

AWARENESS AND OWNERSHIP OF FAMILY TAKAFUL SCHEME AMONG MUSLIM COMMUNITY IN MALAYSIA

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Abstract

This study is an attempt to obtain a deeper understanding of the factors influencing the purchase of FTS. Specifically, the study focus on the respondents' awareness of the existence of the FTS, the respondents' knowledge and perception on certain characteristics and operations of the scheme, and other additional factors that might induce the respondents to purchase the scheme. Results of the study indicate that nearly 50 percent of the respondents are aware of the existence of FTS. However, only 11.8 percent of those respondents actually own the policy. The low percentage might be due to the perception of those respondents who still have doubts whether the takaful operations are entirely free of riba. In general, the findings indicate that the respondents lack the proper understanding of certain characteristics and operations of FTS.

Keywords: Islamic insurance, Family takaful scheme, Awareness, Ownership

INTRODUCTION

Insurance is a formal social device for reducing risk by transferring the risk of several individual entities to an insurer. The insurer agrees, for a consideration, to assume, to a specified extent, the losses suffered by the insured. It is based on a system of cooperation and agreement where group members pay a percentage of payment and agree to help each other in the group if losses are incurred.

This concept was introduced in Europe around the 14th century to insure the safety of maritime transportation. It was further developed after the industrial revolution in the 18th century when trade relationship began between the East and the West. Hence, with regards to its nature and practices, insurance that exists today is a Western product. It is developed under the philosophy, values and views of the Western countries and these have been found to be contradictory with the Muslim's values and Islamic teachings.

Most of the Muslims believe that insurance is prohibited for the following reasons:

- Muslims must obey to the fate determined by Allah.
- It is not right to put a price on human life.
- Insurance is like gambling as one can get a large amount of money by paying a small amount of premium.

On 15th Jun 1972, The National Fatwa Committee (of Malaysia) come to a decision that life insurance as presently practised by insurance companies is a *fasid* transaction as it is contrary to the shariah principles. This is due to the presence of the elements of *gharar* (uncertainty), *maisir* (gambling) and *riba* (usury).

For Dr. Yusof al-Qardawi (1983), even though modern form of insurance companies is not Islamic, Islam is not against the concept of insurance. It can be accepted if the form is modified to comply with Islamic form of business transaction. Realizing the needs for protection by the society, Muslim scholars have developed an alternative scheme, called *takaful*.

Takaful, which is an Islamic insurance scheme is based on the principles of *tabarru* and *mudharabah*. The concept of *tabarru* is incorporated in the *takaful* contract in order to eliminate the element of uncertainty. It is an agreement by a participant to relinquish as *tabarru*, a certain proportion of the

takaful contributions that he agrees to pay, thus, enabling him to fulfill his obligation of mutual help and joint guarantee should any of his fellow participants suffer a defined loss. Mudharabah is a commercial profit sharing contract between the provider of funds for a business venture and the entrepreneur who actually conducts the business.

The first Islamic insurance company was formed in Sudan in 1979. It is accepted not only by the Islamic community but also by the non-Muslim community. In 1984, the first takaful company in Malaysia, was formed. After nearly 20 years takaful being operating in the market, as an alternative to the conventional insurance, the achievement of takaful has not yet reached the stage that can be proud of. Although there is an increase in the number of takaful business, the achievement is still low. Takaful's Annual Report in 2002 shows that the total takaful asset for that year was RM3,626.9 million which constitutes only 5.2% of the total market share in the insurance sector. The low percentage of its market share can be associated with the statistics issued by Central Bank of Malaysia on the penetration rate (ratio of the number of certificate to the total population) of takaful, which is 3.8%. It is extremely low compared to 31% for the conventional insurance market. It is therefore a big question mark as to why the acceptance of takaful scheme among the Muslim community in Malaysia is still low, especially Family Takaful Scheme (FTS), which is a voluntarily scheme.

In view of the above scenario, it is therefore the interest of the researchers to conduct a study on the awareness, the understanding and the opinion of Family Takaful Scheme among the Muslim community in Malaysia. The study also investigates the level of participation in the scheme and the factors influencing the participation.

The next section will discuss the review of related literature, the methodology used, analysis of the findings, discussion and conclusion.

REVIEW OF RELATED LITERATURE

Empirical evidence on the subject of *takaful* or Islamic insurance is very limited. A study conducted by Maysami and Kwon (1997) on *takaful* or Islamic insurance are more conceptual in nature where it touches on the underlying philosophy and legal aspects of *takaful* as well as exploring *takaful* operations in selected countries (Malaysia, Singapore etc). Due to the limited

literature and empirical evidence on the topic, we believe that other related studies focusing on its alternative in the conventional insurance sector, specifically life insurance will be able to provide us with some useful insights and information on the factors influencing the purchase of family *takaful* products

Perusal of the marketing literature suggests that the first step in the customers' decision-making process is the awareness of the existence of the product (Schiffmann and Kanuk (1994). Focusing specifically on the decision making process of purchasing insurance, the Insurance Buying Decision Hierarchy put forth by Meyers (1995) suggest that the basic concerns of the consumers when purchasing insurance are the need, coverage and duration of the insurance. Hence, the decision making process is dependent upon the customers' knowledge and understanding on how insurance can benefit or fulfill certain needs of their lives. Schiffman and Kanuk (1994) further suggest that the purchase of life insurance is able to satisfy the needs for security in Abraham Maslow's "hierarchy of needs".

Literature on life insurance suggests that purchase of life insurance is greatly influenced by the needs to provide for the survivors in the event of death of the primary wage earner (Hammond, Houston, and Melander (1967) and Rejda, 1998). In addition to fulfilling the need for protection, Tischler (1988) suggests that another factor, which might influence the decision to purchase life insurance, is the investment element. A study by Survey Research Malaysia reveals that 45 percent of respondents admit knowing little about life insurance while only slightly more than 33 percent indicated their needs for life insurance. Furthermore, the survey cites that insurance are purchased for children's education, for retirement, for meeting unexpected medical expenses and for protection against death of the breadwinner. Relating to experience in Malaysia and Singapore, Maysami and Kwon (1997) stress the need to educate the public about insurance. Therefore, they recommend the *takaful* operators to intensify their effort on increasing public awareness of the importance of both life and nonlife insurance in general. Sharing his experience in the Malaysian *takaful* industry, Kamaruddin (1997) indicate that the acceptability rate of *takaful* is higher in areas where exposure towards insurance in general is higher. He also found a higher acceptance rate among the educated group.

With regards to Islamic insurance scheme, Kamaruddin (1997) stresses the need and importance of increasing public awareness particularly because *takaful* is a relatively new concept. Despite the high growth rate of *takaful* business in Malaysia, Kamaruddin (1997) argues that the public is still hazy about the underlying concept and operational aspects of *takaful*. Since *takaful* is compatible with Islamic teachings, Kamaruddin suggests that promotional effort should be targeted to the Muslim population as well as supportive government agencies (for example, requirement of purchasing Mortgage *Takaful* for housing loans given to government servants established by the Treasury of Malaysia). *Takaful* might also appeal to the non-Muslims if it is equally as competitive in terms of product offerings, price, quality of services and especially high return promised in the profit-sharing element.

Other studies, which are related to the topic, focus on the demand side of life insurance. [(Yaari (1965), Campbell (1980), Lewis (1989))]. Most of these studies examine the factors affecting the demand for life insurance such as national income, dependency ratio, rate of inflation, availability of social insurance, cultural background etc. Studies conducted by Lewis (1989), Campbell (1980), Browne and Kim (1993), Outreville (1996) have provided empirical evidence of the positive correlation between demand for life insurance and income. With regards to the dependency ratio, studies by Hammond, Houston, and Melander (1967), Campbell (1980), Lewis (1989), Truett and Truett (1990), Browne and Kim (1993) found a significant positive relationship between consumption of life insurance and the number of dependents. Other factors, which are found to have a significant relationship with life insurance consumption, are the rate of inflation (Fortune (1973), Babble (1981), Outreville (1985) and Browne and Kim (1993)), education level (Browne and Kim (1993) and availability of social insurance (Browne and Kim (1993)).

In his study on the factors influencing the purchase of long term care insurance, Kumar et al (1995) found that factors such as being male, having higher income and having increasing expected long-term care cost are positively correlated to dependent variable which is the expected value of policy coverage. On the other hand, advancing age, being married and having less than a college education are found to be negatively correlated with the dependent variable.

An interesting variable, which was included in past studies, is the impact of religion or the unique culture on the demand or consumption of life insurance. Douglas and Wildavsky (1982) and Henderson and Milhouse (1987) put forth the idea that religion or unique culture of a country might have an effect on the population's risk aversion. A historical observation by Zelizer (1979) suggests that religious influence has brought about a strong cultural opposition to life insurance before the nineteenth century in the European countries as well as those countries, which have a predominantly Muslim population. Zelizer further notes that religious antagonism towards life insurance still exist in many Muslim countries. Empirical evidence provided by Wasaw (1986) and Browne and Kim (1993) indicate that countries with a predominant Muslim population consume less life insurance compared to non-Islamic countries. Realizing the importance of insurance in today's economic dealings, Muslim scholars and economists have introduced an Islamic insurance scheme, which is in line with the Islamic teachings. Some of these companies have been in existence for more than 20 years already. However, the acceptance rate among the Muslims worldwide is still very low. In her keynote address at the Institute of Islamic Banking and Insurance's International Conference on Islamic Insurance on 26th of September 2003, Dr Zeti Akhtar, Governor of the Central Bank of Malaysia point out that the market penetration level of insurance in many Muslim countries are still very low, which is less than 5 per cent.

METHODOLOGY

A sample of 220 of Muslim government servants was chosen based on cluster sampling technique. Twenty government departments in Alor Setar were chosen as the cluster sample. Data collection was obtained from questionnaire designed by the researchers based on the review of literature. Parts of the questionnaire items relevant for this study are (I) the section pertaining to respondents' personal details, namely age, income, type of job, academic background, (ii) the section comprised opinion on related issues pertaining to FTS, and (iii) the section to be filled by those that participate in FTS pertaining to the view on factors leading to their participation. Analysis of data for this study involved both descriptive and inferential statistics. Descriptive analysis includes the use of frequency and cross tabulation, while

inferences were made based on one sample t-test and Chi-square test at 5 percent significant level.

ANALYSIS OF FINDINGS

Awareness

The study found that only 51.1 percent respondents are aware of the existence of FTS. One sample t-test concludes that between 44 - 59 percent of the population has the awareness of the existence of FTS.

Result of Chi-square test as summarized in Table 1 indicates that the existence of awareness is significantly related to the job category, the level of income and the educational level.

Table 1:
Results of Chi-Square Test on the Relationship Between
Demographic Factors and Awareness

Relationship between awareness and the following demographic factors:	χ^2	'P' value
Age	1.965	0.580
Sex	0.771	0.881
Job Category	7.256	0.027*
Income Level	11.009	0.004*
Marriage Status	0.671	0.413
The Number of Children	0.422	0.516
Educational Level	15.131	0.000*

* - significant at the 5% confidence level

Cross tabulation as in Table 2 - Table 4 were used to unveil these significant relationships.

Table 2:
Percentage of the Respondents with Awareness
According to Job Category

Job Category	Aware	Not Aware	Total
Support staff I	35(42.2%)	48(57.8%)	83(100%)
Support staff II	25(52.1%)	23(47.95%)	48(100%)
Professional	20(71.4%)	8(28.6%)	28(100%)

Table 3:
Percentage of the Respondents with Awareness
According to Income Level

Income level	Aware	Not Aware	Total
< RM1,000	19(42.2%)	33(57.8%)	52(100%)
RM1,000 – RM1,999	51(52.1%)	49(47.95%)	100(100%)
> RM2,000	16(71.4%)	4(28.6%)	20(100%)

Table 4:
Percentage of the Respondents with Awareness
According to Educational Level

Educational level	Aware	Not Aware	Total
Primary and secondary school	50(41.7%)	70(58.3%)	120(100%)
Diploma and above	41(73.2%)	14(26.8%)	56(100%)

The tables above show that the percentage of the population that is aware of the existence of FTS is positively related to job categories, the income level and educational level.

This study also examined the sources of information that create the awareness on FTS. As summarized in Table 5, the two main sources are the takaful's agent/staff, newspaper and magazine.

Table 5:
Sources of Information on FTS

Sources	Frequency
Takaful's agent/staff	44
Newspaper and magazine	43
Friends and relatives	27
Television and video	22
Internet	4

The Knowledge/Understanding of the Operational Aspects FTS

Ninety-one of the total respondents who claim to have being aware of the existence of FTS were further questioned to disclose their understanding of the operational aspects of FTS. Table 6 reports the result.

Table 6:
The Percentage of the Respondents Who Understand
Key Operational Aspects of FTS

Aspect	Percentage	95% Confident Level
Profit is distributed to participants	78.8	70% - 88%
The policy is open to Muslim and Non-Muslim	63.5	38%-61%
Benefits of the scheme include both death benefit and investment return	56.8	46%-68%
The operation of FTS is different from the conventional live insurance's operation	51.9	41%-63%
Compensation comes from the participant's account and 'participant's special account'	50.6	39%-62%

It can thus be concluded that among all the aspects investigated, the one that is least understood is the fact that the compensation paid to a particular participants is taken from participant's account and participant's special account.

Opinion on FTS

Questions were also posted to gauge respondents' perception on specific issues related to FTS. The analysis is displayed in Table 7.

Table 7:
Mean Analysis on the Opinion on Family Takaful

Opinion	Mean Score*
FTS is free of riba	3.69
FTS involve gambling element	2.51
There is not much different between FTS and conventional insurance	2.69
The premium paid under Family Takaful is higher than the premium paid under conventional insurance	3.35

- * 1- strongly disagree
- 5- strongly agree

The study finds that respondents tend to agree that FTS is free of riba. Interestingly when the frequency distribution of the response to this issue is examined (Table 8), it is found that only 24.1% of the respondent said that they strongly agree. So is with the issue on the existence of gambling element, where 14.5% of the respondents claims that they strongly disagree that FTS do not involve gambling element. These findings show that there is still some doubt with regards to FTS being free of riba and gambling element among of the Muslims.

Table 8:
Frequency Distribution of the Opinion on FTS

Opinion	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
FTS is free of riba	2(2.4%)	7(8.4%)	26(31.3%)	28(33.7%)	20(24.1%)
FTS involve gambling element	12(14.5%)	25(30.1%)	38(45.8%)	8(9.6%)	0(0%)
There is not much different between FTS and conventional insurance	10(12%)	23(27.7%)	38(45.8%)	7(8.4%)	5(6.0%)
The premium paid under FTS is higher than the premium paid under conventional insurance	2(2.4%)	11(13.3%)	34(41.0%)	28(33.7%)	8(9.6%)

Table 7 also indicates that on average the population feels that FTS is more expensive than conventional insurance. Detail analysis in Table 8 however shows that only 33.7 percent agree with this and 9.6 percent strongly agree, while the majority claims that they are not sure.

The Ownership of Family Takaful

One sample t-test found that only 11.8 percent of the respondents who are aware of the existence of FTS subscribe the policy. The low percentage value indicates that low participation among Muslims in FTS is not mainly due to unawareness of the existence of the scheme.

Chi Square was run to determine whether there is significant difference in the ownership of FTS across different demographic factors. The test concludes that none of the factors under investigation has significant relationship with the ownership of the scheme (see Table 9).

Table 9:
Results of Chi Square Test on the Relationship
Between Ownership and Demographic Factors

Demographic factors	χ^2	'P' value
Age	0.272	0.623
Sex	1.149	0.326
Marriage status	3.279	0.194
Job category	1.518	0.468
Income level	3.019	0.555
Number of children	0.324	0.583
Educational level	0.079	0.486

Table 10 tabulates the frequency of stated reasons for not participating in FTS among the non-participants. It is found that the most quoted reasons for not participating in the scheme is the lack of interest in the scheme, followed by financial constraint.

Table 10:
Reasons for Not Participating in FTS

Reason	Frequency
Not interested in the scheme	22
Unaffordable	21
Has already owned conventional life insurance	15
Time constraint	14
Was not approached by takaful's agent	13
No advantage relative to conventional insurance	8
No requirement	4
Others	8

Table 11 shows the key reasons for participating in FTS is the interest in the scheme and need for protection.

Table 11:
Reasons for Participating in FTS

Reasons	Frequency
Interested in the scheme	12
There is a need for protection	10
FTS has many advantages relative to conventional life insurance	9
FTS complies with the syariah principle	9
Affordable	9
Others	7

DISCUSSION

This study attempt to gain an overall view of factors influencing the purchase of the Family Takaful Scheme. The findings of the study might provide some evidence on the low takaful penetration rate reported by Bank Negara. Overall, the study indicates that public awareness of takaful is still low. The findings on the awareness of the existence of *takaful* are in line with the findings of the study by Survey Research Malaysia, which indicate that the Malaysian population in general is not familiar with insurance. Hence, the

study confirm the pressing needs to educate the public about the importance of life insurance in general and family takaful scheme in particular, as suggested by Maysami and Kwon (1997) and Kamaruddin (1997).

The results also indicate that some of the respondents still have some doubts as to the existence of *riba* and gambling in takaful operations. This confirms the statement by Kamarudin (1997) who argue that the public is still hazy about the underlying concept and the operational aspects of *takaful*. Therefore, special characteristics of takaful should be highlighted to attract the Muslim population.

The findings show that awareness does not influence the ownership of takaful whereby only 11.8 percent of those respondents who are aware of the existence of FTS subscribe to the policy. This might be explained by respondents' lack of interest in the scheme and financial constraints. However, we are hoping that this will change in the future due to concerted effort from takaful operators and relevant bodies. The results also indicate that none of the demographic factors tested has significant relationship with the ownership of the scheme. This is parallel with the study by Kumar et al (1995).

CONCLUSION

The level of takaful market penetration, specifically the FTS is relatively low compared to its conventional counterpart even though takaful has been in the market for nearly 20 years. Apparently, it has not been well accepted even by the Muslims and this concur with the findings of this study. Specifically, the study focuses on the respondents' awareness of the existence of the FTS, the respondents' knowledge and opinions on the scheme. The findings of the study indicate that nearly half of the respondents are aware of the existence of FTS. However, only 11.8 percent of those respondents subscribe the policy. The low percentage might be due to opinions of those respondents who still have doubts whether takaful operations have the elements of *riba* and gambling.

The study also found that the most quoted reasons for participating in FTS is the interest in the scheme, need for protection, its advantages relative to conventional life insurance, shariah compatibility, and affordability. On the

other hand, the respondents provide the following reasons for not participating in the scheme: lack of interest in the scheme, financial constraint, has already owned conventional life insurance, time constraint and was not approached by takaful's agent. The reasons given above are in line with the findings, which indicate that the respondents lack the proper understanding of takaful, specifically the underlying concept of takaful and its operations.

The study suggest that the relevant parties, directly and indirectly involve in the industry should intensify their effort to increase public awareness about the underlying concept and operational aspects of takaful. These can be done through improved marketing strategies specifically better distribution system, excellent service, promotion and advertising through many channels of the media, radio, television, newspapers and others. In addition, the special features of takaful such as religious compatibility and competitive price plus the mudarabah or the profit-sharing element should appeal not only to the Muslim but can also attract the non-Muslims. Other factors that will encourage ownership of FTS such as transparency in takaful operations, the use of high technology, high quality personnel, and reputation as well as the image of the takaful operator.

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