

DETERMINING FACTORS FOR THE CHOICE OF ISLAMIC INSURANCE

Faizah Azzam Bte Ahmad Azzam

Fakulti Perakaunan

Universiti Teknologi MARA, Cawangan Pahang, 26400 Bandar Jengka, Pahang

Abstract: The Islamic Insurance system is gaining momentum. The Islamic insurance (Takaful) industry had been experiencing double digit growth for more than a decade. Although the Takaful industry had made its mark and the growth has been significant, the industry still remains relatively small when compared to conventional insurance. The Islamic insurance system is expected to face strong competition not only from conventional insurance companies but also from well-established conventional banks that are offering Islamic insurance product. In this study, an attempt is made to determine the factors that hinder the customers from choosing the Islamic insurance product. A sample of 100 respondents took part in this study. The influence of demographic factors such as gender, age, marital status, race, religion, qualification and monthly income on choice of Islamic insurance indicated that age is among factors that determine the consumer choice of insurance. Majority of the respondents that subscribe Islamic and conventional insurance were in the age of 31 to 40 years old. The older generation is more likely to have an insurance policy. Also, the study indicated that majority of the demand for insurance policy came from the married couple because his financial status is normally more stable. In analyzing the twenty-five factors, one sample test was used to find out the probable reasons that can influence the customer for not choosing Islamic insurance. The analysis of the respondents revealed thirteen main factors for the low participation in Islamic insurance product. Among the factors were; the public was not offered Islamic motor insurance policy when purchasing new vehicle, marketing of Islamic insurance scheme was not that aggressive as conventional insurance scheme, the public has a low level of knowledge about Islamic insurance scheme and very few branches available throughout the country. As such, the researcher believes that Takaful operators should put more aggressive effort in educating the public through the mass media by emphasizing more on the benefits of Islamic insurance as compared to conventional insurance.

INTRODUCTION

Islamic insurance differs from that of conventional one. This is because an Islamic insurance policy is based on the concept of al-Mudharabah, a profit and loss sharing scheme and must be free from the elements, which are unlawful in the eyes of the Shari'ah. The scholars who are not in favour of legalizing insurance must have based their opinions and judgments upon looking conventional insurance practices, which involve some unlawful elements in the sights of the Shari'ah.

An insurance contract binds the insurer only on a unilateral basis, which means that, the insurer is under an obligation to provide compensation against the loss or damage of the subject matter of the policy, while the participant would not be compelled if he did not want to continue the payment of contribution. But, it is necessary for insured to continue the payment of contribution in order to claim benefits from the policy. Under Common Law practices, if the insured discontinues the payments of contribution, the paid-contribution may not simply be forfeited, but will be given to the insured through the surrender value of the policy.

The Islamic model of insurance policy is based on the Divine principles of mutual co-operation and solidarity, as enshrined by Allah (s.w.t.) to the effect:

وتعاونوا على البر والتقوى

"...and co-operate you one another in righteousness and piety." [1]

A Shari'ah based insurance policy, does not involve the unlawful element of usury (Riba), but it is based on al-Mudharabah (the profit and loss sharing financing technique). In this dealing the participant pays contributions to the Takaful operator, which runs a business with the accumulated money. Both the operator and the participant shall share the profits earned from such transaction accordingly [6].

In an Islamic model of life insurance, the nominee is not an absolute beneficiary, but a mere trustee who is under an obligation to receive the benefits from the policy and distribute them accordingly among the legal heirs of the deceased, in accordance with the principles of al-Mirath (inheritance) and al-Wasiyah (bequest)[4].

In an insurance transaction, an agent is working for the company. It is suggested that, the agent should take his salary from a share of profits in the business carried out by the company. The agent, therefore, should not be paid out of the participant's contributions.

In a life policy, if the insured dies at any time before the maturity of the period of the policy, the beneficiary is expected to claim from the policy the total paid-contributions, the share of the profits, bonus or dividends proceeding from the paid contributions, which are all based on al-Mudharabah financing, plus an additional sum, a donation from the company taken out of its charitable fund, upon considering the financial status of the beneficiary. But, if the insured is still alive upon the maturity of the period of the policy, the insured is entitled to claim from the operator the total paid-contributions and also a share of the profits, bonus or dividends accordingly[5].

In the case of general insurance, it is mutually understood by both the operator and the participant that, the participant's payments will be given out as contributions based on the principle of 'al-Musahamah,'[2] whereby the participant should hold the right to claim the paid contributions (after the deductions of charges due to the operator according to al-Mudharabah financing techniques), if there is no loss on the agreed subject matter. But, if loss or damage occurs to the subject matter within the period of the policy, the operator is unilaterally bound to pay the agreed compensation to the insured for the particular loss or damage of the subject matter.

In comparing Takaful and conventional insurance, the main differences can be shown by Table 1 below.

Table 1: Main Differences

Takaful and Conventional Insurance : Central Ideas and General Principles[3]	
Takaful	Insurance
Its operation are based on al-Mudharabah financing, which is interest free (i.e. sharing in profit and loss)	Its operations are based on the principles of interest.
The agents should share the profits of the company relying on the principles of al-Mudharabah.	The agents in the policy are paid out the paid-premiums of the policy holder.
The nominee(s) is nothing more than a trustee, who receives the benefits of the policy and distributes them among the heirs of the deceased according to the principles of mirah and wasiyah.	The nominees(s) is an absolute beneficiary in a policy.
The element of spiritual sincerity is an essential aspects of the insurance contract for achieving the pleasure of Allah (s.w.t)	The element of spiritual sincerity is not required in a valid insurance contract.
The modus operandi in insurance must comply with the Shariah principles.	The modus operandi in insurance is based on positive law, natural law and precedents.
The legality of the subject matter of a policy must be determined by the shariah principles.	The legality of the subject matter of a policy must be determined by Acts of parliament, case laws etc.
The source of insurance law must be in accordance with the relevant divine sanctions, custom, and so on.	The sources of insurance law are mainly the Acts of parliament, judicial precedents, custom and so on.

Objectives of the study

The general objective is to examine the determining factors for the choice of Islamic Insurance products. The main objectives are to identify factors that hinder consumer from subscribing Islamic Insurance and to examine whether demographic factors determine the awareness and understanding towards Islamic Insurance policy.

MATERIALS AND METHODS*Questionnaire Design*

A pilot study was done with the two Takaful companies. They are Syarikat Takaful Malaysia and Takaful Nasional Berhad. The pilot study is done by having interview with the officer in charge at those Takaful companies. The interviews were conducted in order to identify the products offered by the Takaful companies and the probable reasons for the public not choosing Islamic insurance. With the information obtained from interviews and the variables identified earlier, the questionnaire was designed.

Population and Sample

The sample for the study was chosen from the consumers insurance companies in Bandar Jengka, Jerantut and Temerloh, Pahang. Respondents were selected randomly and the respondents must have insurance policy with any insurance company as to enable them to answer questions on insurance service information in the questionnaire. A total 200 sets of questionnaire were distributed to the respondents. Sampling units were selected from five different places in Jengka, Temerloh and Jerantut, Pahang. The research areas include mostly government staff comprising of teachers and lecturers.

Data Collection and Instrument

Primary data was collected by using self-administered questionnaires. The data was obtained through a carefully constructed questionnaire as explained in questionnaire design. Questionnaires were distributed to all the selected consumers of Islamic and Conventional Insurance. Respondents were assured of the confidentiality of the data and request to respond to each item based on their perception. A total of 200 sets of questionnaires were distributed to the policy holder of Islamic and conventional insurance. Out of 200, 120 were returned, but only 100 (50%) were usable as 20 were either wrong or incompletely filled. The rejected questionnaires were mainly due to the failure of respondents to answer satisfactorily. A period of one month is used to distribute and collect the questionnaire distributed to selected respondent.

Close-ended question was used in the questionnaire design. Also, the ranking questionnaire using measurement method used by Richardson, Dick & Jain (1996) namely the 5-point Likert-scale was designed. Using Likert-scale, respondents indicate their attitudes by checking how strongly agree or disagree with carefully constructed statement that range from very positive to very negative toward the attitudinal object. Likert type of questions were used to get some insight regarding public reasons for not choosing Islamic Insurance policy.

Data Analysis

The analysis is to see the general information of the respondent and the frequency count were obtained. A cross tabulation was also done to determine whether the demographic factors influenced the customers awareness and understanding towards Islamic Insurance. Subsequently, a reliability test was performed to confirm the reliability of the data. The degree to which measures are free from errors is known as reliability and thus yield consistent results[7]. Finally, an analysis was done to look for factors that hinder the consumer from choosing the Islamic Insurance. Pearson chi-square test is used to conduct test of independence between variables where the result from the test will determine whether the variables are related (dependent) or not related (independent). Choice of Islamic insurance is the dependent variable and all twenty-five variables are independent variables.

RESULTS AND DISCUSSION

Demographic Profile

The findings represent the respondents' demographic profiles that subscribe Islamic and conventional insurance. These include the respondents' gender, age, marital status, race, religion, educational background and monthly income. The findings can be depicted as in Table 2.

Table 2: Demographic Characteristics of Respondents

Demographic profile		Total	%
Gender	Male	54	54
	Female	46	46
Age	Below 20	2	2
	21 - 30	26	26
	31 - 40	48	48
	41 - 50	23	23
	Above 50	1	1
Marital Status	Single	28	28
	Married	71	71
	Divorce / Widow	1	1
Race	Malay	84	84
	Chinese	14	14
	Indian	1	1
	Others	1	1
Religion	Islam	86	86
	Others	14	14
Educational Background	Masters' / PhD	22	22
	Bachelor's	61	61
	Others	17	17
Monthly income	< RM1000	18	18
	RM1001- RM2000	19	19
	RM2001 – RM3000	41	41
	RM3001 – RM4000	6	6
	RM4001 – RM5000	9	9
	Above RM 5000	7	7

Table 3: Cross Tabulation Between Age, Marital Status, Monthly Income And Gender

		Gender				Total
		Male		Female		
		N	%	N	%	
Age	Below 20	2	3.7	-	-	
	21 - 30	10	18.5	16	34.8	
	31 - 40	25	46.3	23	50	
	41 - 50	16	29.6	7	15.2	
	Above 50	1	1.9	-	-	
Total		54	100	46	100	100
Marital Status	Single	12	22.2	16	34.8	
	Married	42	77.8	29	63.0	
	Divorce / Widow	-	-	1	2.2	
Total		54	100	46	100	100
Monthly Income	< RM1000	11	20.4	7	15.2	
	RM1001- RM2000	8	14.8	11	23.9	
	RM2001 – RM3000	23	42.6	18	39.1	
	RM3001 – RM4000	2	3.7	4	8.7	
	RM4001 – RM5000	5	9.3	4	8.7	
	Above RM 5000	5	9.3	2	4.3	
Total		54	100	46	100	100

Awareness and Understanding

Concerning the knowledge on the existence of Islamic insurance (The respondents can give more than one answer), 59% of the respondents mentioned that they knew about Islamic insurance through media, 37% from word of mouth. (e.g. friends) and 4% through exhibition and others. Others include formal course, forum or seminar and agent. 34 male respondents out of total 59 respondents or 57.6% and 25 female respondents out of total 59 respondents or 42.4% knew about the Islamic Insurance scheme through the media. 18 male respondents or 48.6% and 19 female respondents or 51.4% out total of 37 respondents knew about Islamic Insurance scheme through word of mouth (friends or relatives). 2 male and 2 female respondents out of total 4 respondents or 50% for each sex knew about Islamic Insurance scheme through exhibition, formal course, forum/seminar and agent.

The study also attempted to investigate whether there is a relationship between the demographic factors such as gender, age, marital status, race, religion, education background and income with the Awareness and Understanding on Islamic insurance scheme. This was done by cross tabulation between questions on demographic factors and the level of Awareness and Understanding of the Islamic insurance scheme. The findings indicated that there is relationship between the level of awareness on Islamic insurance with age, religion and monthly income

Table 4: Pearson Chi-Square of Demographic Factor Against level of Awareness Towards Islamic Insurance

Demographic profile	Chi Square/ Likelihood Ratio
Gender	0.682
Age	0.013*
Marital Status	0.247
Race	0.144
Religion	0.000*
Educational Background	0.782
Monthly Income	0.009*

Note: * indicates significant at 1% level

Reasons That Hinder Customer from Subscribing Takaful

The respondents were invited to express the extent of their agreement with a set of reasons that may explain why public is not in favor of Takaful. The highest scale was 5 whereby the respondents strongly agree with the reasons provided. The middle scale was 3 whereby the respondents neither agree nor disagree. The lowest scale is 1 whereby the respondents strongly disagree with the reasons provided. The mean score for each reason was determined using one-sample of test. The table below shows the mean score for each variable.

Table 5: Reason Why Majority of The Public Is Not Using Islamic Insurance Scheme

Reasons	t=2.5(sig)	Mean	Rank
1. Not familiar with the concept of Islamic Insurance	0.000***	3.07	6
2. Expensive Islamic Insurance products.	0.205	2.62	
3. New idea of using Islamic Insurance	0.000***	3.06	7
4. Not Interested in Islamic Insurance	0.000	2.10	
5. Not familiar with the terms used in the Islamic Insurance scheme	0.000***	3.10	5
6. Not confident in using Islamic Insurance	0.000	2.05	
7. Low level of knowledge on Islamic Insurance	0.000***	3.28	3
8. Too few products offered under Islamic Insurance	0.062	2.68	
9. Doesn't meet the need of the public	0.910	2.51	
10. Not aware of the benefits of Islamic insurance	0.000***	2.93	8
11. Nobody has come to offer any Islamic insurance	0.092	2.74	
12. Not offered Islamic Motor Insurance policy when purchasing new car.	0.000***	3.65	1
13. Not satisfied with benefit of Islamic insurance policy.	0.260	2.40	
14. Difficulty in renewing Islamic insurance policy	0.687	2.54	
15. Difficulty in obtaining claims.	0.083	2.66	
16. Slow and poor services of Islamic insurance.	0.018**	2.70	12
17. Application forms are not user friendly	0.805	2.52	
18. Not located strategic according to customer's convenience	0.000***	2.88	10
19. Marketing is not aggressive as conventional insurance.	0.000***	3.33	2
20. Not able to provide satisfactory explanation of the product offered.	0.000***	2.92	9
21. Not efficient staff	0.012**	2.70	11
22. Unfriendly staff	0.413	2.56	
23. Not satisfied with explanation on complaints	0.037**	2.67	13
24. Not knowledgeable staff	0.167	2.61	
25. Too few branches available.	0.000***	3.27	4

Key: "5"- strongly agree "4"- agree "3"- not sure "2"- disagree "1"- strongly disagree

Note: *** and ** significant at 1% and 5% respectively.

According to table 5 above, there were thirteen main reasons that hinder customers from subscribing Takaful. These thirteen reasons were chosen based on the mean score of above 2.50, significant at 1% or 5% and t value of above 2.00. These reasons were also ranked accordingly with the highest mean score, highest t value and significant at 1% or 5%. As such, the first reason that hinders the public from subscribing Takaful has a mean score of 3.65, t value of 8.42 and significant at 1%. Among the main reasons that hinder customers from subscribing Takaful were: -

The public were not offered Islamic motor insurance policy when purchasing new car, marketing of Takaful is not that aggressive as conventional insurance, too few branches available throughout the country and which are located for customers' convenience. Besides the above-mentioned reasons, the low participation of Islamic insurance is due to the use of Takaful is still new to the public. Since it is a new idea, the public is not familiar with terms used in the Islamic insurance scheme and also not familiar with the concept of Islamic insurance, As such, their knowledge about Islamic insurance is very minimal. Other reasons include the public are not aware of the benefits of Islamic insurance, the staff of Takaful companies are not able to provide satisfactory explanation about the offered product, inefficient staff, the customers are not satisfied with explanation of complaints raised by them and finally slow and poor services of the Islamic insurance companies.

CONCLUSION

The analysis indicated that age is among factors that determined the consumer choice of Islamic and Conventional insurance policy. Majority of the respondents that subscribe Islamic and Conventional insurance were in the age from 31 – 40 years old. The older generation is more likely to have an insurance policy. Also, the study indicated that majority of the demand for insurance policy come from the married couple because his financial status is normally more stable.

Then the researcher analyzed the level of awareness and understanding towards Islamic Insurance. As for the relationship between the demographic factors with the awareness on Islamic insurance, the study observed a significant relationship. The study indicated that awareness towards Islamic insurance depends on age, religion and monthly income. The result also showed that understanding of Islamic insurance is determined by marital status, race, religion and monthly income

Finally, the study also determines the factors that hinder the public from choosing Islamic insurance. More specifically the study identified which factors contribute to the non-acceptance of Islamic Insurance. The mean score of above 2.50, t value of above 2.00 and significant at 1% or 5% were considered the factors that contribute for the low participation of the public towards Islamic insurance. The highest mean score i.e. 3.65 was ranked first factor that contribute for the low participation of the public towards Islamic insurance. The factor was that the public was not offered motor Islamic insurance policy when purchasing new car. The next factor had a mean score of 3.33 was due to the marketing effort of Islamic insurance is not that aggressive as conventional insurance. With more aggressive marketing effort, the public will be more aware and understand better about Takaful as compared to conventional insurance.

With a good understanding of Islamic insurance and be able to see the differences with the conventional insurance, the public will be more knowledgeable about the Takaful scheme. The factor of low level of knowledge about Takaful was the third factor with a mean score of 3.28. This factor can be overcome when the public is exposed about Takaful throughout all marketing channels. It can be done most by educating the public about Takaful through the mass media. The fourth factor for the low participation of Islamic insurance is due to very few branches available throughout the country. Other factors include the public are not aware of the benefits of Takaful, the Takaful operators are not able to provide satisfactory explanation about the product offered, inefficient staff, the consumers are not satisfied with the explanation of complaints raised, and finally slow and poor services of the Takaful companies.

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