



UNIVERSITI TEKNOLOGI MARA

**EXTERNAL AND INTERNAL FACTORS
THAT AFFECT THE INSURANCE AND
TAKAFUL INDUSTRY IN MALAYSIA**

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Abstract

Today in Malaysia, insurance operates in 2 types, either by conventional or Islamic insurance (also known as Takaful). Hence this study aims to investigate the performance of Takaful and the performance of the conventional insurance industry in Malaysia. Data collected to carry out this research are from 2011 to 2020, approximately ten years. The collection of 10 companies consists of 5 Takaful insurance companies and 5 Conventional insurance companies. The dependent variable is the investment performance of both industries. The independent variables of internal factors (Company variables) consist of company size, return on asset, return on equity, and liquidity. The external factors (Macroeconomic variables) consist of gross domestic product, interest rate, equity return, and inflation. A test result that will be carried out to perform the analysis is Descriptive analysis, Correlation analysis, Multiple Regression analysis, Multicollinearity analysis and Normality analysis. As a result, the Takaful insurance industry has a more significant impact on this study on determining the factors of both internal and external factors towards the Malaysian economy than the conventional insurance industry.

Keywords: Malaysia; Insurance; Return on Equity; Analysis; Return on Asset; Factors; Liquidity; Interest rate; Industry; Investment performance; Inflation; Company Size; Gross Domestic Product; Equity return;

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Chapter 1: Introduction

1.1 Introduction

This chapter will discuss what insurance means in general and the contributions of what insurance can offer to the Malaysian economy. Therefore, this section will examine context research, elaboration towards the problem related, nature of the study, and limitation of the study.

Overall, this research focuses on the contributions from the insurance industry from both Takaful and Conventional insurance towards Malaysia's economy. The research aims to identify either internal or external factors, which include around 10 companies involved.

1.2 Background of The Study

According to Health Minister Datuk Seri Dr Adham Baba, only 22% of Malaysians were underinsured by personal health insurance (The Star, 2020). The research findings stated that 43% specified it to be unaffordable, and 36% specified unnecessary. Today in Malaysia, insurance operates in 2 types either by conventional insurance or Takaful. There are around 22 licensed insurance companies and takaful operators registered in Malaysia (Bank Negara Malaysia, 2021). Insurance can be defined as a risk-sharing agreement between two parties that redistributes the costs of unforeseen losses (Mohamed et al., 2017).

Insurance is served in many functions in protecting a client's health, injury, loss of property, legal liability, premature death, or other unexpected causes and expenses. Although it is all true, the insurance industry, either conventional or Takaful, can contribute to the economy. This contribution can be in three categories such as security, financial stability, and development (Weisbart, 2018). Relating to this research, Weisbart (2018) claimed that insurance could help stabilize the economy, especially during times of financial crisis such as the current pandemic, Covid-19. He mentioned that insurance could support the country in contributing towards the GDP, taking a role as a social policy partner, sustaining the supply chain, and becoming a capital infuser.

A study by Loke & Goh (2013) researched that Malaysia's per capita insurance spending has climbed by 128 per cent since 2000, from RM338 to RM771 in 2010. Furthermore, from 1,174,517 policies in 2000 to 1,428,280 policies in 2010, the number of new life insurance policies has increased by 21%. For this reason, as years go by, people are more educated and open-minded in the idea of having insurance and its importance.