The Muslim community in Malaysia is very much under-insured for family takaful which is more accepted by the non-Muslim market because of the equitable aspect that Takaful offers (The Star Malaysia, 2012).

Participating in takaful is one of the most important financial decisions as no one knows what the future holds. People could die prematurely every year

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from illness or accident. For a family, the death of the sole breadwinner could have devastating consequences in the context of maintaining their standard of living. Moreover, medical inflation in Malaysia has been estimated to increase by about 10 to 15 per cent annually and based on statistics from the past 15 years, the medical inflation rate has increased by a whopping 107 per cent (Lin, 2017). According to Sohail Jaffer, Deputy CEO, FWU Dubai Services, prospects for continued growth in Malaysia's takaful sector are good, especially for family takaful. Hence, this paper intends to explore the motives of Malaysian Muslims for participating in family takaful. The findings of this study can help takaful operators in their efforts to develop marketing strategies that can encourage Malaysian Muslims to participate in family takaful.

LITERATURE REVIEW

Takaful

Takaful is the Islamic counterpart of conventional insurance, and exists in both family or life and general forms. The Islamic Financial Services Act (2013) defines takaful as an arrangement based on mutual assistance under which takaful participants agree to contribute to a common fund providing for mutual financial benefits payable to the takaful participants or their beneficiaries on the occurrence of pre-agreed events. Takaful is a system based on the principle of mutual cooperation (*Ta'awun*) and donation (*Tabarru'*), where the risk is shared collectively and voluntarily by the group of participants. Under the schemes, participants mutually agree to guarantee and to protect one another against a defined loss or damage by jointly providing financial assistance to any member suffering from a loss. Thus, Shariah-compliant insurance is based on shared responsibility, mutual cooperation and solidarity and is designed to protect participants against a defined risk.

There are two types of takaful businesses: family or life takaful and general takaful (Insurance Info, 2007). The products under family takaful are family takaful, investment-linked takaful, child education takaful, and medical and health takaful while the products under general takaful are home takaful, motor takaful, and personal accident takaful. The main difference between family takaful and general takaful is the way contributions are treated. General takaful payments are not divided into two separate accounts as they are treated only as *Tabarru'*. The takaful operator raises the *Tabarru'* fund, and invests the remainder of the fund after deducting the operational cost of the scheme. If any participant suffers a loss or damage, then he or she will be compensated from this fund by considering the level of occurred losses. Any profit or return from the investment is returned back to the fund. Unlike family takaful, net surplus in the general takaful fund is shared between the participants and the takaful operator. In addition, the profit sharing will exclude participants who get compensation from their claims.

Motives

A buying motive is the reason why a customer purchases goods and the importance of motivation in consumer behaviour is well established. Motivation is the driving force within individuals that impels them to action (Schiffman & Kanuk, 2010). According to Hawkins, Best, and Coney (2001), consumers do not buy products. Instead they buy motive satisfaction or problem solutions. The authors further added that since the purchase of products is caused by different motives, managers must discover motives that their products and brand can satisfy and develop marketing mixes around these motives.

In consumer behaviour research, motives can be categorised as rational motives and emotional motives (Schiffman & Kanuk, 2010). Rational motives imply that consumers behave rationally by carefully considering all alternatives and choosing those that give them the greatest utility. For instance, consumers select goals based on totally objective criteria such as size, weight, price, or miles per gallon. They are conscious, logical reasons for a purchase or can be defended by reasoning or logical argument. On the other hand, emotional motives imply the selection of goals according to personal or subjective criteria or a feeling experienced by a customer through association with a product.

Previous studies examining consumer motives have identified consumer shopping motives (Tauber, 1972; Babin, Darden, Griffin, 1994; Dawson, Bloch, & Ridgway, 1990; Westbrook and Black, 1985). For instance, Tauber (1972) hypothesizes six personal motives for shopping (i.e. role playing, diversion, learning about new trends, self-gratification, physical activity, and sensory stimulation) and five social motives (i.e. social experiences outside the home, communication with others who have a similar interest, peer group attraction, status and authority, and pleasure of bargaining) based on in-depth interviews. In another study, using personal interviews with 203 female department store shoppers, Westbrook and Black (1985) identified seven shopping motives: anticipated utility, role enactment, negotiation, choice optimization, affiliation, power and authority, and stimulation. In this regard, the motives for buying financial products such as takaful are rather limited or unknown. Understanding consumer motives for buying intangible products is a bit more complex than that for buying tangible products as consumers are not able to physically touch the product offerings.

Motives for Participating in Takaful

Research on consumer motives for participating in takaful is rather limited or unknown. Nevertheless, researchers have explored the factors that influence the acceptance of takaful among Malaysians. For instance, Razak, Yusof, and Ali (2013) found factors such perception, product, features, promotion, benefit and service quality influenced Malaysians' acceptance of takaful. The researchers reported that service quality was the most significant factor as to why Malaysians chose to purchase takaful products. In another research, Rahim and Amin (2011) investigated the determinants of Islamic insurance acceptance by including the role of attitude, subjective norm, and amount of takaful information obtained. The research captured all three factors as predictors of acceptance of Islamic insurance. Further, Md Husin and Ab Rahman (2013) found that the purchase of a takaful policy is not only affected by attitude, subjective norms and perceived behavioural control but is also influenced by moderating factors like demographic variables, consumer knowledge, situational factors and consumer level of religiosity.

Existing studies have mainly examined factors influencing the purchase of takaful plans and have not explored the motives for participating in family takaful. In addition, findings from previous research have been limited to quantitative approaches (Razak, Yusof, & Ali, 2013; Rahim & Amin, 2011; Md Husin & Ab Rahman, 2013) and do not provide an understanding of the issues from the takaful policy holders' perspective. Therefore, the purpose of this study is to explore the motives of Malaysian Muslims for participating in takaful, in particular for participating in family takaful products.

METHODS

An exploratory study was developed to investigate the motives of Malaysian Muslims for participating in takaful. A qualitative approach was employed because it allows tapping the participants' own perspective (Denzin & Lincoln, 1994). The study was conducted on four focus groups involving a total of 10 male and 12 female participants. Participants were volunteers and had to be existing family takaful policyholders (such as investment-linked takaful, child education takaful, or medical and health takaful) and aged between 21 and 60 years. The participants were employed in either the public or the private sector. Participants were briefed about the aims and objectives of the study. The discussion topics included motives for participating in family takaful and participants were asked to give feedback based on their own views. The focus groups were formed in several places around Negeri Sembilan and Selangor, Malaysia. All sessions were tape-recorded and each session took about 45 to 60 minutes.

To analyse the focus group discussion, the method suggested by Casey (1989) was used. All of the focus group discussions were audio taped and transcribed. After the discussions had been carefully typed, the transcripts were reviewed so that the researcher could become familiar with the flow of the dialogue. All transcripts were merged and then all of the answers for each topic and question from all the groups were moved to the same master document. From this master document (which contained all of the relevant responses), the patterns, trends or themes across all of the responses were examined.

RESULTS

For the purpose of reporting the results of the focus groups, the findings are organised by topics that arose during the discussions and that were relevant and pertinent to this study. The aim of the study was to explore the motives of Malaysian Muslims for participating in family takaful. The findings were grouped according to the answers given to a specific question, yielding many opinions and views. The following is a discussion of the findings with the details that support each finding.

Preparation for Rainy Days

In general, the participants viewed takaful as a safety net for when risks go wrong. Takaful can support the life of a family should a member pass on. Participants in this study noted that participating in takaful helps to provide some financial security in times of hardship or that it is a tool that protects family members from the potentially devastating financial losses that can result if the breadwinner dies prematurely. The following are quotes that show their motives for participating in Takaful:

"I purchased takaful to protect my family members when I am gone." (Male, 36 years old).

"There are so many kinds of diseases nowadays, so I bought takaful when I was young and healthy instead of trying to buy it later after I have been diagnosed with an illness." (Female, 43 years old).

"I do not come from a well-to-do family, so I purchased takaful because I do not want to burden my family should anything bad happen to me." (Male, 25 years old).

"I care about my family and should anything happen to me, the takaful that I bought is in place to protect and provide financial relief for my wife and children." (Male, 25 years old).

Education Plan for Children

The majority of the female participants realised that the cost of higher education is increasing and they acknowledged that the child education policy can not only be used to pay for their child's education expenses when the child reaches the age of entry into college (18 years and above) but can also provide assurance that, in the event of the

"I purchased takaful (child education policy) because of my children. If something happens to me and my husband, my children can have protection until they turn 18 years old. The takaful plan will bear my children's education fees." (Female, 42 years old).

"My father took takaful (child education policy) for me when I was young. I could see the benefit when my father used the money to finance my college fees. Now, I purchase similar takaful for my children." (Female, 38 years old).

policy owner's (parent's/legal guardian's) untimely demise, the child will have access to the funds to help finance his or her studies. The following quotes provide the participants' feedback.

Rising Medical Cost and Previous Bad Experience

Participants also bought takaful as they realised that healthcare costs are rising. The Life Insurance Association of Malaysia (LIAM) reported that healthcare costs were rising and would continue to do so at a rate of 15 per cent yearly (Chin, 2016). It was also reported that a majority of those who do not have health or medical insurance are at risk of financial ruin if nothing is done to address the country's high rate of out-of-pocket payments for private-healthcare services (The Star, 2016). According to the Health Minister Datuk Seri Dr S. Subramaniam, Malaysians spend a total of RM45 billion annually on healthcare expenditures, of which nearly RM36 billion is paid with their own money or savings instead of some form of medical insurance. Here is some of the participants' feedback:

"Nowadays, medical costs are very high. So, we do not know when we will be tested and it is very important to have a takaful policy to cover the medical cost." (Female, 43 years old).

"I had a bad experience when I was admitted at a government hospital. I was frustrated with the service that I got and my parents had difficulties in visiting me at that time. Now, by having takaful, I can be admitted at a private hospital in order to get better service." (Male, 28 years old).

Investment or Savings

There are many types of family takaful plans including plans that consider long-term savings and protection policies or plans that are a combination of investment in a variety of Shariah-approved investment funds and takaful coverage which includes death and disability benefits. Previous studies have shown that individuals save for different motives, which include precautionary motives (Hubbard, Skinner, & Zeldes, 1995), retirement motives (Bucks, Kennickell, Mach, & Moore, 2009), life cycle events (Liebenberg, Carson, & Dumm, 2012) and wealth accumulation or profit motives (Canova, Rattazzi, & Webley, 2005).

In this study, a number of participants bought takaful policy for investment or savings purposes. The takaful policy is seen as a good savings tool. It forces participants to save for the future, and also for unforeseen disasters. As such, the motives of participants may be precautionary motives which refers to efforts undertaken by individuals in order to reduce or minimize uncertainties in life. As stated by Wärneryd (1999, p. 270), "Insurance is a remedy against the feeling of uncertainty in the sense that there is preparedness for facing the consequences of the ill outcomes that uncertainty may embody". Therefore, in this study, participants' motive to buy a takaful policy was influenced by precautionary motives as a takaful plan protects against personal risks such as life, health, and disability risks. The following is some of the feedback given by the participants:

> *"The investment-linked takaful does not give high return but I know that I have put aside my money for the future. With this plan, I am more disciplined to save. At least I know the money is invested or is a savings account." (Female, 35 years old).*
>
> *"When I was younger, I thought takaful protection was only meant for death and disability benefits but when I discovered that a takaful plan can also include savings, I purchased a takaful plan for saving purposes, in case something bad happens to me." (Female, 26 years old).*

Debt Payment

In this study, younger participants purchased takaful plans to protect their loved ones from paying off their debts when they die. A takaful plan allows those they leave behind to take care of any lingering financial responsibilities. The following is the feedback from the participants:

> *"I have a debt to PTPN. Due to that, my debt is the first thing I want to cover if I die. In addition to providing income to cover everyday living expenses, my family would need takaful to cover debts like the mortgage so they would not have to sell the house to stay solvent." (Female, 26 years old).*

DISCUSSION AND CONCLUSION

This study explored the motives of Malaysian Muslims for participating in family takaful. With the qualitative approach, the participants indicated that participating in takaful helps them to provide some financial security in times of hardship or acts as a tool that protects family members from the potentially devastating financial losses that can result if the breadwinner dies prematurely. Other than that, realising the rising medical costs and previous bad experience at public hospitals made the participants buy takaful. Participants expected that they would be able to get better services if they were admitted to a private hospital.

In this study, for female participants, participating in takaful family is crucial for their children's education. A child education plan provides the participants protection and long-term savings to finance their children's higher education. On the other hand, participants who were single considered participating in takaful as means of paying their education loan debt in the event of misfortune. Confirming previous findings (Zakaria, Azmi, Nik Hassan, Salleh, Mohd Tajuddin, Mohd Sallem, & Mohd Noor, 2016), this study also shows that Malaysian Muslims participate in family takaful plans for investment or saving purposes.

Also, understanding the underlying motives behind making a purchase is essential to determine the reasons for an individual buying a takaful policy (Hawkins, Best, & Coney (2001). The findings of this study are limited to the reasons people participate in family takaful. Therefore, it is suggested that future research endeavours to investigate the factors impeding the purchase of takaful or conventional insurance as AIA Bhd reported that only 54 per cent of Malaysians have any form of insurance coverage and only 15 per cent of bumiputera have any insurance coverage (Heong, 2015). ■

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I Have A Dream: Waqf Market in Addition to Islamic Banking, Takaful and the Islamic Capital Market

Ahcene Lahsasna
Salihin Shariah Advisory Sdn Bhd

INTRODUCTION

Malaysia can make a difference and a breakthrough in the history of waqf and the Islamic financial market by creating a waqf market. Waqf is undoubtedly a very powerful concept which has a sound structure and flexible features, that create within it a smooth and dynamic mechanism in designing products and services that serve the interests of this world and the Hereafter. There are two major aspects of waqf: the first is related to fixed properties such as land and houses while the other aspect is cash which has the feature of liquidity. However, for waqf to match or merge with the Islamic financial market, I would like to divide it into two types: tangible assets and liquid or non-tangible assets. This classification will ease the operation of waqf according to the marketplace, whereby the tangible assets will come under the management and services portfolio, while the liquid or non-tangibles such as cash and Intellectual Property (IP) will come under the financial market portfolio.

THE IDEA OF WAQF MARKET AND PROPOSED STRUCTURE

The idea is about having waqf as an additional market segment in the composition of a comprehensive Islamic financial market in addition to Islamic banking, Takaful and the Islamic capital market. The waqf market should be structured like the current Islamic

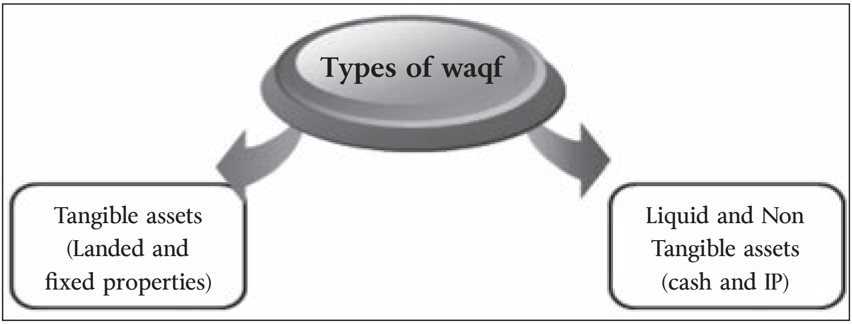

Figure 1: Types of Waqf

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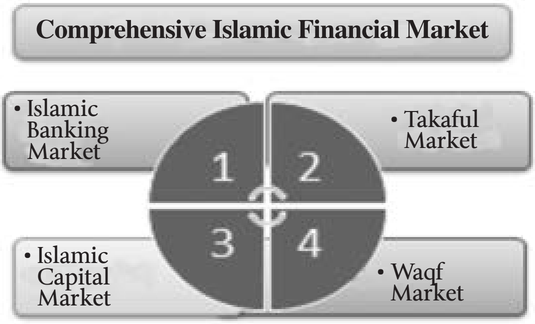

Figure 2: Proposed Financial Market Structure

financial market where regulation is under the purview of the Central Bank and the Securities Commission along with the religious department. The regulatory body will assume the role of supervising, monitoring, issuing guidelines, standards and other related mandates that govern the business operation of the waqf market. The supervisory body should not be involved directly in handling the waqf business and operation in the waqf market, unless the matter is related to the general public and is mandated by the government. Even in such a case, the supervisory body should not be involved directly in the management of the waqf but appoint a third party to manage it.

The waqf market should be opened up to the private sector where every entity will have the right to establish a waqf entity business operation under its own management subject to the licensing granted by the regulatory body (i.e. BNM, SC, religious department). The granted licence shall allow the private sector to embark and operate within the waqf market where more innovations, products and services will be offered to the market targeting many economic and social sectors such as healthcare, education, poverty alleviation, rural development, etc.

REGULATORS AND MARKET PLAYERS

Under this structure, the regulator has the mandate to issue licences to waqf institutions subject to terms and conditions that should be met to ensure a robust and stable waqf market and operation. The regulator which oversights the waqf market is an official body that comprises BNM, SC and the Islamic religious department. The Islamic religious department can get involved either as part of the regulator or appoint the Shariah Advisory Council (SAC) of BNM and SC to act on their behalf and represent them as they have qualified scholars and advisors who are eligible to perform the same functions and responsibilities like those of the Islamic religious department. The SAC can be entrusted to handle the task alone or invite additional members from the Islamic religious department to team up with the SAC and constitute a national council; hence, it will be a combination of SAC and the Islamic religious department. Among the responsibilities of the regulator is to grant licences, enact the laws governing operations of the waqf business, issue waqf standards and guidelines as well as other related governing laws to accommodate and ease the transaction of the waqf business operation in the new market established.

As for the market players, they will comprise corporations, companies, organizations, high net-worth individuals, and others that fit the requirements set by the regulators to establish a waqf business operation. The operation of the waqf institution will be subject to the same requirements of Islamic financial institutions in terms of a Shariah committee, board of trustees, governance, Shariah audit and other related aspects in accordance with BNM and SC guidelines to ensure the safety of the waqf market system. The proposed framework is shown in Figure 3 below:

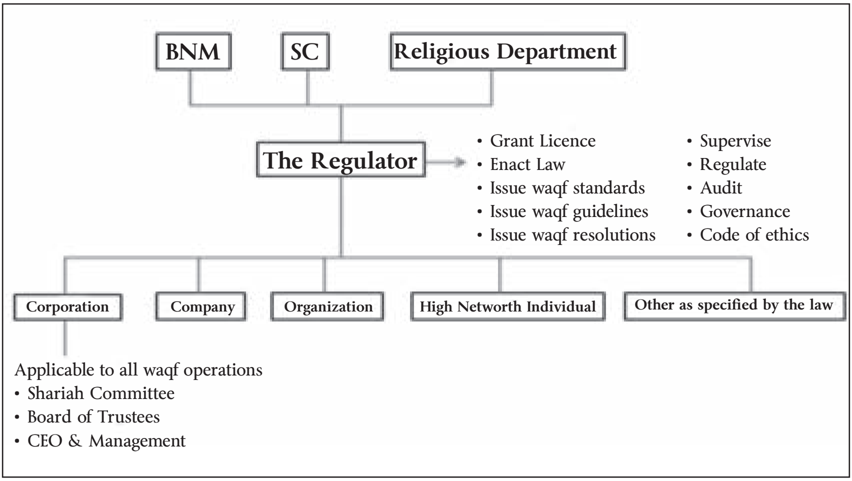

Figure 3: Proposed Framework for Waqf Market

WAQF MARKET COMPETITION AND INNOVATION

When the waqf market is established under a sound regulatory framework and proper guidelines and standards, the market will operate in a very efficient and effective manner where competition exists followed by innovation and business expansion. The market will be more integrated as it will target the interests of both this world and the Hereafter, and as such, the impact of the market will benefit society at large. In this market, commercial interest and social interest will meet, and Value Based Intermediation (VBI) initiated by BNM will be realized.

APPROVAL OF PRODUCTS AND SERVICES OFFERED IN THE WAQF MARKET

Many products and services can be offered to the market under the waqf portfolio. The following are some examples of the products and services that can be offered to the market. Among others are deposits and financing facilities under banking business activities which cover personal financing, debt financing, equity financing and trade financing. There can also be a cash waqf instrument offered in takaful, Re-takaful and micro-takaful. As for investment purposes, the possible products in waqf cover waqf properties investment fund and BOT (Build-Operate-Transfer). In addition, as in the Islamic capital market, there are also some products that can be offered in the waqf market, namely waqf shares, waqf in micro financing, waqf sukuk, Islamic waqf-based business which includes financial planning services, asset management services, custody and safekeeping services, estate management services, Shariah advisory services and others. The list is open for innovation. The innovation comes on the ground whenever there is an operation, competition and need for invention, since innovation does not come out of theory, but must be developed according to future expectations driven by the need and evolution of the market and technology.

It is important to note that the products and services stated earlier should be approved by the Shariah Committee of the approved entity that runs the waqf operation and the regulator who grants the licence before the instruments are offered in the waqf market.

Waqf returns can be channelled in various ways. Figure 4 on the next page shows some examples of where the profits of waqf can be channelled or utilized.

JUSTIFICATION OF THE PROPOSAL

The justifications that make the above proposal doable are as follows:

- Malaysia has a comprehensive marketplace comprising Islamic banking, Takaful, the Islamic capital market, wealth management, private equity, venture capital, Shariah-compliant stock, financial advisory, etc. The comprehensiveness of the existing market can welcome the new market segment.
- Malaysia has a sound legal infrastructure that accommodates the waqf market. This includes IFSA 2013, trust law, and other legal aspects. However, whenever there is a possible

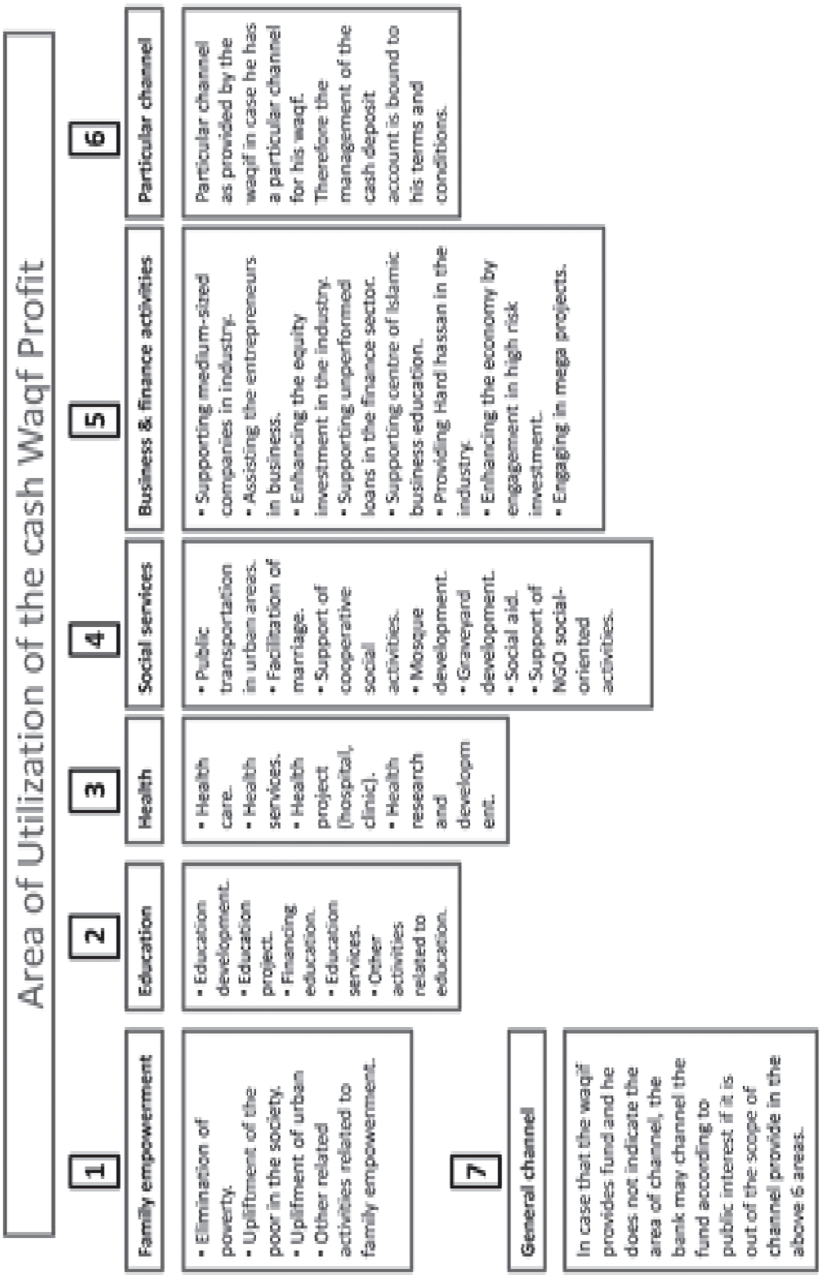

Figure 4: Possible Utilization of Cash Waqf Profit

challenge, it can be overcome through some amendments and enhancements. The Malaysian experience has shown the willingness and commitment of the government and regulators to embark on such amendments when needed to make the market more comprehensive and sophisticated within a safe financial system. The enactment of IFSA 2013 and the harmonization of law committee are a strong evidence of that commitment.

- Malaysia has a solid financial infrastructure and a sound regulatory shelter that includes acts, governing laws, strong corporate governance, standards and guidelines that can provide a sound platform to welcome the new waqf market.
- The availability of expertise and talent in Islamic finance and Shariah in Malaysia will make the country possess the right environment for such a market.
- The internationalization feature that Malaysia has, as it represents a hub in Islamic finance and is a global centre, will attract many international market players such as international institutions and international high-net-worth individuals to choose Malaysia as platform to offer products and services in the waqf market.

THE INCENTIVES OF THE ABOVE PROPOSAL

There are some incentives for the above proposal. I summarize them briefly as follows:

- Move towards comprehensiveness of the Islamic financial market.
- Strengthen the Islamic financial market with an additional marketplace.
- Support social and ethical banking and their financial activities.
- Realize value-based intermediation (VBI) in the market through the waqf market.
- Create an integrated market to increase collaboration, efficiency, innovation and productivity.
- Innovate the marketplace.
- Attract new market players.
- Attract international market players.
- Fulfilment of religious obligations.
- Create more space for investment in the Hereafter.
- Reach non-bankable people.
- Increase corporate social responsibility in society.
- Contribute to the prosperity of society.
- Adjust the market direction by reducing the focus from profit maximization of the shareholder to the benefit maximization of the beneficiaries of the society at large.
- Provide the opportunity to every individual in society to be a part of the waqf market, where every single individual can contribute to this market to create (subject to the minimum cash amount as specified by the regulator; it can even be one Ringgit) a value added to some beneficiaries and secure his or her salvation in the Hereafter by creating a perpetual return to his or her Hereafter account after death.

CAN THE DREAM COME TRUE? AND WHAT ARE THE STEPS?

The dream can come true through taking the following steps:

- Believe in the idea of a waqf market
- Initiate a steering committee that represents a pool of experts from regulators (BNM & SC), Shariah

scholars, lawyers and associations that represent the Islamic finance market and related parties in order to assess and evaluate the idea.

- Evaluate the idea and identify the challenges, the gaps and the risk.
- Draft a concept paper for discussion and deliberation in group discussions with the industry.
- Draft a comprehensive 10-year blueprint and route map.
- Establish a regulatory body that oversights the waqf market (BNM, SC, SAC & Islamic religious department).
- Approve the said proposal and start the execution progressively in stages and phases.
- Engage with ground work such as the enactment of waqf law, amendment of the existing law, issuance of waqf standards, issuance of waqf guidelines, issuance of the requirements for licensing and establishing a waqf operation or waqf operators.
- Grant licence to five entities from selected Islamic financial institutions, government-linked companies, agencies that have strong corporation to test the market for five years.
- After five years, open up the market to local market players where every entity or high-net-worth individual that meets the requirements can establish a waqf operation.
- After 10 years, open up the market to international market players who want to establish waqf operation in Malaysia.

CONCLUSION

In conclusion, the waqf market needs to be introduced as part of the Islamic financial market as a new marketplace, and be highly regulated and governed with similar guidelines, standards and regulations as for the financial market. The easy way to establish this market is to map its structure against takaful operators, and map their business operations and portfolio against Islamic commercial and investment banks. ■

Ridesharing and Carsharing, A Better Option?

Karen Kesawathanny Arukesamy[1]
[1]Sun Media Corporation Bhd

An automobile may be a necessity in a country such as Malaysia as the development of transportation links has not covered the entire country. While Malaysia has made progress in its rail links with the new Mass Rapid Transit (MRT) System, the last mile connectivity still leaves much to be desired. Thus, many young graduates' first major asset purchase would be a car instead of a property. However, with the advent of Grab and the likes of GoCar, Socar, Moovby and drive.my indicates that car sharing is catching on in the country. Car sharing essentially means the convenience of renting a car through smartphone applications for a minimum duration of 30 minutes, an hour, a couple of hours or even for a couple of days.

While the new Malaysian government has promised as part of their manifesto to lower the cost of purchase of an individual's first car and to have a targeted subsidy scheme for owners of vehicles under 1.3 litres capacity based on data to be retrieved through one's identification card, is purchasing a car then justified?

According to research by Navigant Research, worldwide membership in car-sharing programmes will grow from 2.3 million in 2013 to more than 12 million by 2020 as this model of shared personal transport is seen as a potential solution to the global issue of traffic gridlock.[1]

Measurement of vehicle sales is through Total Industry Volume (TIV). In the last two years, TIV has come in at a lower number of 576, 635 units in the year 2017 and 580,085 in the year 2016. Prior to these years, new car sales had been in the 600,000 units bracket. Annually, another 400,000 units are sold by second hand car dealers.[2] The Malaysian Automotive Association forecasts TIV to grow by 2.3% to 590,000 this year.This is after a second year of decline in new vehicle sales.

Malaysian authorities have suggested numerous times that the lifespan of cars be restricted to a certain number of years, a policy which was not popular with the masses and has never been introduced. In fact, vehicles that are not roadworthy are left abandoned

[1]**https://www.navigantresearch.com/newsroom/carsharing-services-will-surpass-12-million-members-worldwide-by-2020**
[2]**https://themalaysianreserve.com/2018/02/19/used-car-market-losing-competitive-edge/**

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Total Industry Volume Since January 2017

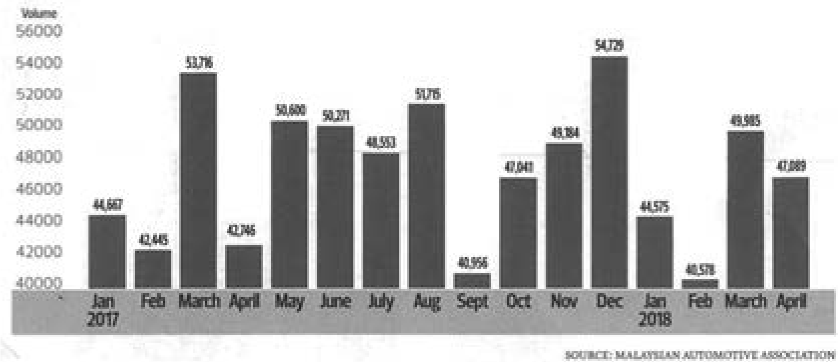

Figure 1: Total Industry Volume Since January 2017

with little or no action taken by the respective municipal councils, creating nuisance to the populace. Having valid road tax would mean that all vehicles ought to be used or even if left idle, should still be taxed. Should one desire not to use such vehicles, a scrapping policy which is practised in developed countries needs to be introduced. Only such a move will then not dampen overall sales of new or used vehicles each year.

It was reported recently that many of the vehicles on the road do not have a valid road tax. This issue is simply mind boggling. Not only is it risky, any damage would significantly wipe out one's finances almost instantly. All this just to save a little bit of money by not buying an insurance for the vehicle.

HIRE PURCHASE FINANCING

Latest statistics in Malaysia reveal that personal loans have overtaken hire purchase as the main reason for bankruptcy in Malaysia. While hire purchase is second in this regard, it is still a core financing instrument most Malaysians undertake. This is especially so among younger consumers. With the automotive sector to benefit from the tax holiday, between 1 June 2018 until the reintroduction of the SST tax on the September 2018 in Malaysia, the auto sector is anticipated to witness robust growth.[3] One has to bear in mind that upon conclusion of the "tax holiday" period, some auto makers may absorb the price increase of their make to entice and commercial vehicles should witness a reduction in price. In the longer term, the new government plans to reduce the excise duty for imported cars

[3]**http://www.theedgemarkets.com/article/automotive-benefit-zerorated-gst**

	Perodua Viva	BMW316i
List price	RM24,936	RM209,800
Advertised interest rate	3.38%	2.53%
Loan period	9 years	5 years
Instalment	RM271/month	RM3,545/month
Total interest paid	RM6,827	RM23,886
Total interest paid/price	27.38%	11.39%
True APR	6.14%	4.79%

SOURCE: THE STATE OF HOUSEHOLDS (2014) KHAZANAH RESEARCH INSTITUTE

Figure 2: True APR for Cars

below 1,600cc for first car purchases by households with a monthly income below RM8,000, which could lead to improved sales of imported cars.[4]

Against this backdrop, one needs to understand the various financing options available to a consumer. Apart from the traditional financing route of banks, vehicle purchases could be financed by Non-Banking Financial Institutions (NBFIs), credit companies and even by vehicle manufacturers.

Figure 2 which provides a comparison of the true Annual Percentage Rate (APRs) paid for a Perodua Viva and BMW316i paints a clearer picture of the differences in the cost of borrowing borne by different income groups. While monthly payment of RM271 for a Viva may seem affordable, the reality is that the buyer pays more than a quarter of the purchase price in the interest payment. Comparatively, interest payments for a BMW 316i amounts to just over 10% of the purchase price.[5]

As an example, financing for two wheelers is undertaken by AEON Credit, a company that has recorded better outturn of profits at the financial expense of young consumers who may not be aware of the implication of undertaking financing by the lender. Worse, NBFI financing provides no actual data of the borrower's credit ability as this information may not be reflected in an individual's Central Credit Reference Information System (CCRIS) or Credit Tip Off Service (CTOS) reports. Among the better known lenders are Boustead Holdings. The inability to afford a loan may not be a known fact to a consumer. With a prenotion misconception that one can afford to pay, a consumer undertakes such commitment.

[4]https://www.keadilanrakyat.org/wp-content/uploads/2018/03/BUKU-HARAPAN-.pdf

[5]http://www.krinstitute.org/The_State_Of_Households-@-Chapter_4-;_Housing_and_debt.aspx

Manufacturers such as BMW, through BMW Credit Sdn Bhd, provides financing for the purchase of their make of vehicles. Interestingly, *balloon financing* allows an individual to own a car for five years and at the end of the tenure, to return the car to BMW at a pre-agreed amount. As an example, an individual who may not have the financial ability to afford such a luxury could pay an upfront payment of RM50,000 for a BMW 330e M Sport at RM234,000 and then pay a monthly payment of RM3,500 for five years. At the end of the five-year tenure, the individual can return the car to BMW (at the projected market value of RM90,000). Certainly, the hidden cost of financing is much more than known to the buyer.

It should be correctly pointed out that despite reports of the increased of cost of living and depressed wage growth that Malaysians have been facing, the sales of luxury vehicles of Mercedes and BMW have been on an upward trend. In the author's view, this is due to the need for a status symbol, prevalent in many other countries as well. A status symbol is normal consumer behaviour which trades value with status, and it cuts across culture and geographic locations, perhaps differing in the type of desired object.

According to the Malaysian Institute of Economic Research (MIER), the Consumer Sentiment Index (CSI) saw an improvement in the first quarter of 2018 at 91 points (below the confidence threshold of 100) Vehicle value depreciates faster than it used to. As an example, Malaysia's favourite MyVi has improvised its features with the new units selling at a lower price than in the years past. This affects the real value of such cars. Interestingly, Perusahaan Otomobil Kedua Sdn Bhd (Perodua), the manufacturer of MyVi, had more than 1/3 of the new car sales annually with over 200,000 units per year. As for the first fiscal quarter ended March 31, MBM Resources Berhad (MBMR), an automotive group with diverse investments in the automotive industry, saw higher sales, given strong demand for the Myvi.

Proton, meanwhile, with its lacklustre sales performance, has also launched special financing packages with Hong Leong Bank. Meanwhile Germany's automotive powerhouse, Volkswagen, is known for its creative 0.88% interest charges as part of their marketing ploy.

One needs to understand the Effective Annual Interest Rate of a hire purchase loan on a 0.88% interest loan is actually close to almost 3% of the interest charges. (This depends on the number of years of financing). A fresh graduate would then be bogged down by loan debts should a car be part of his immediate asset purchase.

Based on the stated or nominal rate for a given period, such as an annual interest rate, the effective rate is calculated by incorporating the impact of compounding interest periods into the stated, nominal rate. The effective interest rate formula is calculated like this[6]:

Effective Interest Rate Formula

$$\text{Effective Rate} = 100 \times \left(\left(1 + \frac{(\text{Stated Nominal Rate} \div 100)}{\text{Number of Periods}} \right)^{(\text{Number of Periods})} - 1 \right)$$

The purpose of calculating the effective rate of any financial instrument is to gain an accurate understanding of the true interest earned or paid over a period of time. While a financial institution may offer something like a mortgage loan with an annual percentage rate of 4.5%, it's critical to understand that the number of periods the interest is paid during the annual term will impact the true effective rate of the loan.

When an auto loan is settled before maturity, the Rule of 78 could be applied whereby fixed interest/financial charges are offset by a rebate. In a hire purchase or personal loan, a financier will gain a higher interest payment in the immediate months of the purchase having taken place. A consumer who wishes to settle the financing amount can save a considerable amount. Interestingly, companies like Boustead Credit Sdn Bhd provide better rebates for such full settlements.

Let's say you take up a loan of RM10,000 for 1 year with an interest rate of 8.88% per year. The interest amount would be RM888 (RM10,000 x 8.88% x 1 year). The loan would then amount to RM10,888 (principal and interest) with a repayment of RM907.33 per month across 12 months.[7]

When the Rule of 78 is applied to the loan, instead of spreading the cost of interest evenly throughout the repayment duration, banks apportion the majority of interest at the beginning of the loan. Clearly this is in the best interest of the bank as they are protected against consumers that want to settle early, but bad for consumers that want to settle early or wish to refinance.

The formula to calculate interest to be paid every month under the Rule of 78 is:

$$\frac{(\text{Total no. of months} - \text{No. of months already paid}) + 1}{\text{Sum of no. of months}} \times \text{Total Interest Payable}$$

$$\frac{(12 - 6) + 1}{(1 + 2 + 3 \ldots + 12)} \times (8.88\% \times 10{,}000)$$

Note:
personal loan calculation for a 12 month loan of RM10,000 with an interest rate of 8.88%

MULTI-FLEXES TRAVEL OPTIONS

The concept of multi-flexes options is thriving in Europe and the UK. The concept allows a consumer the freedom of optimising his travel by interchanging

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[6]https://www.myaccountingcourse.com/accounting-dictionary/effective-interest-rate
[7]https://www.comparehero.my/blog/decoding-the-rule-of-78

between train rides, ride-sharing, bicycle sharing or even renting a vehicle hourly. The advent of ridesharing has brought numerous benefits to consumers the world over. Getting from Point A to Point B via ridesharing options is best used for short single stop trips. The current government of Malaysia has also promised to allow on-demand motorcycle ride taxi service platforms as is available in numerous Asian cities as one of the modes of multi-flexes travel option.

In Malaysia, Grab is the main player, having bought the San Francisco-based Uber platform in early 2018. There are other smaller players including EZCab (has a download of 10,000 users) and the lesser known MyCar and newer players eevom (allows advance booking), and MULA.

A good majority of people use Grab as a last mile connectivity option. The rates may not always be very cheap; however, with proper planning, it could have beneficial cost savings in the long run. A basic car with upkeep maintenance and monthly repayments will set a user back by RM14,000 annually. (It is estimated that RM70,000 is needed to own a basic car for five years.) Therefore, usage of ridesharing and combining this with hourly carsharing, and other multi flexes would be a good option as it gives users the flexibility of choice as well as savings on parking, time and also better quality of life.

At present, there are four main hourly rental companies. These are GoCar, SOCAR, Drive.My and Moovby. The intention of all the players is to help consumers complete the last leg of their journey. These on-demand car sharing platforms, some of which also allow peer-to-peer lending are means to enable a more diverse travel option for consumers.

Moovby had the first mover advantage and allowed peer-to-peer lending. Meanwhile, Kwikcar's founders found renting a car in Malaysia to be an expensive proposition, thus the idea of peer-to-peer sharing was introduced. Malaysia has the third largest car ownership ratio in the world.[8] GoCar has a very similar storyline and functions in the same manner as the existing two players.

SOCAR, intending to replicate their success story in South Korea where many consumers have embarked on using such a platform, found Malaysia's capital of Kuala Lumpur their ideal launch pad. The rates charged for an hour's usage of a basic car is fair and this is inclusive of petrol charges. While the coverage areas are still limited within the Klang Valley, this would eventually change should consumers adapt to this change.

[8]http://www.nielsen.com/my/en/press-room/2014/rising-middle-class-will-drive-global-automotive-demand.html

SOCAR and GoCar provide brand-new car fleets for their car-sharing services. SOCAR charges RM8 per hour for its cheapest model, a Perodua Axia, while GoCar charges RM14.90 per hour for its cheapest model, the Nissan Almera.[9]

CONCLUSION

It is fair to conclude that a vehicle is a necessary travel need. However, with the developments seen in Malaysia, options are aplenty for an individual to choose his or her mode of travel. This would, in my view also ensure a more healthy populace if bike sharing is also part of the equation and certainly one's financials could be in a more healthy position with the options made available. Among the young, the lack of knowledge of hire purchase financing, Rule of 78 and other basic financial knowledge is a cause for concern.

Whether it is carsharing or ridesharing or even for a person who already has a car, such platforms could help alleviate the high cost of living. Rather than leaving a car idle in the porch, earning money by the way of renting out may be the choice for some. Car sharing certainly helps in avoiding the burden of a car loan especially for the young. This trend would be more prominent in years to come in this country and the whole of South East Asia. ■

[9]**http://www.theedgemarkets.com/article/smart-mobility-car-sharing-catching-malaysia**

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The Colour of Inequality: Ethnicity, Class, Income and Wealth in Malaysia

Mohd Zul Alwi bin Mat Adam

Title : The Colour of Inequality: Ethnicity, Class, Income and Wealth in Malaysia
Author : Muhamed Abdul Khalid (2004)
Publisher : Kuala Lumpur, Malaysia, MPH Publishing
No. pages : 249
Price : RM40.00
ISBN Publication : 9789674152147

Does anyone recall the heart-breaking scene of William Defoe as Sgt Elias missing the helicopter rescue while running away from the battlefield in Vietnam in the movie *Platoon*? Or maybe the opening scene from the movie *Dunkirk*? The scenes reflect exactly what I felt after reading the book *The Colour of Inequality* written by Dr Muhammed Abdul Khalid.

Someone is missing the boat. That is the theme of the book.

This book is about economic inequality. Malaysia has progressed a lot since the early days of its independence in 1957, and to date has overcome many challenges in the transformation towards becoming a developing nation. Malaysia has made a lot of progress in the shift from an agriculture-based economy, then to an industrial economy and later to a service-based economy. The question is, how has all this benefited the people? Some might enjoy the fruits, but the majority have missed the party.

While the many economic achievements seem to be very positive, we can see their direct impact. But one also notices the divergence of the result in which the inequality also widens. So, these are the overwhelming issues that need to be discussed further as presented in the book.

Chapters 1 and 2 set the foundation to our comprehension of the inequality issue, which is the history of why it happened. At first, I was astonished to read how eloquently the author put everything in pieces, not just the numbers but the background to the issue. The immigrant mindset of temporary living for the Chinese and Indians, and largely the Chinese, influenced the accumulation of wealth by ethnicity. This, while the Bumiputera settled comfortably on their own land felt no pressure to accumulate wealth, having the "having enough" mindset or *"kais pagi makan pagi, kais petang makan petang"* mindset. While the immigrants were accumulating wealth to bring back to their original homeland, their next generation did not share the same goals. When they were absorbed to become citizens of Persekutuan Tanah Melayu and Malaysia later on, they were already ahead in terms of wealth.

This is very important to understand why inequality occurred in the early days and as to determining what to do next. The New Economic Policy was introduced to close the inequality gap. Although it was quite impactful, it still failed to close the gap.

Another point that needs to be highlighted is the connection between the usage of income and wealth inequality. As the book clearly explains, wealth is transferable while income is not. And wealth has a compounding effect. Second, ownership of wealth also significantly contributes to income. Hence, the better parameter to use is wealth compared to income, and it is proven valid because the wealth inequality Gini coefficient is higher than income Gini coefficient. The author supports the arguments with another factor, which is leverage accessibility, political and economic power, and socio-political related problems.

Chapter 3 provides the details of the arguments in Chapter 2. The discussion revolves around the depth of inequality, by ethnicity. One of the glaring facts is the fact that the ethnic Chinese has 2135 times the amount of financial assets than their Malay counterpart, and an Indian has 1296 times the amount of the Malay. Although it is a known fact, the numbers are indeed worrying. 72% of those who have no financial assets are Bumiputeras, followed 21% Chinese and 7% Indians.

However, within ethnicities, the disparity continues. It is shown that those who have zero financial assets are 66% Indians, 64% Bumiputeras and 56% Chinese. The numbers show that the majority of Malaysians have no savings, no investment assets, and no financial assets. It is within ethnicities that the wealth is unequal, the rich minority having most of the wealth while the poor majority lack it.

Chapter 4 tries to find the answer as to why the gap occurs in a more comprehensive manner. Age, education level, and occupation are used to get a clear picture. As for education levels and occupation, it is very much expected that the wealth is proportional. An interesting fact lies where the age cohorts, where the disparity actually starts very early at age 20, in which the ethnic Chinese possesses RM163,000 which is on average 3.31 times more than a Bumiputera. Since it is quite impossible to attach such wealth at such a young age, inheritance might be the factor.

Another interesting fact is the education level comparison which shows the same pattern, but the author suggests and proves with World Bank economic research that it might be the hiring policy and unexplained premium of wages for the Chinese that contributed to that result.

The author then discusses the reason why some existing government policies are unable to close the gap. While the NEP somehow achieved some success in improving Bumiputera wealth and well-being, the implementation was somewhat of a failure. The author provides interviews with the Implementation Coordination Unit (ICU) at the Performance Management and Delivery Unit (PEMANDU) where the responses given were quite surprising. There was no initiative to combat the issue of the widening wealth gap issue among Bumiputera as now the policy was not in place any more and could be said to have been abandoned. For the purpose of clarification, PEMANDU ceased to exist with the formation of the new Malaysian government in May 2018.

This failure however is further amplified by a few other factors such as the weak pressure groups of political parties. The author highlights that these political-based parties championing the rights of the Malays had no solid plan and strategy on how to tackle the issues. Another factor is the implementation failure at GLC level, as GLCs faced the conflict in terms of managing with absolute corporate governance or having Bumiputera friendly policies in place.

Chapter 5 discusses the way forward and solutions to the issues. The review of the current existing policies was done to study the impact of the inequality, both between classes and ethnicity. The strongest factors that encourage the inequality were identified as tax structure, education policy, and asset prices.

The tax structure argued to favour the rich more than the poor by the means of the relaxation of the Real Property Gains Tax (RPGT), zero cost transfer for inheritance, and the ceiling limit for income tax brackets. I feel the author opines that acquiring property is seen as rich people accumulating wealth activities rather normal property ownership. That is why he includes the exemption of RPGT for the first time and between families as part of the argument.

However, I do agree that zero inheritance cost and capital gains tax do give advantages to the rich and contribute to the inequality. However, things should not only be assessed from one point of view in order to plan for a sustainable fiscal policy for the nation. Perhaps there are reasons why it was decided this way before.

Asset prices show no sign of retreating, with the last 10 years showing a very sharp rise in the property market. Homes are becoming unaffordable to many Malaysians, thus favouring the rich and marginalising the poor even more.

Another factor is the education policy. With the abolishment of the quota system and the implementation of meritocracy, the inequality will remain if not widen even more. Because many Bumiputera cannot afford the cost of higher education, scholarships and loans were introduced. But the issue to be faced later on is that fresh graduates will have to pay debts, while their rich friends have no debt, thus again not solving the wealth inequality problem.

CONCLUSION

The book has successfully clarified the issue of inequality through solid root cause analysis; in-depth factual comparison by classes and ethnicity; proof of existing, underlying, and emerging problems; and suggestions to solve the issues practically by using a three-faceted approach. The three-faceted approach comprises institutional reforms, easing asset acquisition for the bottom social structure, and addressing the massive concentration of wealth in the richest Malaysians. Other key action items are tax reforms and educational policy change.

This book must be read with a prerequisite. You must have a clear heart and mind to accept the fact that is presented with the passion to help further close the inequality gap. Nothing is to be taken personally when any ethnic group is mentioned because if Malaysians are passionate enough to help solve our nation's problems, then Malaysians must do the necessary things regardless of background. As many Malaysians now have indicated hope through the new Malaysian government, it is my view that the future could be more promising and the issue of inequality will be given proper address. ■

The Wealth Elite

Anuar bin Shuib

Title	: The Wealth Elite
Author	: Rainer Zitelmann
Publisher	: LID Publishing Limited in 2018
No. of Pages	: 422
Price	: £24.99 in UK and $34.95 in US
ISBN Publication	: 9781911498681

This book should not be missed as a study as extensive as this has not been done before. Most of the other books used by most readers who wish to be rich are only motivational books and strategies to achieve success and are not for understanding thoroughly wealthy individuals and how they become wealthy.

The *Wealth Elite* was published as a result of a doctoral thesis by Dr Rainer Zitelmann which was submitted to the Faculty of Economics and Social Sciences at the University of Potsdam in the winter term of 2016/2017 and was awarded the distinction 'magna cum laude' with the supervision of Prof. Dr Wolfgang Lauterbach and guided by Prof. Dr Gerd Habermann. The research project "Wealth in Germany" is the first empirical research project to address the genesis of wealth research which recorded in-person interviews with 45 multimillionaires and billionaires conducted between September 2015 and March 2016.

All the interviewees involved acquired their fortunes on their own and not by inheritance. The net worth of two-thirds of the interviewees ranged between 10 million and 1 billion Euros. The behavioural patterns associated with these individuals have contributed to their enormous financial success. Understanding their behaviour will satisfy wannabe millionaires and billionaires who have long been looking for such a publication.

Among the behaviour discussed in this publication includes elevated risk propensity, high level of optimism, clear focus, swimming against the current and decision-making led by gut. The individuals interviewed possess the quality of being able to sustain their success over an extended period of time and among them are those that belong to one thousand richest persons on earth.

This book is long-awaited literature to help the layperson understand the qualities that belong to the Wealth Elite of the planet. According to a study published in 2015, among the billionaires, self-made billionaires grew globally from only 43% in 1995 to 66%

in 2014 (Billionaires: Master Architects of Great Wealth and Lasting Legacies-UBS and PWC-2015).

The research methodology used is appropriate as such wealthy people do not easily provide their personal information, especially that which is related to their wealth. As such, the quantitative method, if applied, will not give us the result we are looking for. However, even using the qualitative methodology, the author found it an uphill task as most of them will not be interested to divulge their personal information to outsiders, especially their peers.

The author discusses extensively the findings of several doctoral dissertations and collections of essays before he proceeds with the right approach to conduct the research into this area as most publications available in the market are more about self-motivation to be rich but none of them really offer a real guide as to how Ultra-High-Net Worth Individuals (UHNWIs) conduct themselves.

The book is in two segments. Part A comprises Chapter 1 to Chapter 7 and discusses academic research done and all the theories related to elites in our global economies, the traits of these individuals and how these help them become part of the elite group of the world economy today. This area is extensively covered to make the readers really understand how the elites of our economy position themselves. Issues discussed consist of their education background, the early years of their development, family background and characteristics associated with their success. In Part B which comprises Chapter 8 to Chapter 20, the author interestingly shares the answers derived from the interviews and this really helps readers to understand the characters of The Wealth Elites (Elites) and how they conduct themselves and what makes them able to be the Elites. The author gives his conclusions in Chapter 21. Questions used by the author are included in the the appendix and the bibliography comes thereafter.

Chapter 1 discusses and reviews existing research studies, among them being research done by Thomas Druyen and Wolfgang Lauterbach in which they explored the sub areas of wealth on social structural, culture and psychology/ethics. Much of the other research findings available are discussed to give readers better understanding of the Elites. Earlier research did not explain the Elites discussed in this book.

In Chapter 2 the author provides a definition of “elites” as discussed in the book. “Elites” are defined as those who are self-generators of wealth, meaning they did not become wealthy as a result of inheritance. They comprise the group that achieves success accumulating wealth by themselves and not through inheritance.

Chapter 3 focuses on entrepreneurship research, among which is that conducted by Sombart, Schumpeter and Kirzner on the mental traits related to the characteristics of entrepreneurs who are categorised as the conqueror, the organizer and the trader. The personality traits and goal setting of this group may surprise readers as most reading available places goal setting as dominant in order to be a successful person although others such as self-efficacy and nonconformism have been found to be more important.

Chapter 4 zooms into the behaviour of the Elites to challenge some learning theories, among which is the "Homo Economicus" model assumption. Very interestingly, gut decision is considered the prime contributor to their success while non-formal learning is found to be a great contributor to the Elites in helping them to have the right gut feeling regarding any important decision.

Chapter 5 explores the issue of happenstance as many Elites will simply answer when asked how they managed to be so successful, and surprisingly they will say that they happen to be lucky persons. The reason they mention luck is to avoid the envy of others. Opportunity may knock at the door of each individual but not everyone accepts the opportunity, thus understanding the opportunities is important. Today, the massive fortunes of the 19th century have been largely depleted and almost gone. This means that if a person inherits wealth and doesn't know how to manage it and grow it, it will be useless.

Chapter 6 challenges the personality theories which were introduced as early as the 1930s. A famous one developed by Paul T. Costa and Robert R. McCrae is systematically named the Big Five Model. The model discussed five traits which are Neuroticism, Extroversion, Openness to Experience, Agreeableness, and Conscientiousness. In the context of Agreeableness, the author found that almost all Elites are the kind of persons who find it hard to agree with other people's opinions.

Chapter 7 discusses the methodology used and as most Elites don't really like others to really know their net wealth, the author got to place the amount of their wealth into net worth bands to avoid questioning them on very sensitive information about their net worth.

Part B which consists of Chapter 8 to Chapter 21 is where readers can really get the feeling of facing the Elites themselves. Some of the questions and answers recorded during the interviews with 45 Elites between October 2015 to March 2016 are presented to give readers the right feel of how they sincerely answered them. Each of their answers helped the author to understand how the Elites perceive and position themselves.

Readers who are looking for a guide to become multimillionaires or billionaires will not want to miss the opportunity to digest this book. Understanding how the Elites make their decisions and perceive opportunity can help one to use it for their own self improvement and to live better lives. ■

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Journal of Wealth Management & Financial Planning (JWMFP)

Journal of Wealth Management & Financial Planning (JWMFP) is a peer-reviewed research and practitioner journal, published annually by Malaysian Financial Planning Council (MFPC). The aim of JWMFP is to establish an academic and practice guide for the fast-growing Financial Services industry.

The Journal comprises research papers in the various aspects of wealth management and financial planning by academicians and practitioners in a number of fields, providing research-based benchmarks and studies for public, corporate and academic reference.

JWMFP features original research and conceptual effective approaches to education and practice concerning all aspects of financial planning and management. The Journal covers the entire spectrum of the Financial Services industry i.e. Insurance, Unit Trusts, Stock Markets, Wealth Management, Banking, Macro Economy, Infrastructure and IT, Practice Management, etc.

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Font Times New Roman, size 12, single space.

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References

The Journal of Wealth Management and Financial Planning adopts The Publication Manual of the American Psychology Association (APA) (6th Ed.) in terms of style and format. The APA Manual is available in bookstores or from the APA online at www.apa.org/books. Summaries of the APA style and format guidelines also are available from a variety of Internet sources. The following guidelines may be helpful:

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Should Smith be cited again in this same paragraph, it would not be necessary to again cite the date (1999).

"This problem has been studied previously (e.g., Black *et al.*, 1998; Smith & James, 1999; Jones, Smith, & White, 2001)."

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The list of references should appear at the end of the main text (after any appendices, but before tables and legends for figures). References should be one and a single space and listed in alphabetical order by author's name. Articles by the same author should be listed in descending order ranked by least current date and where applicable, alphabetized by the second author. Hanging indents should be used in the reference list.

Below are selected examples although the manual offers many examples for the different print and media publications.

Books

Silva, F. (1993). Psychometric foundations and behavioural assessment. Thousands Oaks, CA: Sage.

Chapters in a Book

Roszkowski, M.J., Snelbecker, G.E., & Leimberg, S.R. (1993). Risk tolerance and risk aversion. In S.R. Leimberg, M.J. Satinsky, R.T. Leclair, & R.J. Doyle, Jr. (Eds.), *The tools and techniques of financial planning* (4th ed., pp. 213-226). Cincinnati, OH: National Underwriter.

Journals Paginated by Issue

Archuletta, KL., Grable, J.E., & Britt, S.L. (2013) Financial and relationship satisfaction as a function of harsh start-up and shared goals and values. *Journal of Financial Counselling and Planning*, 24 (1), 3-14.

Print Articles Retrieved from an Internet Source

Garmaise, E. Long-run planning, short-term decisions: Taking the measure of the investor's evaluation period. *Journal of Financial Planning*, 19(7), 68-75. Retrieved August 23, 2007, from http://www.fpanet.org/journal/articles/2006_Issues/jfp0706-art8.cfm.

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All symbols or mathematical sentences should follow the correct format. Mathematical equations have to be prepared using Math Type. A single mathematical symbol can be done by inserting symbol in Microsoft Word. Each mathematical sentence should begin at the first tab after skipping one line. If it is referred to in the texts, the equation should be numbered in the bracket and right aligned.

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The News and Views section is a practitioner-focused section covering Malaysian, Asian and international economic, business and financial issues.

This section aims to deliver relevant, essential and current market information and views relevant to our readers. The focus of the articles should be to help financial planners better serve their clients and contribute to the common good of the Financial Planning industry.

"News" includes any financial-related news comprising any aspect of financial planning, wealth management, investment banking, and regulatory changes. It should be of general interest or a current issue affecting the marketplace.

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- Number of pages Price (if applicable)

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Robert T. Kiyosaki (2012). *Retire Young Retire Rich: How to get Rich Quickly and Stay Rich Forever!* NY, USA, Warner Books, 376 pages. US$9.73.

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About MFPC

MFPC is an independent body set up with the noble objective of promoting nationwide development and enhancement of the financial planning profession. MFPC provides an evolving set of Best Practice Standards and Code of Ethics that must be adhered to by Registered Financial Planner (RFP) and Shariah RFP designees. This requirement is aimed at ensuring that the public will be served with the highest quality of financial planning services. MFPC was registered on 10 March 2004 under the Societies Act 1996.

MFPC is proud to have received numerous awards. In 2014, MFPC received Honourable Commendation in the UNESCO Wen Hui Award for Educational Innovation in recognition of its Financial Planning awareness programmes. In addition, in September 2015, MFPC was awarded the Best Islamic Finance Education Provider by the prestigious Global Islamic Financial Awards (GIFA). Subsequently, in June 2016, the World Education Congress Global Awards awarded MFPC the Best Educational Institute in Banking and Insurance. Further, our Shariah Registered Financial Planner was recognized as the Best Islamic Finance Qualification 2016 by the GIFA Awards Committee.

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The Registered Financial Planner (RFP) programme was launched by the former Governor of Bank Negara Malaysia, Y.Bhg. Tan Sri Dato' Sri Dr Zeti Akhtar Aziz in November 2002.

The RFP designation was approved by Bank Negara Malaysia (BNM) in March 2005 as the prerequisite qualification to apply for the Financial Adviser's Licence and Financial Adviser's Representative Licence. The Registered Financial Planner (RFP) designation was also approved by Securities Commission Malaysia (SC) in November 2005 as one of the qualifications to apply for the Investment Adviser's Licence under the Securities Industry Act 1983.The RFP designation has also been approved by the SC for the application of the Capital Markets Services Licence (CMSL) with the implementation of the Capital Markets and Services Act 2007.

The RFP serves as a mechanism for the MFPC to help fulfil the national objective of making Malaysia a Centre of Educational Excellence. The RFP signifies the twin pillars of professionalism in financial planning – Professional Education and Practice Excellence.

Most importantly, the concept of the RFP is defined by Malaysians. As of September 2012, RFP designees are licensed Private Retirement Scheme (PRS) distributors/consultants. The Federation of Investment Managers Malaysia (FIMM) which regulates PRS consultants grants RFP designees automatic recognition as PRS consultants.

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- Module 5 : Shariah Estate Planning
- Module 6 : Retirement Planning
- Module 7 : Applications in Shariah Financial Planning

Financial Planning Awareness Programmes for Undergraduates, Practitioners and Public

MFPC continuously promotes awareness of the value and importance of financial planning and financial planning services, and works towards elevating the financial planning literacy of Malaysians. Towards this end, we regularly conduct financial planning awareness workshops and programmes for undergraduates, practitioners and the public nationwide. These include our Financial Planning Workshops (My Money and Me) and our Shariah Financial Planning Awareness Programmes. ■

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