



Investment-Linked *Takaful* Plan Patronage: Evidence from Malaysia

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Abstract: Investment-linked Takaful is a recent innovation introduced in Malaysia. This study focuses on Investment-linked takaful plan selection in Malaysia. We have used a self-administered questionnaire to collect data from 143 respondents from the Klang Valley area. Data collected through the survey was analyzed through descriptive statistics, correlation and regression analysis. Results indicate that fee payment and benefits play a significant role in Takaful operator selection while coverage and benefits affect the investment-linked product selection in Malaysia. This study is unique as it provides empirical evidence on the investment-linked takaful investment which is limited in supply. Results provided by this study can be useful for takaful operators in designing the most appropriate investment-linked product for attracting customers.

Keywords: *Investment-linked products, Takaful, Patronage, Malaysia*

Introduction

Most of the past studies on Takaful have explored the comparison between Takaful industries with conventional insurance in terms of efficiency, preference, demand, legal obligations, perception awareness, and policy. The difference in the methodologies has produced varying results and thus generalizable findings that confirm which industry is the most efficient performer do not exist. In the context of Malaysia, recent statistics provide evidence that conventional insurance industry is dominating the overall insurance market. Research evidence that explores the reason for such dominance in Malaysia is rare.

The basic difference in the model between Takaful and conventional insurance is also explored by the researchers in various studies. While past researchers have used document review and case study approach to highlight the differences between Takaful and conventional insurance products, evidence of participant's awareness about the difference of these two types of insurance is not available. There are studies that covered the level of awareness among participants regarding Takaful products in the UK, but such findings are not applicable to the Malaysian insurance market due to the socio-economic background of the respondents.

It is also found through the review of literature that past studies have already covered the Shari'ah and legal aspects of Takaful contract, performed efficiency analysis with a comparative view that, explored the risk management techniques utilised by Takaful operators. Findings of these studies provide general guidelines for the current research. However, this study has concentrated on the preference of Malaysian participants regarding investment-linked Family Takaful which is yet to be covered in the past literature.

Family Takaful provides both protection and long-term savings opportunity. The contribution is divided into two parts. One part is for protection and another part for savings. The financial benefit will be given to the beneficiary or the participants in case of any

unfortunate or tragedy happens and also participants will enjoy the investment return from the savings part. Personal tax relief is also entitled to participate in family Takaful.

In the process of exploring participants' preference toward investment-linked family Takaful, the study used the propositions of the Theory of Islamic Consumer Behaviour (TICB) and the Theory of Interpersonal Behaviour (TIB) to construct a conceptual model. Past studies exploring Takaful demand have relied heavily on the Theory of Reasoned Action (TRA) and Theory of Planned Behavior (TPB) to conclude. In such a situation, the conceptual model of the current study is expected to contribute to the existing literature on Takaful demand due to the introduction of several new variables. The conceptual model is also expected to be used in other countries to reach generalizable findings.

Takaful operators in Malaysia are offering investment products apart from their core business in providing protection through general and Family Takaful. AN investment-linked Takaful is a family Takaful offered with the combination of investment and Takaful coverage. Among various models of Takaful investment products, Wakalah, Mudarabah and Waqf models are gaining popularity among investors. This study, therefore, provides an overview of the current development of investment-linked Takaful in Malaysia through a structured review of related literature. Investment-linked Takaful is a unique innovation in Islamic finance as it divides the contribution of participants into protection and investment. At this early stage of this innovative product, it is very important to develop appropriate regulatory and governance standards to protect investors and ensure the efficient operations of Takaful operators. Bank Negara Malaysia has issued the Guidelines on Investment Linked Business in 2005 that covers a wide spectrum of the operations and administration of investment-linked business with an aim to facilitate the orderly development of such products.

However, further research into the compliance of such standards by Takaful operators can provide valuable guidelines to the regulators. In addition, we acknowledge the importance of the presence of a Shariah board to verify that takaful operators are investing in securities that follow Shariah standards, one of the most crucial aspects for investment-linked products. Therefore, we have investigated the factors affecting investment-linked takaful patronage in Malaysia. The rest of the study is divided into four parts. In section two, we provide a review of past literature to highlight the gaps and indicate the significance of the current study. Section three focuses on the methodological issues while the following section provides analysis of results. In the final section, we conclude our findings and provide suggestions for future research..

Literature Review and Hypothesis Development

Preference studies are very common in any product and services on various sectors within different context including investment, product, banking sector, the stock market and many more. The current studies incorporated with the investment linked-plan of Family Takaful. With that regards the following review is mostly related to investment and Islamic Bank preference also with the product and stock preference.

In investment behaviour studies, females are more risk-averse than male investors (Lascu, Babb, & Phillips, 1997). In addition, psychographic variables are the most important for investment product with a high degree of risk. Demographic and socioeconomic variables are important with less degree of risk (Sahi, Dhameja, & Arora, 2012). Likewise, it cannot be said that SME proprietors are negative risk preference found in Greek (Georgousopoulou, Chipulu, Ojiako, & Johnson, 2014). On the other hand, investment behaviour does not influence by Islam (Tahir & Brimble, 2011). Nair & Ladha (2014) explored in their studies that religiosity and belief can influence society and non-economic investment.

Consumer preference for a foreign and domestic product depends on the country of manufacture and product quality (Gary A. Knight, 1999). In stock preference, beyond the financial return personal relevance and effective evaluation of the company's product brand also

influence (Aspara & Tikkanen, 2010). Similarly, high return in stock preference and stable return in fixed deposit influence the investors in India explored by Arora & Marwaha (2014).

Islamic and financial reputation and service quality influence to patronize Islamic banking among the Malaysians (Dusuki & Abdullah, 2007). Similar findings explored by Idris, Salleh, Ahmad, Ismail, & Yazid (2014) that religious belief and service quality has a significant influence on selection Islamic Banking with the addition that social influence, image and reputation are also significant in their studies. Similarly, Doraisamy, Shanmugam, & Raman (2011) explored that Malaysians prefer Islamic banking for profitability and quality. According to Echchabi & Olaniyi (2012) in qualitative result founds that combination of service quality and convenience is the influential factor to choose Islamic Banking but in quantitative result showed that religious motivation is the main factor to engaged with Islamic banking among Malaysians. Meanwhile, knowledge and awareness have a strong influence on Malaysians (Muhamad et al., 2013). Besides, convenience service, the perception of the service and ethical organization are also influential factors to prefer Islamic banking among Malaysians (Jalil & Rahman, 2014).

On the other hand, the low service charge is the main important consideration for Islamic Bank selection in the UK (Mansour, Abdelhamid, Masood, & Niazi, 2010). In Pakistan, knowledge, awareness and religiosity has a strong influence to prefer Islamic Banking (Riaz, Khan, & Khan, 2017) while Islamic principles and Arab language skills influence to prefer Islamic banking in UAE (Shome, Jabeen, & Rajaguru, 2018). In addition, Demographic and socio-economic moderators may have direct or indirect moderation effect on Islamic Banking preference (Warsame & Ileri, 2018).

Islamic credit card preference followed by a reward point system cost associated with the credit cards and convenience among Malaysians (Dali, Yousafzai, & Yousafzai, 2015). In the case of Islamic mortgage service quality, product choice and Islamic debt policy came up as an important factor for the consumer attitude and preference in Malaysia. Attitude also mediates the relationship between variables with the preference (Amin, Rahman, Razak, & Rizal, 2017). Therefore, we develop the following hypotheses:

H1a: Fees have a negative impact on Takaful operator preference.

H1b: Fees have a negative impact on Investment-linked product preference.

H2a: Investment type has a positive impact on Takaful operator preference.

H2b: Investment type has a positive impact on Takaful operator preference.

H3a: Plan expiry has a positive impact on Takaful operator preference.

H3b: Plan expiry type has a positive impact on Takaful operator preference.

H4a: Coverage has a positive impact on Takaful operator preference.

H4b: Coverage has a positive impact on Takaful operator preference.

H5a: Benefits have a positive impact on Takaful operator preference.

H5b: Benefits have a positive impact on Takaful operator preference.

Methodology

We have a quantitative research design in this study. Data was collected through a self-developed questionnaire. The questionnaire was distributed to conveniently selected family *takaful* policyholders in Klang Valley area. The questionnaire was provided in English and Malaya. A total number of 150 respondents participated in the survey. We have excluded seven

responses due to missing value issue. Therefore, the final sample of the study is 143. Demographic statistics of the sample is provided in Table 1.

Table 1: Demographic statistics

	Frequency	Per cent
Gender		
Male	50	35
Female	93	65
Age		
Below 25	12	8.4
25-35	109	76.2
35-45	15	10.5
45-55	7	4.9
Education		
SPM	3	2.1
Diploma	3	2.1
Degree	83	58
Masters	49	34.3
PhD	4	2.8
Others	1	0.7
Income Level		
RM 2000 and below	45	31.5
RM 2001-RM4000	72	50.3
RM 4001- RM6,000	4	2.8
RM 6,001-RM 8,000	5	3.5
RM 8,001-RM 10,000	4	2.8
RM 10,001 and above	8	5.6
Race		
Malay	123	86
Chines	3	2.1
Indian	3	2.1
Others	13	9.1
Religion		
Islam	135	94.4
Buddhist	2	1.4
Hindu	3	2.1
Christan	2	1.4
Employment status		
Government Employment	92	64.3
Private Employment	26	18.2
Student	21	14.7
Self-employed	3	2.1
Others	1	0.7
Marital status		
Single	97	67.8
Married	45	31.5
Others	1	0.7

Majority of the respondents are female (65 per cent) between age 25 to 35 (76.2 per cent). 35.8 per cent of the respondents has a degree while 34.3 per cent have a master level qualification which provides assurance of valid responses. Around 50 per cent of the respondents has a monthly income between 2,000 to 4,000 RM. Majority of our respondents are Malay (86 per cent) due to the nature of the study. However, we have also included Chinese (2.1 per cent) and Indian (2.1 per cent) respondents to improve the demographic diversity of the study. Government employment dominates the employment status with 64.3 per cent while 18.2 per cent of the respondents has provided employment. We have included few students in this study who are currently studying at PhD level after taking leave from their public or private employment.

Results

Table 2 provides descriptive statistics of the explanatory variables. *Takaful* patronage is the dependent variable in this study. Survey results indicate that 47.1 per cent (see appendix) of the respondents have chosen AIA Sdn Bhd for investment-linked products. Independent variables of the study include fees, investment type, plan expiry, coverage and benefits offered by the *takaful* operator. Fees is a dichotomous variable and return a score of 1 if investors are required to pay additional fees for investment-linked products (ILP). The mean score is 1.45 which indicates that there are fees associated with ILP. We have asked whether investors prefer single or regular investment. Mean score for investment type is 1.545 indicating respondent preference toward a single type of investment options. We provided an open-ended question to explore the plan maturity. Coverage is a proxy to determine who is covered in their plan. Finally, we have included benefits provided by the *takaful* operators to attract investors toward ILPs. We provide correlation analysis in Table 3. Overall, independent variables have some level of correlation with the dependent variable. However, independent variables are not highly correlated among each other. Therefore, this study is not affected by multi-collinearity issues.

Table 2: Descriptive Statistics

	Mean	Std. Deviation
<i>Takaful</i> patronage	1.818	1.332
Fees	1.454	.5096
Investment type	1.545	.5096
Plan expiry	201.227	601.701
Coverage	1.909	1.150
Benefits	3.590	1.708

Table 3: Correlation analysis

	<i>Takaful</i>					
	patronage	Fees	Investment type	Plan expiry	Coverage	Benefits
<i>Takaful</i> patronage	1.000					
Fees	.618	1.000				
Investment type	-.268	-.450	1.000			
Plan expiry	-.212	-.307	.307	1.000		
Coverage	-.198	-.170	-.074	-.112	1.000	
Benefits	-.327	.224	.050	.184	-.335	1.000

Regression results are provided in Table 4. We have conducted multiple regression analysis for two empirical models. In the first model, *takaful* operator preference is included as the dependent variables. Results indicate that only fees and benefits have statistically significant relationships with *takaful* operator preference at 1 per cent level. While fees charged by *takaful* operators are negatively associated with ILP preference, benefits offered by *takaful* operators have a positive association with patronage. Model 1 has an adjusted r square of 0.587 indicating that 58.7 per cent of the variation in ILP patronage for selected *takaful* operators can be explained by the selected explanatory variable. The model is significant at the 1 per cent level.

In model 2, we have introduced a new dependent variable i.e. investment-linked funds. We have tried to explore whether investors are more interest to invest in growth funds, balanced funds or fixed income funds. Results provided in the table indicates that Model 2 is significant at 5 per cent level and has an adjusted r square of 0.337. Coverage and benefits are found to have a significant relationship with investment-linked fund selection at 10 per cent level. The benefit is found to have a positive relationship with investment-linked fund selection. Therefore, H1a, H4b, H5a and H5b are accepted. We could find significant evidence that investment type and plan expiry affect investment-linked plan patronage.

Table 4: Regression analysis

	Model 1				Model 2			
	Coefficient	t-statistic	p-value	VIF	Coefficient	t-statistic	p-value	VIF
Constant	0.883	0.708	0.489		.888	.868	.398	
Fees	-0.763	4.446	0.000	1.498	.299	1.344	.198	1.647
Investment type	0.060	0.371	0.715	1.343	.286	-1.742	.101	1.499
Plan expiry	0.086	0.555	0.587	1.232	.000	.771	.452	1.225
Coverage	-0.255	-1.688	0.111	1.164	.110	1.997	.063	1.153
Benefits	0.602	-3.854	0.001	1.241	.074	1.887	.077	1.121
Adjusted R ²	0.587				0.337			
F-value	6.964				3.134			
p-value	0.001				0.037			
Durbin-Watson	0.808				1.366			

Note: Dependent variables for Model 1 and Model 2 are *Takaful* operator and Investment-linked funds respectively.

Conclusion

The risk management concept of *Takaful* is well within the Maqasid al-Shariah perspective to protect life, wealth and dignity against any misfortune. On the other hand, the low level of observation of internal control and reporting standard of *Takaful* cause of lower perception and awareness about the *Takaful* among the public in Malaysia is piercing through different parts of the economic and political setting of the country's infrastructural powers leading up to the influence of financial reporting standardization process. There are many problems related to the Government, *Takaful* companies and the Shariah board, lack of governing guidelines for the *Takaful* companies in Bangladesh is causing operational problems of Family *Takaful*. In Malaysia Zakah, Waqaf and micro *Takaful* schemes share commonalities in terms of social securities and socio-economic support to low-income households in societies. In the UK the awareness is low but the high preference for *Takaful* products through Islamic Banking channels rather than Independent *Takaful* operator. In Malaysia, intention toward participating in family *Takaful* scheme is are not only affected by attitude, subjective norm and

perceived behavioural control but also influence by moderating factors like demographic variables, consumer knowledge, situational factors and consumer level of religiosity. Similarly, Income, Islamic banking development, education, dependency ratio and Muslim population factors are positively related to *Takaful* demand. We have provided empirical evidence that fees relating to investment-linked products and benefits offered by *takaful* operators play a major role in investment decision making. Results provided by the study allow *takaful* operators to design competitive products to ensure the growth of the *takaful* industry in Malaysia.

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Appendix

Takaful Operator

	Frequency	Percent	Valid Percent	Cumulative Percent
AIA	33	23.1	47.1	47.1
Prudential	16	11.2	22.9	70.0
Great Eastern	4	2.8	5.7	75.7
Etika	5	3.5	7.1	82.9
<i>Takaful</i> Malaysia	3	2.1	4.3	87.1
Zurich	3	2.1	4.3	91.4
BSN	2	1.4	2.9	94.3
<i>Takaful</i> Inkhlas	1	.7	1.4	95.7
Allianz	1	.7	1.4	97.1
Others	2	1.4	2.9	100.0