

## **SOCIETY PERCEPTIONS BETWEEN CONVENTIONAL AND ISLAMIC LIFE INSURANCE: A CASE STUDY IN BANDAR JENGA PAHANG**

Irzan Bin Ismail  
Faculty of Business Management  
Universiti Teknologi MARA, Cawangan Pahang, 26400 Bandar Jengka, Pahang  
irzan@pahang.uitm.edu.my

*Abstract:* Human beings are not far different from other living thing as we are exposed to various risks. In our daily life, uncertainties always exist. This is one of the reasons that limit our capability. To most people, risk implies some form of uncertainty about an outcome in given situation. Having a life insurance is one form of risk transfer mechanism that would offer numerous benefits against these uncertainties. As a social and economic device, life insurance is a method by which a group of people may cooperate to ameliorate the loss resulting especially due to premature death. It is very important for us to realize that life insurance is more than just a financial agreement or financial protection but it has become a need in this challenging environment where it offers different options for consumers in terms of product, plans, benefits and period. Life insurance can be separated in two major categories consist conventional insurance and of Islamic insurance which is merely known as Takaful. The main concern is the basis of operation that is different in terms of interpretation and approaches as well as the principles and concepts. A study on the society perceptions between conventional and Islamic life insurance among the community in Jengka Pahang, is the first step in understanding the society level of understanding and thoughts regarding life insurance. This paper will discuss on the society perceptions between Islamic and conventional insurance and what do they perceived of life insurance. It will also elicits all the factors which contribute to the buying decision of the existing policyholders and what are the factors that preventing society from buying life insurance though the importance is clearly defined.

**Keywords:** Life insurance, Risks, Protection, Takaful, Syariah, Perceptions

### **INTRODUCTION**

In this modern world, one of the ways that can be done to reduce the risk of due to accident or misfortune is through insurance. In fact, it is almost impossible to live without being affected by insurance. The house that we bought or rent has got insurance cover. The car that we bought or rent has to have insurance. The bus that we board has insurance. Insurance is all around us whether we like it or not. (George E. Radja, 2003) [1]

The principle of Takaful can be a basis of Islamic insurance. According to Mohd. Tarmidzi Ahmad Nordin (2004) [4] in his article entitle 'What is Takaful', Takaful comes from the word Kafala which means guarantee. So, Takaful means mutual guarantee. Under this principle, the participants to the scheme would give their money to the company on the basis of Tabarru with the stipulation that the company would compensate them with an amount should he be struck by a calamity. Mohd Tarmidzi (2004) [3] in his article 'Insurance and Gambling', further stipulated that the company must not be involved in Haram activities like Riba, gambling, liquor and the like. Conventional insurance involves the elements of uncertainty (Al-Qharar) in the contract of insurance, gambling as the consequences of the presence of uncertainty and interest (Al-Riba) in the investment activities of the conventional insurance companies which contravene the rules of Shariah.

Muhammad Nejatullah Siddiqi (1985) [2] in his book, title "Insurance in an Islamic Economy", wrote that: "Insurance is based on the discovery of a useful social-scientific principal, according to which, after a small investment, individuals can be freed from incurring financial losses as a result of perils and accidents, whose incidence can be measured fairly accurately in relation to large human groups. This principle, like all other scientific discoveries, is a blessing from God to take advantage of it is not only desirable; it is indispensable for the progress of civilization. Insurance has nothing to do with gambling which is prohibited by God."

### MATERIALS AND METHODS

The research was conducted among the settlers in Bandar Jengka Pahang. The main objective is to identify the society perceptions on life insurance from Islamic and conventional approaches. A random sampling method was used to elicit information. It involved 100 respondents from different areas in Jengka. The study was conducted using questionnaires. Duration of the study is 3 months where most of the time emphasis on data collection. Data from the study is analyze through frequencies diagram.

### RESULTS AND DISCUSSION

Results from the survey shows that 69% of the respondents are men and the remaining 31% are women. This is because men are more involved in insurance industry then women who have less knowledge about insurance. Furthermore, at the time of survey, men are most interested about insurance. As we know men was controlled the money and family, so that all the insurance taken under men.

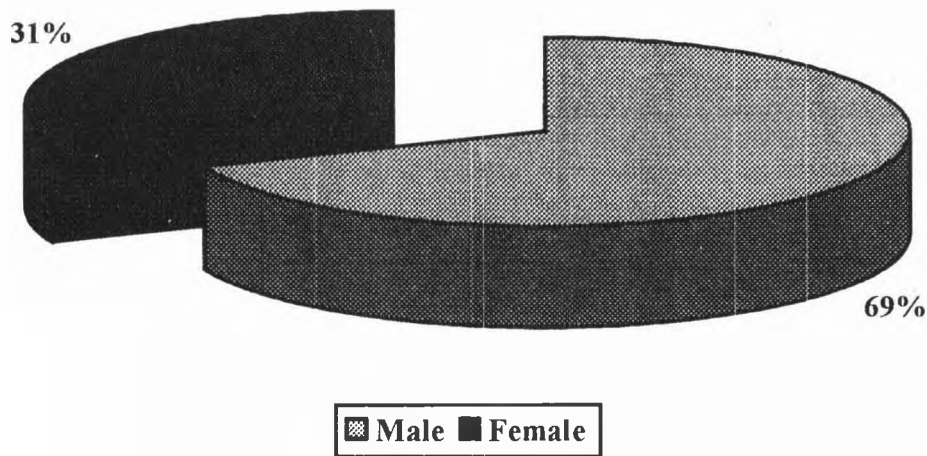


Figure 1: Percentage of Respondents by Gender

For the group of ages of our respondents, the highest group of ages that we get is between 41-50 years old that is 57%, the second highest is between 31-40 years old that is 22% and age between 51-60 years old is 21%. Meanwhile for 20-33 years old of ages and above there is none. This is because majority of permanent respondents of Jengka ages in between 31-60. The highest is 41-50. All our respondents are married. Our targeted is to survey the people from all status such as from unmarried, married, widow and widower.

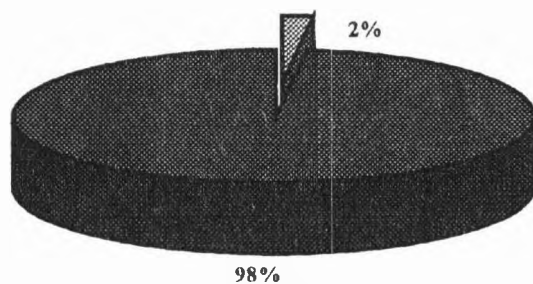


Figure 2: Respondent's Perceptions On Conventional Insurance Is Gambling

From our survey in Jengka, the highest percentage states that conventional insurance is not a type of gambling that is 98% and only 2% states that yes for conventional insurance is a type of gambling. Majority of the respondents is saying that conventional insurance is gambling because they have not enough knowledge about what conventional insurance is all about so that, they preferred to choose Islamic Insurance. The percentage of respondents chooses to take Islamic insurance from taking conventional insurance that is as much as 100%. Refer to their statement in our survey, 100% of respondents said they most preferred to choose Islamic insurance because it is legal in Islam compared to conventional insurance. The other reason is most of the respondents are Muslim so they considered taking Islamic insurance is the best decision.

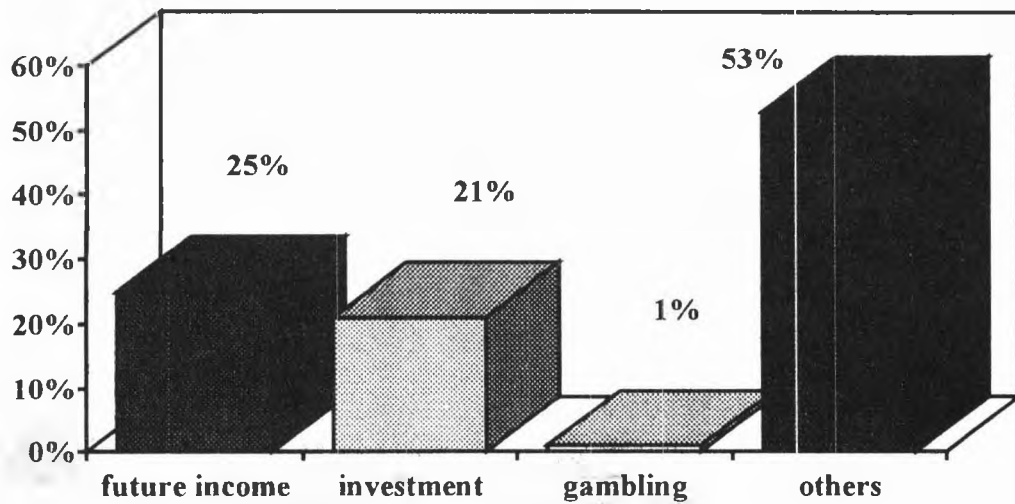
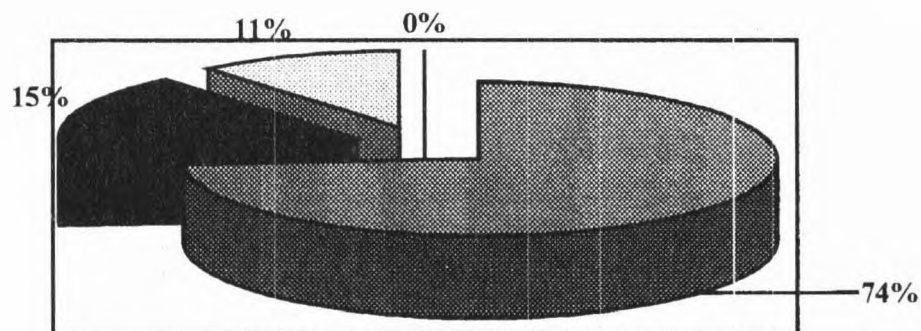


Figure 3: Understanding of Life Insurance

Most of our respondents in Jengka, understand insurance as a type of cover for their property, 25% understand insurance as guarantee for their future well being. Meanwhile 21% understand insurance as a type of investment and only 1% understands insurance as a type of gambling. Respondents gained most information regarding life insurance through agents. 99% of our respondents in Jengka trust in Islamic insurance because they have their perception that Islamic insurance is legal in Islam. So that they have no doubt for taking this insurance. Other reason, they said that Islamic insurance was based on Syariah principles. 1% of them said he does not trust in Islamic insurance due to bad experience regarding claim.



According to Syariah 
  Easy to understand 
  Guaranteed 
  Others

Figure 4: Why do you prefer Islamic Insurance?

From our survey that 74% from the respondents choose follow the Islamic insurance from conventional insurance. 15% from the respondents said it is easy to understand and 11% said this is more guarantee. In fact of our survey, the residents of Jengka had not enough knowledge about the conventional insurance. So that they preferred to choose the Islamic insurance. Majority of them choose the choices that Islamic insurance follows rule of Islamic way.

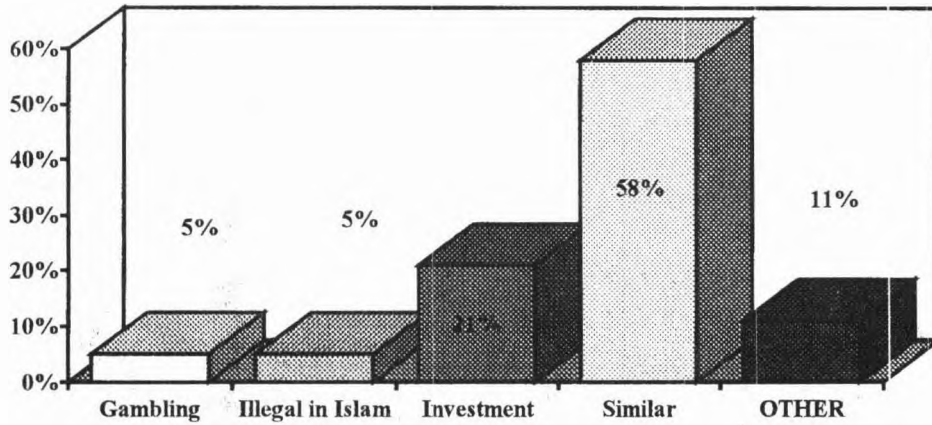


Figure 5: Respondents Understanding of Conventional Insurance

In the survey, how far the respondents understand the conventional insurance, 5% of them said that conventional is gambling. 5% of them said it is illegal in Islam, 21% agreed that it is an investment. 58% of them said conventional insurance is similar to Islamic insurance with differences functions. And the remaining 11% of the respondents consider conventional insurance as protection for losses and damages.

The results also shows that 79% of respondents said they did not understand about the differences between conventional insurance and Islamic insurance and 21% of respondents said they understand about the differences. When we ask these 21% of respondents on how far they knew about the differences and they said that the operation of conventional insurance is different than Islamic insurance, where the Islamic insurance is emphasizing on the Islamic rule and vice versa for conventional insurance.

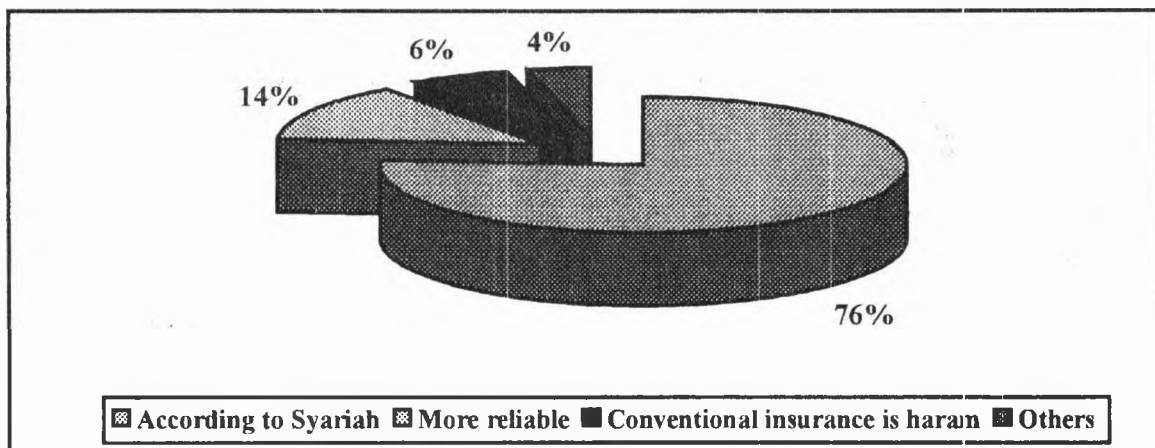


Figure 6: Differences Between Conventional and Islamic Insurance

From the graph and table above, out of 21 respondents, 76.19% (16) said the different in Islamic Insurance is it follows the syariah and 14.29% (3) said the different is Islamic Insurance more guarantee and reliable than conventional insurance. 6% (2) said the different is conventional insurance was *haram*. Survey also shows that 96% of our respondents said that Islamic Insurance more comfortable and suitable to the Muslim compare than Conventional insurance. From this percentage, 83.33% said it is because the Islamic insurance follows the Islamic system and *syariah*. 3.13% said the Islamic Insurance is more guarantee than conventional insurance and Islamic insurance is *halal* in Islam. 5.21% of the respondents said it is good to encourage saving among Muslim. Other 7.29% said it suitable because to support the Islamic financial industry.

## CONCLUSION

According to M.N. Siddiqi (1985) [4], human life can never be free from risk and uncertainty. Most human activities take place amid circumstances full of hazard and uncertainty. We do get used to some small risks and anxieties. In the sphere of economics activities, however risk and uncertainty are accompanied by the fear of financial loss or hope gain or both, heightening our awareness of them. Insurance is a basic human need, as accidents and their financial consequences, requiring insurance cover are universal. Sudden death, disability, disease, unemployment, fire/flood, storm, drowning and accidents related to transportation, and the financial loss cause by them, are not independent on one's voluntary actions or occupation, etc. often the victim and his family are reduce to pecuniary.

Saiful Azhar Rosli [5] in his article 'Business and Islam', states that, both conventional and Islamic insurance share the same objective that is to absorb risks. The role of insurance is to reduce these risks or transfer them to another party through mutual business agreement. Different individual has its own perceptions and beliefs but in reality both Takaful and conventional insurance seek to reduce and minimize a form of *gharar* in our daily life known as the pure risk where there is no potential gain except for possibility of loss.

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