

UNIVERSITI TEKNOLOGI MARA

**A COMPARATIVE ANALYSIS BETWEEN ISLAMIC
INSURANCE (TAKAFUL) AND CONVENTIONAL
INSURANCE: CASE OF ENTREPRENEUR IN
KELANTAN, MALAYSIA**

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ABSTRACT

This study investigates the differences between the principles and practices of takaful and conventional insurance and examines how industrial companies in MIEL Lundang perceive these options. It also explores the level of awareness and understanding of takaful among businesses, focusing on the factors influencing their decision-making in risk management. This research is critical in understanding how takaful, as a Shariah-compliant risk management model, can benefit the industrial sector. A qualitative method was adopted by conducting semi-structured interviews with 10 business owners and managers in the MIEL Lundang area. Additional data were gathered through library research to support the thematic analysis. The findings revealed that awareness and understanding of takaful are limited, particularly among non-Muslim business owners. Challenges such as slower claim processing times and insufficient promotion of takaful contribute to its lower adoption. Muslim-owned companies are more likely to choose takaful due to its ethical principles and alignment with Shariah values, while non-Muslim companies prefer conventional insurance for its straightforward terms and faster claim processes. This study underscores the importance of increasing awareness and understanding of takaful through more inclusive marketing and educational efforts. Takaful has significant potential as a primary risk management solution, offering both ethical and practical benefits to the industrial sector.

Keywords: Takaful, Conventional insurance, Risk management, Awareness, Shariah-compliant

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

Insurance is crucial for managing risks in businesses by offering financial protection against unexpected events that could disrupt operations. In today's dynamic and highly competitive global market, industrial companies are increasingly exposed to a wide range of risks, from economic downturns and supply chain issues to natural disasters and operational disruptions. Because of this, insurance has become an essential component of risk management for businesses worldwide, acting as a safety net that helps them recover from unforeseen events with minimal financial damage. In Malaysia, the industrial sector is a key contributor to the nation's economy, particularly in regions like Kelantan, where businesses of all types play a major role in local economic development and job creation.

Malaysia's insurance sector includes both conventional insurance and Islamic insurance, known as takaful. While conventional insurance operates by transferring risk, takaful is based on the cooperative sharing of risk, in line with Islamic law. This system encourages participants to contribute to a shared pool of funds, which provides financial support in times of need, reflecting Islamic ethical values. As businesses face increasing risks in an uncertain market, choosing the right insurance model is crucial to maintaining long-term stability and resilience.

Malaysia has established itself as a global leader in Islamic finance, with a strong regulatory framework supporting the growth of Shariah-compliant financial products. Takaful, as part of this broader Islamic finance ecosystem, has experienced rapid growth, attracting both Muslim and non-Muslim consumers seeking ethical and cooperative financial solutions. The Malaysian government and regulatory bodies like Bank Negara Malaysia have played an active role in promoting takaful, contributing to its expansion alongside conventional insurance. However, despite this growth, takaful's presence in the industrial sector especially in regions like MIEL Lundang remains relatively limited.