

# Participation in Islamic Insurance: Why am I not in Yet?

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## ABSTRACT

This study aims to describe the characteristics of Bumiputera participants and non-participants in takaful and examine the reasons for non-participation in any form of family takaful plans. To achieve the study objectives, a total of 390 survey questionnaires were analysed using convenience sampling and three focus group discussions were conducted. The findings show that demographic variables, that is, gender, marital status, income level, and education level determine participation in family takaful. Also, people were put off participating in any forms of family takaful for financial and non-financial reasons. This paper makes contributions by briefly discussing several recommendations to increase takaful participation among the Bumiputera community. The findings of this research paper related to Islamic insurance can be used to formulate appropriate marketing strategies to attract non-participants of family takaful.

**Keywords:** Family Takaful, Takaful Non-Participation, Takaful Participants

## INTRODUCTION

Takaful is the Islamic form of financial protection, similar to insurance, that complies with Shariah principles. Malaysia has achieved significant milestones in the development of its takaful industry. The first takaful company was established in 1985 with the enactment of the Takaful Act 1984. Since then, Malaysia's takaful industry has been gaining momentum and increasingly recognised as a significant contributor to Malaysia's overall Islamic

financial system. From an initial asset base of just MYR 1.4 million (USD 360,000) in 1986, the asset base of Malaysia's takaful industry has grown to a staggering estimate of MYR 23 billion (USD 5.9 billion) in 2014 (Ernst & Young, 2015).

Takaful insurance products command a niche market estimated at MYR 6.3 billion (USD 1.6 billion). From 2009 to 2014, the takaful segment saw encouraging growth of net contributions of 12.4 per cent Compound Annual

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Growth Rate (CAGR), much higher than that of conventional insurance at 7.81 per cent (Ernst & Young, 2015). The overall insurance penetration rate is 55.7 per cent and the industry aspires to target life/family takaful insurance penetration rate to be 75 per cent by 2020. Specifically, the market penetration rate of Malaysia's family takaful sector is just 14.5 per cent in comparison to conventional life insurance's market penetration rate of 41.2 per cent.

Malaysia's population is over 30 million and comprises various ethnic groups: Bumiputera (68.8 per cent), Chinese (23.2 per cent), Indians (7.0 per cent), and others (1.0 per cent) (Department of Statistics Malaysia, 2017). According to Bernama (2016), while only a little more than half of Malaysians (55.7 per cent) have any form of insurance coverage, up to 90 per cent of life-insured Malaysians are under-insured. More worrying, the gap is worse within the Bumiputera community with only 15 per cent of the community having any form of insurance (Heong, 2015). This situation is disturbing, given the fact that Bumiputeras earned an average of MYR 5,548 (USD 1,420) monthly in comparison to the Chinese (MYR 7,666 or USD 1,960 per month) and the Indians (MYR 6,246 or USD 1,595 per month). Being under-insured means that if something untoward happens to the policy holder who is most likely the breadwinner of a household,

the available money they can spend on their family will probably last for a year or two. The sudden loss of a main wage earner results in potentially damaging 'domino effects' with dire financial consequences. It may result in the inability to pay off mortgage, debts or children's education (Life Insurance Association of Malaysia, 2014). The consequences for those who do not have any form of insurance will be worse.

While previous studies have examined factors that contribute towards participation in takaful (Ayinde, 2012; Kamil & Mat Nor, 2014; Md Husin & Ab Rahman, 2013; Amin, 2012), this study takes the approach from the perspective of non-participants and attempts to achieve the following objectives: 1) to describe non-participants' and participants' characteristics and 2) to examine the reasons for non-participation in any form of family takaful plans by the Bumiputera community in Malaysia. The remainder of the paper is organised as follows: The next section discusses the factors influencing participation in takaful. This is then followed by a methodology section, followed by a presentation of the results. The final section discusses the findings and assesses the implications for scholars and practitioners.

## Factors Influencing Participation in Takaful

In takaful, participants contribute a sum of money to the takaful fund in

the form of participative contribution (*tabarru*). The takaful protection plan is based on Shariah principles and offers many unique features to policy owners. There are two types of takaful businesses: family takaful and general takaful. Products under family takaful are family takaful, investment-linked takaful, child education takaful, and medical and health takaful. On the other hand, products under general takaful are home takaful, motor takaful, and personal accident takaful (Info Insurance, 2013).

In the context of academic research, previous studies show a number of factors contribute to participation in takaful. For instance, Ayinde and Echchabi (2012) reported that individual awareness and knowledge of takaful are crucial in determining Malaysians' willingness to adopt Islamic insurance services including takaful. A qualitative study by Kamil and Mat Nor (2014) shows that understanding of takaful and the requirement of Shariah compliance have influenced the choice of takaful over conventional insurance. In another study, Arifin et al., (2013) mentioned four important factors that could possibly influence family takaful demand: the agency system (*Al-wakalah*), reputation and recommendation, product and services, marketing and advertising. Others have considered factors such as demographic variables, consumer knowledge, situational factors, and consumer level of religiosity other than attitude, subjective norms

and perceived behavioural control that drive consumers to participate in family takaful schemes (Md Husin & Ab Rahman, 2013).

Md Husin and Ab Rahman (2016) proposed that individual factors such as awareness, knowledge and exposure have impacts on takaful participation while results found in Amin's (2012) study suggest that attitude, subjective norms and amount of information provide the indispensable factors in determining participation in Islamic insurance. Results of the study conducted by Souiden and Jabeur (2015) showed that Islamic beliefs of individuals play important roles in determining individuals' attitude toward conventional and Islamic insurance. The authors found that the higher (lower) the Islamic beliefs of individuals, the less (more) favourable their attitude will be toward conventional life insurance and the more (less) favourable their attitude will be toward Islamic life insurance; the higher (lower) the Islamic beliefs of individuals, the weaker (stronger) their purchase intentions for conventional life insurance will be and the stronger (weaker) their purchase intentions for Islamic life insurance will be; and Islamic beliefs moderate the relationships between attitudes and purchase intentions of life insurance. Using quantitative data, the Yazis, Arifin, Hussin, and Wan Daud (2012) study found that there are positive relationships between variables such as income, interest rate, financial



development, pensions, stocks, price of insurance, life expectancy, dependency ratio, education, age, urbanization, household size and employment status with family Takaful demand.

## METHODOLOGY

This study involved two stages of data collection over a period of three months. In the first stage of data collection, a total of 400 survey questionnaires were distributed randomly to individuals in Selangor, Malaysia. Selangor is the most developed state and has the largest population in Malaysia (Invest Selangor, 2018). Enumerators were appointed to distribute the survey questionnaires and were briefed on the research objectives and procedures in the distribution of the survey questionnaires. Respondents were chosen using convenience sampling. 390 completed survey questionnaires were received, yielding a 97.5 per cent response rate. The survey questionnaire contained general questions on respondents' participation in takaful. Specifically, respondents were asked to provide their demographic information and whether they had previously purchased takaful plans. This question acted as a filter question to differentiate between individuals who had and those who had not participated in takaful.

Then, in the second stage of this study, a qualitative approach using focus groups was conducted to examine reasons for non-participation in any form of family takaful plans among the

Bumiputera community. A qualitative approach was employed because it allows tapping the participants' own perspective (Denzin & Lincoln, 1994). Three focus groups involving a total of seven male and nine female participants were conducted. Participants were volunteers aged between 21 and 60 years, and had not participated in any existing family takaful policies (such as investment-linked takaful, child education takaful, or medical and health takaful). Participants were briefed on the aims and objectives of the study. The discussion topics contained awareness of takaful and the objectives of participating in takaful, reasons for non-participation in takaful, and suggestions to encourage individuals to participate in takaful. The focus groups were conducted in Bangi, Selangor, Malaysia. All sessions were tape-recorded and each session took about 45 minutes to an hour.

To analyse the focus group discussion, the method suggested by Casey (1998) was used. All of the focus group discussions were audio taped and transcribed. After the focus group 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 to question one from all the groups were moved to the same master document. This was done for each topic and question. From this master document (which contained all of the

relevant responses), the patterns, trends or themes across all of the responses were examined.

## RESULTS AND FINDINGS

### Stage 1 Results

#### *Correlation between demographic profiles and participation in takaful*

A Kendall's tau-b correlation coefficient was run to determine the relationship between respondent demographic variables: gender, age, marital status, education, and income, and participation in family takaful plans amongst 390 participants. As shown in Table 1, there was a strong correlation between family takaful participation and gender, age, marital status, education level and income, which was statistically significant ( $\tau_b = -.190, .200, .321, .191, .437$  with  $p = .000$ ). The results showed that as the age and income of the individuals increased, they were more likely to participate in family takaful plans. The results also showed that the likelihood was higher among women, those who were married and those that had a higher education level.

## Results of Logistic Regression Models

A logistic regression analysis was conducted to predict an individual's likelihood of participating in takaful, using demographic profile as predictors. Two participation behaviours, participants and non-participants, were selected as the dependent variables. As shown in Table 2, the proposed model was more effective than the null model, indicating that the set of predictors distinguished between takaful participants and non-participants (Chi square = 96.562,  $p < 0.001$  with  $df = 5$ ). Nagelkerke's  $R^2$  and indicated that the 29.5 per cent of variation in dependent variables could be explained by the predictors in the model. The overall prediction success was 73.1 per cent. The Wald criterion demonstrated income as the most significant predictor for takaful participation ( $B = 0.817$ , Wald's statistics = 19.649,  $p = .000$ ). Income level was classified into four main groups: 1=MYR 2,000 (USD 500) and below; 2=MYR 2,001 (USD 501) to MYR 5,000 (USD 1,250); 3=MYR 5,001 (USD 1,251) to MYR 8,000 (USD 2,000); 4=MYR 8,001 (USD 2,001) and above. This means that

Table 1  
Correlation between Demographic Variables and Participation in Takaful

Demographic Variables	Correlation Coefficient	Sig. (2-tailed)
Gender	-.190**	.000
Age	.200**	.000
Marital status	.321**	.000
Education	.191**	.000
Income	.437**	.000

\*\*Correlation is significant at the .01 level (2-tailed).

higher-income earners were found to participate in takaful as compared with those who earned less income. Gender, marital status and education level were also found to be significant for takaful participation behaviour ( $B = -.606, 0.991, 0.428$ ; Wald's statistics = 6.344, 11.572, 8.534;  $p = .012, .001, .003$ ). However, age was not a significant predictor.

Table 2  
Results of Logistic Regression Models on  
Participation in Takaful

Predictor	<i>B</i>	S.E.	Wald	Sig.
Gender	-.606	.241	6.344	.012
Age	-.106	.142	.552	.457
Marital	.991	.291	11.572	.001
Education	.428	.146	8.534	.003
Income	.817	.184	19.649	.000
Constant	-2.804	.640	19.196	.000

#### Model Summary

Chi-Square 96.562  $P < .001$

Nagelkerke's  $R^2$  .295

*n* 390

Note: The dependent variable in this analysis is takaful participation coded as 0 = non-participants and 1 = participants

## Stage 2 Results

For the purpose of reporting the results of the focus groups, findings were organised by topics that arose during the discussion and those that are relevant and pertinent to this study. The aim of the study is to examine reasons for non-participation in family takaful. The findings were grouped according to the answers given to a specific question, yielding majority opinions and views. A discussion of the findings, with the details that support each finding is presented next.

## AWARENESS OF TAKAFUL

Respondents were asked regarding their awareness of takaful products. Previous studies have shown that individual awareness of takaful products is important in determining Malaysians' willingness to adopt Islamic insurance services including takaful (Ayinde & Echchabi, 2012). Others have identified the insurance awareness of Malays as very low (Bernama, 2012). Nevertheless, in this study, most respondents who had not participated in any form of family takaful plans were aware of the takaful concept and managed to differentiate between takaful and insurance. Also, respondents understood the importance of takaful as being able to provide a financial safety net for themselves and their family when it is needed most. The following are some of the responses from the respondents:

*I always hear about takaful. It is about protection coverage for car, life, and others. Among the providers are Prudential, Etiqa, Zurich, AIA and all banks have insurance. (Male, 34 years old).*

*I understand the concept of takaful as 'mutual help' among the group. Each member will contribute a certain amount into the common fund to help those who need it most in times of financial difficulties. (Male, 25 years old).*

*Takaful is a shariah-compliant alternative to insurance. Female, 34 years old).*

## Financial Reasons for Non-Participation in Family Takaful

The reasons for respondents' non-participation in family takaful were explored in the focus group discussions. The majority of the respondents acknowledged the importance of participating in family takaful; nevertheless, the financial factor was identified as the main reason for non-participation. Respondents expressed their difficulties in making contributions every month as they had many other commitments such as paying for car loan, study loan, and personal loan, which needed to be prioritised. Other respondents also prioritised their monthly takaful contribution for their children as they had no salary increment.

The following is feedback from participants showing the reasons for non-participation in family takaful:

*I participated in takaful before I got married but now, I have to give attention to my kids' needs. I am not able to give my commitment to make payment for takaful. (Male, 34 years old).*

*I plan to participate in takaful but no salary increment has been announced. So, I will continue paying takaful for my kids only and it is not my priority now. (Male, 34 years old).*

*Yes, I know the importance of having takaful for myself. However, I have so many other monthly commitments such as study loan, car loan, and others. (Female, 27 years old).*

## Non-Financial Reasons for Non-Participation in Family Takaful

While most respondents related their non-participation in family takaful as due to financial reasons, a number of them had not participated in any family takaful plans because they had heard about bad experiences with takaful agents experienced by friends and families. The following is the participants' feedback:

*I am aware of the importance of having takaful; however, I have heard of so many bad experiences experienced by my family and friends. (Female, 25 years old).*

*I am a bit sceptical of takaful agents. My friend told me that the agents are very nice at the beginning but when we want to make a claim, they will avoid us. (Female, 34 years old).*

Other respondents had not participated in family takaful because their employer provided insurance coverage for them. As such, these respondents did not see any reason to participate in family takaful on their own. Here is some of the respondents' feedback:

*My company has provided insurance and that is the reason why I am comfortable with not having one. There is no reason for me to buy one if my company has provided one. (Female, 25 years old).*

*I am working at a government agency and I do not think takaful is necessary. If I need to get medical treatment, I will go to a public hospital. (Female, 34 years old).*





## SUGGESTIONS TO INCREASE TAKAFUL PARTICIPATION AMONG BUMIPUTERA

Respondents were encouraged to provide suggestions to increase Bumiputera participation in family takaful. In this study, several suggestions were captured from the focus group discussion. They include 1) compulsory deduction from monthly salary; 2) more reasonable plans for lower income contributors; 3) awareness programmes on the importance of participating in family takaful; and 4) public education on financial planning.

## CONCLUSION AND RECOMMENDATION

This study aims to describe non-participants' and participants' characteristics and examine reasons for Bumiputera non-participation in any form of family takaful plans. Findings from the quantitative data collection show that an individual's income level, gender, marital status, and education level is related to participation in any family takaful plan. Individuals that earn a higher income, have higher education levels, women, and those who are married are found to have participated in family takaful.

Focus group discussion results reveal several reasons for non-participation. The most common reason for non-

participation is that the respondents are not financially stable and have many other commitments. This is consistent with the quantitative findings in this study and with Sherif and Shaairi (2013) that show individual income level determines participation in family takaful. The majority of the respondents also revealed that they were afraid to participate in any form of takaful plans due to the bad experiences of their family members and friends.

In this study, several suggestions were captured from the focus group discussions. They include 1) compulsory deduction from monthly salary; 2) more reasonable plans for lower income contributors; 3) awareness programmes on the importance of participating in family takaful; and 4) public education on financial planning.

This study focuses solely on reasons for non-participation in family takaful among the Bumiputera community. Future studies may incorporate other ethnic groups in Malaysia omitted in this study as they may have other reasons for non-participation. Research should also be conducted on the impact of government policies on the demand for family takaful in the country. ■

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