



## Full Fledged vs Shared/Outsourced Takaful Operators: A Maqasid Index Approach

Sharifah Fairuz Syed Mohamad\*

Faculty of Science and Technology, Universiti Sains Islam Malaysia, Bandar Baru Nilai, 71800, Nilai, Negeri Sembilan, Malaysia

**ABSTRACT** - The purpose of this study is to compare the performance of a full-fledged takaful operator versus shared or outsourced operators in Malaysia. Currently in Malaysia, there is only one full-fledged takaful company which bases its operation on the Shariah principles without conventional counterparts. In this paper, full-fledged *takaful* company refers to a *takaful* operator with no conventional parent or subsidiary. The paper uses the maqasid index approach which implements certain ratios based on the objectives of Shariah. The objectives of Shariah are threefold; first is to educate the individual, second is to establish justice and third is to maintain public interest. These objectives are well-suited to and consistent with the sustainable development goals (SGDs) within the financial institutions (FIs) to enhance a healthier economic system. The study used a maqasid index approach on six *takaful* operators in Malaysia to see whether there are any differences among the operators which are full-fledged *takaful* companies and those having shared or outsourced functions. The result showed that being a full-fledged *takaful* operator does not hinder financial institutions to have an acceptable Maqasid index figure by using the approach in this study. In fact, from the findings, a full-fledged *takaful* operator showed the highest Maqasid index compared to other types of *takaful* operators in Malaysia. Due to the limited data availability, the study only focuses on selected companies and variables in order to implement the use of ratios. This paper reflects the importance of the study to enhance that Islamic financial institutions should grow in achieving Malaysia's goal to become an Islamic financial hub. This paper fulfils a gap towards the area of Islamic insurance, which is still very new compared to other topics in Islamic finance.

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## INTRODUCTION

Islamic insurance or *takaful*, which means joint guarantee, has been practiced for more than thirty years in Malaysia and has already spread to other Muslim countries. The importance of shifting to *takaful* from conventional insurance has been realized by many countries, including the United Kingdom and the United States. Although its history can be traced back since the time before the Prophet Muhammad P.B.U.H (Nazarov & Dhiraj, 2019), its application in Malaysia is still at the beginning stage compared to conventional insurance. The conventional system has existed far longer in the economy and has recorded considerable amount of relevant data for research.

*Takaful* and conventional insurance, although serve as similar purposes, are different in terms that the former takes the form of risk sharing, while the latter uses a risk exchange mechanism (Hassan et al., 2018). *Takaful* in essence brings a group of people together in helping each other to face the occurrence of unexpected or unwanted events. Such will rarely happen to everyone in the group. Therefore, the fund having been pooled together will serve as a cushion for the minority who face any odd circumstances. Unlike conventional insurance, *takaful* is not a mere contract between the policyholder and the insurance company. In conventional insurance, policyholders will only pay premiums individually while not affecting other policyholders. *Takaful*, however, is somewhat a consensus of among policyholders to help one another when facing unwanted events such as accidents or injuries (Salman et al., 2019). This is much upheld by the Shariah and is among the reasons why *takaful* is not prohibited (*haram*).

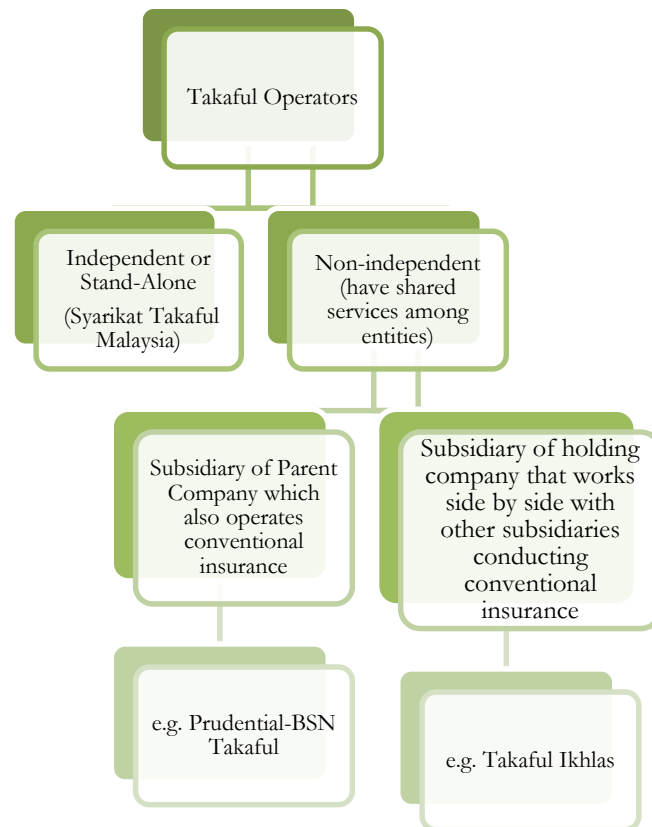
In a clearer sense, the difference between *takaful* and conventional insurance lies in the existence of the elements of *al-riba*, *al-maysir*, and *al-gharar* (Alhabshi et al., 2012). The basic element of *riba* is simple enough, in that it is present in the form of returns from investments made by the insurance companies. *Maysir* or gambling occurs when a policyholder takes a chance in protecting himself and pays a premium depending on whether or not a risk materializes. If it does, the amount he pays may be much less than the compensation he receives. This is clearly prohibited by Shariah. The third element, which is *al-gharar* or ambiguity, also occurs with games of chance as it creates no certainty in the outcome of a contract and may cause injustice to either party. Since these elements make a contract void from the perspective of Shariah, *takaful* operators have to conduct their business by avoiding them.

The maqasid index score in this study will be compared across the structure of their organization; where currently, eleven (11) *takaful* companies are in operation in Malaysia. Among these, only one (1) company, i.e., Syarikat Takaful Malaysia, is not part of any other company or parent company that operates under the conventional system. All the other ten companies either operate as (i) subsidiaries of a parent company which functions as a conventional entity; or (ii) side by side with a subsidiary that operates as a conventional insurance company. With such settings, *takaful* operators are able to leverage on the existing resources either through sharing or outsourcing the functions in its operations. Shared services are basically functions that are done under one roof, and resources are shared by both *takaful* and conventional subsidiaries. This could either be done by the conventional party for both the conventional and *takaful* subsidiaries or done by the parent company for both entities. Similarly, outsourced services are functions that are being assigned by the *takaful* operator to its conventional counterpart, the parent company or to outside vendors. The main difference between shared services and outsourced services generally is where the services come from. Shared services are those services by the company itself whereas outsource services come from a third party or from outside the company.

There are a number of functions or services that are being shared or outsourced, such as human resource department, information technology services, finance, sales to some extent, and distribution channels, etc. Although these services seem to be neutral for both *takaful* and conventional insurance, there exist some problems, such as implementation, process, and impression that may raise Shariah problems (Mohamad, 2016). The problem is not related to the Islamic insurance per se, however Shariah issues may arise due to the *takaful* operators having shared or outsourced departments with conventional insurance subsidiaries or parent companies. For example, from an online banking perspective, a customer will enter the same login website regardless of whether they are a customer of the Islamic bank or conventional part of the same brand name.

This brings to issues such as the extent to which the Shariah Advisory Committee is able to effectively monitor the conduct of the *takaful* company who share some services with a conventional counterpart and ensure that it is wholly Shariah-compliant.

Shared services have been allowed by the regulator, Bank Negara Malaysia, for commercial expediency and enhanced competitiveness of *takaful* companies. While such objectives are acceptable, the requirement for a *takaful* company to be Shariah-compliant end-to-end is paramount as mentioned in Mohamad et al. (2018); where it has been found that the structure of organization may have to deal with Shariah non-compliance issues when certain functions like marketing, underwriting, and human resources are shared or outsourced. This study therefore aims to see whether the different structures (independent vs non-independent) that the company adopt would show any differences in the maqasid index score. Figure 1 portrays the different company structure which is the fundamental part of this study.



**Figure 1:** Takaful Operators' Organization Structure

The objectives of the study are as follows:

1. To assess the *takaful* operators' performance based on the *maqasid* index
2. To compare the calculated index across full-fledged *takaful* operator vs *takaful* operators with shared or outsourced functions.

## LITERATURE REVIEW

### Background of *Takaful* Industry in Malaysia

The *takaful* industry in Malaysia has been present for almost 30 years. It has experienced rapid growth since its inception in 1985, with many other companies joining STMB in becoming Malaysia's *takaful* providers. It should be noted that the government imposed a moratorium for 10 years when BIMB was established in 1983. This is to ensure that the first Islamic bank will be successful without any competition. Similarly, when STMB was established the moratorium

continued so that no *takaful* company could be established until 1993 when MNI Takaful came into the picture as the second *takaful* operator in the country. It only started with a single player and very limited products and now it has grown to eleven (11) *takaful* and four (4) *retakaful* operators (Malaysian Takaful Association and Ernst & Young, 2014). This is due to never-ending efforts by Bank Negara Malaysia (BNM) as the number one player in overseeing all activities of the Islamic financial institutions (IFIs) in Malaysia. It has been an important entity in bringing the industry to establishing and developing a dynamic, resilient, and efficient *takaful* industry. Adapted from a Bank Negara Malaysia (BNM) report, Abdullah et al. (2012) describes the chronological timeline on how BNM experienced a gradual approach in bringing *takaful* to what it is now today. This is described having gone three phases in the past thirty years:

- i. Phase I (1982-1992) - The first ten years of development saw the starting of basic legal structures with the enactment of a dedicated body of regulatory law, named the *Takaful* Act, 1984. The Act, which used to be the statute fully dedicated to *takaful* undertakings, has now been replaced by Islamic Financial Services Act (IFSA) 2013. The Act is responsible for overseeing the establishment of the first *takaful* operator, Syarikat Takaful Malaysia and the conducts of *takaful* funds as well as the establishment of Shariah committee to ensure the business is fully in line with the Shariah. This period primarily focused on the basic infrastructure of the industry.
- ii. Phase II (1993-2000) - The 7-year development marked the introduction of competition in the *takaful* industry as another player enters the market, which was named MNI *Takaful* and later changed to *Takaful* Nasional Sdn. Bhd. Greater cooperation among the regions' *takaful* operators was also seen in this period when ASEAN *Retakaful* International (I) Ltd. was established in 1997. This entity became responsible for and facilitated the *retakaful* arrangements among *takaful* operators in the region including Brunei and Indonesia. Other than that, the appointment of members for the National Shariah Advisory Council for Islamic banking and *takaful* was also seen in this period. Additionally, a Code of Ethics was developed in 2000, as a joint cooperation between *takaful* Malaysia and *Takaful* Nasional (now known as Etiqa Takaful).
- iii. Phase III (2001-2010) - This is the most recent development in the industry, which began with the introduction of the Financial Sector Master Plan (FSMP) in 2001. Among its objectives were to enhance the capacity of *takaful* operators and strengthen the core legal structure, Shariah, and regulatory framework. The focus of this master plan is to uphold the status of *takaful* into contributing to the aspiration of Malaysia to become a center for Islamic finance. In 2002, more competition was spurred with the entry of *takaful* Ikhlas and four other operators from 2005-2007. At the same time, in promoting the development of *takaful*, the Malaysian Takaful Association (MTA) was established in 2002 as an association for *takaful* operators in order to improve industry self-regulation through creating a uniform market practice and cooperation among the players of *takaful*. Later in 2006, the Malaysian International Islamic Financial Center (MIFC) came into being as an intermediary linkage to the global *takaful* sector, which then contributed to another four family *takaful* licenses in 2010. Also, during this period in which competition was prevalent, Malaysia started embarking on the Risk Based Capital (RBC) framework in creating more stringent capital requirements.
- iv. Current phase – In addition, in 2012, BNM came up with the Takaful Operational Framework which is intended to govern all the activities of *takaful* operators in Malaysia. This will be discussed in later sections.

Over the years, as different companies joined in, competition among them was also becoming more challenging. Although the growth of the industry experienced increased contributions each year (BNM, 2011), the growth in terms of market penetration and share is considered still lagging behind (Arifin et al., 2013). This then opens up opportunities for

researchers to understand the reasons behind the consumption of *takaful* which include both demographic and economic factors (Redzuan et al., 2009). Furthermore, others looked into the comparison between family and general *takaful* businesses where family *takaful* has been found to grow faster than general *takaful* (Arifin et al., 2013).

### Structure of Takaful Business

Altuntas et al. (2011) indicate in their study that *takaful* can be a business entity or even a charitable organization. Similarly, Frenz and Soualhi (2010) mention that *takaful* operators may be set up through the two means, which are named as pure *ta'awuni* (non-profit) or *tijari* (commercial). These two forms basically depend on which type of model is being adopted. The usual model of *mudharabah* or *wakalah* would be in the business category while those placed under the *waqf* model may be charity or non-profit oriented (Salman, 2014). According to Frenz and Soualhi (2010), the non-profit organizations are usually based on mutual or cooperative elements; however, in practice, it is not feasible for them to have effective control over the whole company, therefore they are now getting less attention. Nevertheless, elements such as membership and ownership, mutual help and solidarity are very much in common to the *takaful* operators' function and following the Shariah.

Although *takaful* was initially an organization built upon mutual assistance and not for profit in nature, a majority of *takaful* operators are managed by joint-stock or public limited companies. These are basically commercial in nature and have influenced the later start-up of other companies. Looking at the competitive nature of the *takaful* industry today, the conventional setting of insurance companies has brought about more commercialization in the structure of *takaful*. As the competition heats up, *takaful* players need to pair up with their counterparts and therefore tend to aim for profits and minimizing costs.

Commercialization is a term derived from its root word 'commerce'. It involves the act of buying and selling and originated from the mid-16<sup>th</sup> century French or Latin word 'commercium' (Noordin et al., 2012). As an adjective, the word 'commercial' has to do with buying and selling and indirectly involves the intention to make profit out of the activity. Furthermore, from the verb 'commercialize' generally means to manage or in some cases, may be rendered as to exploit in some way to earn profits.

*Takaful*, if looked at from one perspective is much affected by this notion of commercialization as the setting up of the current operators is to make money and, in some sense, to compete with the insurance companies. In fact, all the *takaful* companies operating in Malaysia are "initiated, marketed and organized by commercial organizations backed by the leading financial giants" (Noordin et al, 2012, p.10). These financial giants are often conventional parents which hold the *takaful* operators as subsidiaries. Some are even foreign entities which are built based on profit-seeking motives and not mutual interest. However, it must be understood that the main features of *takaful* should be distinguished as the profit structure is somewhat different from the conventional setting in three basic areas. These areas are identified as (i) the responsibility to indemnify based on *tabarru'*, (ii) account management through the separation of funds, and (iii) the different sources of profit through appropriate fees depending on the types of models.

Setting up the operator through the commercial company sector is the more common method in today's setting and this too has different ways to be established (Frenz & Soualhi, 2010) which are:

- i. Separate stand-alone *takaful* company or subsidiary of parent company
- ii. Branch of parent company
- iii. *Takaful* division under existing conventional insurance or better known as '*takaful* windows'

Significant capital injection is such an important part in setting up a new company or branch compared to a *takaful* window. Setting up a *takaful* window is more cost effective and obviously requires less capital, since a lot of the other functions are shared with the existing company. However, there are concerns that this may allow loopholes, since *takaful* would not be properly segregated from the conventional business. But looking at it in a more positive way, in current situations we are able to see Islamic banks developing through such windows in the beginning but now have shifted to the more Shariah oriented operations and that their initial parent company have helped in significantly bringing Islamic finance to a more competitive role in the industry.

The parent-subsidiary relationship can be clearly seen in most of the Islamic banking and *takaful* industry, as through such expansion, the parent is able to reduce “the owner’s risk of damage spilling over from one venture to another” (Butner, 2012). As mentioned by Patil (2012), the setup of such organizations is usually to exploit business opportunities through bringing together human capital, material, management and fund. In such settings, the parent will act like any other shareholder and is responsible for electing the board of directors. The parent will indirectly have certain controls over the subsidiaries and determine the subsidiaries’ level of independence (Sherman, 2019).

It must be stated, however, that with the competition and pressure that the *takaful* markets are facing in the current situation, it has become more difficult to moderate the profit-making activities. As most of the operators operate as a subsidiary of their parent companies, they tend to leverage on the possible functions (such as in shared services and outsourcing) in order to save costs into attracting more new policyholders.

### **Performance of Takaful in Malaysia**

Since the first *takaful* company began operations in 1985, Malaysia’s *takaful* industry has grown quite extensively with the coming of new players over the years. From very limited and basic products, it is now filled with various complex ones that try to cater for all human needs. The industry has become a viable one that blends well into the mainstream financial system. Over 30 years of *takaful* in Malaysia, the development has been quite significant from 1984 to 2004. The next ten years also show that the industry continues to strive with the overwhelming competition

Apart from the general growth and meeting increasing demands, the *takaful* industry has also been scrutinized from efficiency perspective. A considerable number of scholars had studied the efficiency of both Islamic banking and *takaful*. For instance, a study by Wahid & Harun (2019) using a Malmquist Index found that on average Islamic banks are operating at a more productive level compared to the conventional banks in Malaysia. In many studies, it has been found that the efficiency of *takaful* operators is still below the average when compared to that of the insurance companies. For instance, Muhammad Abduh and Omar (2012) showed that insurance companies had slightly higher efficiency than *takaful* companies by employing ratio analysis and data envelopment analysis (DEA).

Similarly, in an earlier study, Ismail et al. (2011) also found that insurance companies seem to be more efficient than their *takaful* counterpart. At the same time, Saad et al. (2006) and Kader et al. (2014) found that *takaful* industry performed lower than the industry average in terms of its pure efficiency. These consistent results are possibly due to the lack of experience of *takaful* operators compared to their insurance counterparts. Nevertheless, as Kassim (2008) points out, it is generally difficult to compare between the two industries using such methods as both entities have different aspects of importance or motives and especially since *takaful* operators are bounded by Shariah requirements. It is therefore essential that the IFIs be measured through a performance indicator that embeds the attributes of Islamic law, through *Maqasid al-Shariah*. This way, it enables the indicator to identify whether the objectives of Islamic law are achieved in certain years as compared to only the financial figures so that it is able to meet the form and more importantly the substance part of the purpose.

Mohammed et al. (2008) are one of the first to develop the performance measure through a *maqasid* index approach based on Sekaran's operationalizing method. The study assessed the performance of Islamic banks in Malaysia according to the objectives of Shariah as discussed above. Through these objectives, dimensions and elements adapted from Sekaran (2000) are used to produce indicators of each objective into measurable figures through the elements using ratios .

Bedoui (2012) also looked into the measurement of performance through embedding the *maqasid al-Shariah* but extends this to several corrolaries and is further measured by a mathematical equation using the sine formula. An interesting outcome of this methodology is that the performance can then be plotted into a spider-shaped diagram to show how much the industry or individual financial institution have performed with respect to the *maqasid al-Shariah*. Other authors like (Amin, 2019) and (Mifrahi & Fakhrunnas, 2018) also based their research on the same platform of *maqasid al-Shariah*.

The few methods discussed have invited many researchers to investigate the performance of IFIs, especially that of Islamic banks. The performance of *takaful* operators or Islamic insurance have received less attention in literature, therefore this study aims to address this gap. Although the performance of *takaful* operators has also been discussed in a few literature, they focused on other methods such as financial ratios and data envelopment analysis (DEA). Several studies looked into the aspects of performance (Malaysian Takaful Association and Ernst & Young, 2014), efficiency (Kader et al., 2014; Muhammad Abduh & Omar, 2012; Ismail et al., 2011; Saad et al., 2006), and penetration (Arifin et al., 2013; Redzuan et al., 2009). Daud (2012) suggested that if *takaful* operators based their operations on *Maqasid al-Shariah*, they will change their perception on their vision, mission, core values and corporate culture. This paper focuses on comparing the *maqasid* index scores for independent vs non-independent *takaful* operators.

## **METHODOLOGY**

### **Data**

Data used in this study involve figures from annual reports and financial statements from 2012 to 2014 of the following *takaful* operators. These include the following six (6) operators:

- a. Etiqa Takaful
- b. Syarikat Takaful Malaysia
- c. PRUBSN Takaful
- d. HSBC Amanah Takaful
- e. Sunlife Takaful
- f. Takaful Ikhlas

### **Model Development**

The study focuses on meeting the said objectives by following phases of methodology in achieving each objective. The objective aims at evaluating performance of *takaful* operators in Malaysia through *Maqasid* index to show the pattern among full-fledged vs shared or outsourced operators. The second objective is to compare these patterns. In achieving the first objective, it is essential to outline the *Maqasid* index approach in detail.

### **Overview of Sekaran's (2000) Operationalization Method**

Basically, the method proposed by Sekaran (2000) enables the measurement of concepts that were initially non-measurable. The initial notions termed as concepts, (C) are defined through some observable behaviors, which are known as dimensions (D). These dimensions are further broken down into measurable items that Sekaran refers to as elements (E). The classic example

given to provide more understanding of this concept is through the concept of thirst. From initial perspective, thirst is something that cannot be measured. But when broken down into the dimensions and elements, it becomes measurable. The dimension in this case would be the fluid while the degree of thirst that can be measured is the fluid intake, or number of glasses that a person drink. Therefore, applying this method to the current system, the objectives of *takaful* as derived from the objectives of Islamic banking become the concept (C). The observable behaviors, D and the process of breaking this down into elements, E will be linked to the identified objectives of *takaful*.

### **Objectives of Takaful**

The objectives of *takaful* have been informally discussed in the literature. Scholars have so far derived the objectives of *takaful* through that of Islamic banking, which also sourced its set of objectives from the *Maqasid al-Shariah* (Mohammed et al., 2008). Basically, both Islamic banking and *takaful* aim to achieve the five main objectives of Shariah as it is the set of law in Islam that applies in general. For example, Abdullah (2015) spells out the objectives through discussing the link between *Maqasid al-Shariah* and *takaful*; in other words, how the everyday functions of *takaful* operators meet the objectives of Shariah. In other literature, more operational objectives are mentioned such as the ability of the *takaful* fund to meet the upcoming liabilities. Ahmed (2013) for instance, provides a list of objectives of *takaful* operators which include to diversify risk among its members, to support social solidarity in turn to enable the protection of community from negative circumstances, to improve the quality of human life, and finally to encourage savings and investments through a shared system that distributes profits on participants' contributions. With regards to the concepts (C) applied in this research, the objectives as adopted by Mohammed & Md.Taib (2016) were used. These objectives or concepts are:

1. *Tabdhib al-Fard* (Educating the individual)
2. *Iqamah al-'Adl* (Establishing Justice)
3. *Jalb al-Maslahah* (Promoting welfare)

Table 1 shows the operationalization method portraying the concept, dimensions, and elements which are measured by the performance ratios. The ratios are sourced from annual reports of selected Islamic banks.



**Table 1:** Operationalizing the objectives of Islamic banking

Concepts (Objectives)	Dimensions	Elements	Performance Ratios
1. Education the individual	D1. Advancement of knowledge	E1. Education grant E2. Research	R1. Education grant/total income R2. Research expense/total expense
	D2. Instilling new skills and improvements	E3. Training	R3. Training expense/total expense
	D3. Creating Awareness of Islamic banking	E4. Publicity	R4. Publicity expense/total expense
2. Establishing justice	D4. Fair dealings	E5. Fair Returns	R5. Profit/total income
	D5. Affordable products and services	E6. Affordable prices	R6. Bad debt/total investment
	D6. Elimination of injustices	E7. Interest free product	R7. Interest free income/total income
3. Public Interest	D7. Profitability	E8. Profit ratios	R8. Net profit/total asset
	D8. Redistribution of income and wealth	E9. Personal income	R9. Zakat/net income
	D9. Investment in vital real sector	E10. Investment ratios in real sector	R10. Investment deposit/total deposit

Source: Mohammed & Md.Taib (2016)

### Variables

Variables involved in the study are in the performance ratios in Table 2 and were all sourced from each company's annual reports. These are based on Table 1 except that some of the performance ratios with missing data were omitted and/or replaced with relevant *takaful* performance ratios as outlined in Htay et. al (2013). This is shown in Table 2. The *maqasid* index figure produced was compared across these *takaful* operators to see whether those with shared or outsourced services are any different from each other and benchmarked against Syarikat Takaful Malaysia

**Table 2:** Operationalization of the objectives of *takaful*

Concepts (Objectives)	Dimensions	Elements	Performance Ratios
1. Educating individual	D1. Instilling new skills and improvements	E1. Training	R1. Training expense/total expense
	D2. Creating Awareness of <i>takaful</i>	E2. Publicity	R2. Publicity expense/total expense
2. Establishing justice	D3. Fair dealings	E3. Fair Returns	R3. Profit/total income
	D4. Affordable products and services	E4. Affordable prices	R4. ( <i>Wakalah</i> fee + Commission + Management expenses) / Net contribution
	D5. Elimination of injustices	E5. Interest free product	R5. Interest free income/total income
3. Public Interest	D6. Profitability	E6. Profit ratios	R6. Net profit/total asset
	D7. Redistribution of income and wealth	E7. Personal income	R7. Zakat/net income
	D8. Distribution of Surplus	E8. Surplus Distribution	R8. (Underwriting Surplus Distributable to Participants) / Gross Contribution
	D9. Yield on Investment	E9. Investment Yield	R9. Investment income/Average Total Investments

Table 2 captures the same operationalization method of the current study and the ratios used. Where data was missing and the researchers feel that such ratio is important, some assumptions were made to arrive at the figures. These are explained below:

1. None of the companies had education grant and research expenses listed in their respective annual reports, so these ratios were completely omitted.
2. The training expenses were assumed to be 25 percent of other expenses in the annual reports for companies that did not have this figure reported.
3. For measuring the affordable price element (E6 or E4 in Tables 1 and 2), the bad debt ratio was substituted with the expense ratio. This ratio shows the price that the *takaful* operator shall charge for its products based on the cost they incur. The lower the ratio the better in terms of attracting more customers; therefore, this element has a negative sign in calculating the *maqasid* index.
4. The interest-free income was based on the assumption that the selected companies were categorized into their degree of shared services or outsourced functions as per Table 3 on the next page. (adapted from interview in Mohamad, Alhabshi, & Lahsasna (2018)).
5. Two ratios were added and placed under the third objective. These included the surplus ratio and the investment yield ratio.

**Table 3: Organization Categories**

Organization Category	Permissible Income / Total Income Ratio
Many shared functions, big parent company	0.8
Mostly outsourced functions, big parent company	0.9
Some shared services, small parent company	0.8
No shared services, big parent company (Syarikat Takaful Malaysia)	1.0
Only minor functions are shared, big parent company	0.95

In order to come up with the *maqasid* index, the analysis used the simple additive weighting method which is discussed next.

## METHODOLOGY

### The Simple Additive Weighting Method (Data Analysis for Maqasid Index)

In order to produce a ranked outcome of the operators involved, the study utilized the Simple Additive Weighting Method (SAW) from Hwang and Yoon, as implemented by Mohammed and Md. Taib (2016).

A weight was assigned to each of the concepts and elements chosen to evaluate a *Maqasid* index. The weights assigned to the objectives were similar to the previous study, while weights on the elements were modified accordingly as in Table 4. The weights were also simulated to see if they would have any impact on the *Maqasid* index.

**Table 4:** Weights for the Three Objectives and Elements

Concepts (Objectives)	Weight (out of 100%)	Elements	Weight (Out of 100%)
1. Educating individual	30	E1. Training	49
		E2. Publicity	51
		<b>Total</b>	100
2. Establishing justice	41	E3. Fair Returns	30
		E4. Affordable prices	32
		E5. Interest free product	38
		<b>Total</b>	100
3. Public Interest	29	E6. Profit ratios	25
		E7. Personal income	25
		E8. Surplus Distribution	25
		E9. Investment yield	25
		<b>Total</b>	100

In terms of a mathematical formula, for example, the evaluation of the first objective (*Tabdhib al-Fard* or educating the individual) with two elements was computed as follows:

$$PI(O1) = (W_1^1 \times E_1^1 \times R_1^1) + (W_1^1 \times E_1^2 \times R_1^2)$$

where,

PI denotes the performance indicator

(O1) denotes the first Shariah objective

$W_1^1$  denotes the weightage assigned to the 1<sup>st</sup> Shariah Objective

$E_1^1$  denotes the weightage assigned to the first element of the first objective

$E_1^2$  denotes the weightage assigned to the second element of the first objective

$R_1^1$  denotes the evaluation of the performance ratio with relation to the first element of the first objective

$R_1^2$  denotes the evaluation of the performance ratio with relation to the second element of the first objective

This process was repeated for both objective 2 and 3. It must be noted that objective 2 consists of three elements, while objective 3 consists of four elements. Thus arriving at:

$$PI(O2) = (W_2^2 \times E_2^1 \times R_2^1) + (W_2^2 \times E_2^2 \times R_2^2) + (W_2^2 \times E_2^3 \times R_2^3)$$

$$PI(O3) = (W_3^3 \times E_3^1 \times R_3^1) + (W_3^3 \times E_3^2 \times R_3^2) + (W_3^3 \times E_3^3 \times R_3^3) + (W_3^3 \times E_3^4 \times R_3^4)$$

where,

PI denotes the performance indicator

(O2) denotes the second Shariah objective

(O3) denotes the third Shariah objective

$W_2^2$  denotes the weightage assigned to the second objective

$W_3^3$  denotes the weightage assigned to the third objective

$E_2^1$  denotes weightage assigned to the first element of the second objective

$E_2^2$  denotes the weightage assigned to the second element of the second objective

$E_2^3$  denotes the weightage assigned to the third element of the second objective

$E_3^1$  denotes the weightage assigned to the first element of the third objective

$E_3^2$  denotes the weightage assigned to the second element of the second objective

$E_3^3$  denotes the weightage assigned to the third element of the third objective

$E_3^4$  denotes the weightage assigned to the fourth element of the third objective

$R_2^1$  denotes the evaluation of the performance ratio with relation to the first element of the second objective

$R_2^2$  denotes the evaluation of the performance ratio with relation to the second element of the second objective

$R_2^3$  denotes the evaluation of the performance ratio with relation to the third element of the second objective

$R_3^1$  denotes the evaluation of the performance ratio with relation to the first element of the third objective

$R_3^2$  denotes the evaluation of the performance ratio with relation to the second element of the third objective

$R_3^3$  denotes the evaluation of the performance ratio with relation to the third element of the third objective

$R_3^4$  denotes the evaluation of the performance ratio with relation to the fourth element of the third objective

Referring to Tables 2 and Table 4, for example, to calculate PI(O1) is equivalent to  $(0.3) \times (0.49) \times (\text{Training Ratio}) + (0.3) \times (0.51) \times (\text{Publicity Ratio})$

As the study involves all three objectives, the *maqasid* index was calculated from the following mathematical equation:

$$MI = PI(O1) + PI(O2) + PI(O3)$$

where MI represents the *maqasid* index value. PI(O1), PI(O2), and PI(O3) above are the performance indicators of each of the objectives outlined. The weights for each of these were taken from the same study except that they were recalculated with respect to two elements in each objective instead of three or four as used in the previous study. The *maqasid* index forms the sum of the *takaful* operators' performance indicators with respect to the three objectives.

## RESULTS

This analysis is done to compare the various operators having conventional parent and subsidiaries and benchmarked against the only full-fledged Islamic insurance provider, Syarikat Takaful Malaysia (STM). The findings show that the *maqasid* index is highest for STM, which may indicate that lesser sharing with conventional parties will produce higher index. Following STM is Takaful Ikhlas, which is a subsidiary of MNRB and does not have any conventional insurance counterpart. The analysis is based on the objectives of *takaful* which include (i) educating the individual, (ii) promoting justice, and (iii) enhancing *maslahah* or public welfare. Table 5 and Table 6 show the results for the study.

With respect to the results, Table 5 shows the ratios when calculated separately with regards to their respective objective above. For example,  $R_1^1$  and  $R_1^2$  indicate the performance ratio with respect to the objective of educating the individual. While the first refers to the training expense, the latter refers to publicity or marketing expenses; both with respect to overall management expenses.

**Table 5:** Performance Ratios of *Takaful* Operators

<i>Takaful</i> Operators	PRs of the 1 <sup>st</sup> Objective Average Ratios (2012-2014)		PRs of the 2 <sup>nd</sup> Objective Average Ratios (2012-2014)			PRs of the 3 <sup>rd</sup> Objective Average Ratios (2012-2014)			
	$R_1^1$	$R_1^2$	$R_2^1$	$R_2^2$	$R_2^3$	$R_3^1$	$R_3^2$	$R_3^3$	$R_3^4$
	STM	0.037641	0.04251	0.417013	0.513985	1.0	0.08735	0.004521	0.288865
A	0.012639	0.113052	0.107057	0.261421	0.8	0.023558	0.029572	0.178258	0.043083
E	0.02277	0.025917	0.339133	0.766847	0.9	0.037063	0.014026	0.308479	0.02261
TAKAFUL IKHLAS	0.03553	0.084277	0.104067	0.322799	0.95	0.032264	0.005272	0.092487	0.0108
H	0.014754	0.144603	0.483711	0.584558	0.8	0.145103	0.015071	0.02163	0.021265
F	0.02432	0.311991	0.099949	0.757802	0.8	0.036503	0.007014	0.019092	0.035194

Following Table 6 and weights assigned in Table 4, the *maqasid* index is calculated.

**Table 6:** Maqasid Index Figures for Selected *Takaful* Operators

TAKAFUL OPERATORS	PI FOR 1 <sup>ST</sup> OBJECTIVE AVERAGE RATIOS (2012-2014)	PI FOR 2 <sup>ND</sup> OBJECTIVE AVERAGE RATIOS (2012- 2014)	PI FOR 3 <sup>RD</sup> OBJECTIVE AVERAGE RATIOS (2012-2014)	MI (MAQASID INDEX) AVERAGE RATIOS (2012-2014)
STM	0.011978	0.139658	0.033595	<b>0.185231</b>
A	0.017932	0.10351	0.020822	0.142264
E	0.007274	0.081323	0.029532	0.11813
TAKAFUL IKHLAS	0.017524	0.118459	0.010826	0.146809
H	0.022712	0.107443	0.015174	0.145328
F	0.047806	0.03751	0.00741	0.092726

Table 6 shows the overall *maqasid* index which includes all performance ratios with respect to all objectives. The final column of Table 6 displays the overall *maqasid* index where STM produced the highest value (0.185231) followed by *Takaful* Ikhlas (0.146809). In terms of the first objective (educating the individual) STM results come in third place after company A and *Takaful* Ikhlas. This resulted from strong publicity of company A compared to STM, that may have come from the shared functions through its large parent organization. For the second and third objectives, STM resulted in the highest values which obviously contributed to its highest overall *maqasid* index among the operators. The higher *maqasid* index for companies with lesser or no sharing arrangements may be a positive outlook towards increasing Shariah compliance among *takaful* operators to start having *takaful* functions slowly separated from shared or outsourced services.

The simulation exercise with different weights and omitting either of the objectives were also tried to see if any outstanding changes are seen. The results remained similar and Syarikat Takaful Malaysia consistently produced the highest index in each exercise.

## CONCLUSION

This study intends to see whether there are any differences in performance according to the Maqasid index score on a full-fledged *takaful* operator compared to those who allow sharing or outsourcing of the functions to a conventional counterpart. Only one operator is a full-fledged company compared with others which are either a subsidiary of conventional company or has other subsidiaries which are conventional. Syarikat Takaful Malaysia, which is the only full-

fledged *takaful* operator in Malaysia produced the highest *maqasid* index score based on the data from 2012 to 2014. This may indicate that full-fledged Islamic companies may also flourish over the long term and encourage the growth of Islamic financial institutions since it portrays the true notion of Islamic banking and services provider which upholds the *Maqasid al-Shariah*.

Although this study has its own limitations, the findings are considered a good indicator for the Islamic financial system development in the long run. Future studies should be done over a longer period of time to see whether the results still hold true. It is also suggested that future studies include other companies, provided that they have a positive return as their profit since this is required to calculate the *maqasid* index.

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