

UNIVERSITI TEKNOLOGI MARA

**DEMAND FOR RETAKAFUL
AND REINSURANCE COMPANIES
AMONG TAKAFUL OPERATORS**

FARHAH DURAR BINTI RAZMI

NUR SYAZREEN BINTI YUSRI

Dissertation submitted in partial fulfilment of the
requirements for the degree of

Master of Islamic Banking and Finance

Arshad Ayub Graduate Business School

December 2018

AUTHOR'S DECLARATION

We declare that the work in this dissertation was carried out in accordance with the regulation of Universiti Teknologi MARA. It is original and the result of our own work, unless otherwise indicated or acknowledged as referenced work. This topic has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

We, hereby, acknowledge that we have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of our study and research

Name of Candidate : Farhah Durar binti Razmi 2016711277
Nur Syazreen binti Yusri 2017684806

Programme : Master of Islamic Banking and Finance (MIBF)
Faculty : Arshad Ayub Graduate Business School (AAGBS)
Thesis Title : Demand for Retakaful and Conventional Reinsurance
among Takaful Operators

Signature Candidates : (Farhah Durar binti Razmi)

..... (Nur Syazreen binti Yusri)

Date : December 2018

ABSTRACT

Insurance is an important mechanism of risk management in the organizations. However, due to the existence of the prohibited elements in its operation such as *riba*, *gharar* and *maysir*, insurance is considered prohibited. An Islamic alternative to insurance is takaful whose operations are based on Islamic acceptable contracts. Considering the technical similarities of takaful and insurance, a takaful company similarly needs reinsurance facilities, which in this case must be provided by retakaful companies. This research looked into the demand of retakaful or reinsurance among the takaful operators in Malaysia by looking at the current situation of takaful operator and by using the Resource Based View, Capacity Constraint Theory and Institutional Theory to identify the main factors that influence the takaful operators to cede with the retakaful or reinsurance companies. Data collection was carried out using questionnaires which were distributed to the Shariah Committee in the takaful companies and a total of 59 responses were obtained. A qualitative analysis was performed using Porter's Five Forces analysis tool and three recommendations were proposed. All the data from the questionnaire was analyze by using the SPSS Software. The findings show that only rating and size of the retakaful companies and profitability affect the takaful companies to reinsure with the retakaful companies while the other variables do not affect. Meanwhile, only one variable from reinsurance companies affects the takaful companies to reinsure with the reinsurance which is profitability.

TABLE OF CONTENTS

	Page
AUTHOR'S DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES	ix
LIST OF FIGURES	xi
LIST OF ABBREVIATION	xii
CHAPTER ONE : INTRODUCTION	
1.1 Introduction	1
1.2 Overview of the Study	1
1.3 Background of the Study	5
1.3.1 Development of Insurance and Takaful Industry in Malaysia	6
1.3.2 Development of Reinsurance and Retakaful in Malaysia	8
1.3.3 Importance of Retakaful Facilities	9
1.3.4 Types of Takaful Product that Ceded to Retakaful and Reinsurance	10
1.4 Problem Statement	12
1.5 Research Objectives	13
1.6 Research Questions	14
1.7 Motivation of Study	14
1.8 Scope of Study	15
1.9 Significance and Contribution of the Research	15
1.9.1 Takaful Operators	16
1.9.2 Future Researcher	16
1.10 Chapters Outline	16
CHAPTER TWO : LITERATURE REVIEW	
2.1 Introduction	18

2.2 Theoretical Review	18
2.2.1 Resource-Based View (RBV)	18
2.2.2 Capacity Constrain Theory (CCT)	19
2.2.3 Institutional Theory	19
2.3 Strategic Business Tool	20
2.3.1 Porter’s Five Forces	20
2.4 Demand	21
2.5 Previous Studies on Factors Affecting Demand for Reinsurance	22
2.5.1 Pricing	22
2.5.2 Rating	24
2.5.3 The Size and Capacity of the Company	25
2.5.4 Profitability	26
2.5.5 Product Diversification	26
2.6 Theoretical Framework	28
2.7 Academic Construct	28
2.8 Summary	29

CHAPTER THREE : RESEARCH METHODOLOGY

3.1 Introduction	31
3.2 Research Design	31
3.2.1 Research Strategies	31
3.2.2 Unit of Analysis	32
3.3 Sampling Design	32
3.3.1 Target Population	32
3.3.2 Sampling Technique	33
3.3.3 Sampling Process	34
3.4 Data Collection Method	34
3.5 Research Instruments	35
3.5.1 Questionnaire	35
3.5.2 Type of Scale	35
3.4.3 Operationalization : Dimensions	36
3.6 Data Sources	36