

# **FACTORS THAT INFLUENCING MUSLIM IN MELAKA TO PARTICIPATE IN MICROTAKAFUL SCHEME: AN OVERVIEW**

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## **ABSTRACT**

In this study, it will analyze the factors that influencing participation in microtakaful scheme especially Muslim. Microtakaful had come into picture as a new takaful scheme that will help marginal income community to get affordable protection. Since the demand of Muslim for the same type of product known as microinsurance is emerging, therefore microtakaful come into a picture. The study will be gather using 50 set of questionnaires as it will distributed among Muslim who joined microtakaful scheme in Melaka. The data will be interpreted using multiple regression analysis to explain the relationship on how education level, promotion and product's benefit towards subscription of microtakaful scheme.

Keywords: Microtakaful, Education Level, Promotion, Product

## **1.0 INTRODUCTION**

In 2010, only 10.9% out of 53.5% areas of insurance and takaful business has been penetrated (Bank Negara Malaysia, 2011). It was reported that, there are some segments which is not been penetrated well and due to that, Bank Negara Malaysia (BNM) encourage insurer to introduce microtakaful scheme in order to benefit certain segments of the Malaysian community which have marginal income (Bank Negara Malaysia, 2008). As such, microtakaful had come into picture as a new takaful scheme that will help marginal income community to get affordable protection and at the same time to boost up takaful business (Bank Negara Malaysia, 2010).

Microtakaful is a unique scheme of takaful designed to cater the needs of poor and it was based on cooperative and mutual principles, Patel (2004). The study carried out by Rom, Rahman & Hassan (2012) found out that microtakaful is one of the strategies to cater the poverty and at the same time can provide protection to the low income and the poor. In addition, the study suggest that the intervention and support from government is vital in providing the financial capacity for low income and poor to have the needed protection (Rom, Rahman, & Hassan, 2012).

In April 2011, the Government of Malaysia together with Life Insurance Association of Malaysia (LIAM), General Insurance Association of Malaysia (PIAM) and Malaysia Takaful Association (MTA) were jointly launched The 1Malaysia Micro Protection Plan (1MMPP). The objective of 1MMPP is to provide affordable takaful or insurance protection to the public especially to small businesses and micro enterprises. The life insurance companies provide coverage of sum insured up to RM 20,000 for death and disability and hospital income of RM20 per day with premium from as low as RM10 per month. However, only six life

insurance companies participate in this program (Life Insurance Association of Malaysia, 2011).

Although microtakaful is still new in Malaysia and many of takaful operators still reluctant to offer the scheme, Mr. Shahril Azuar Jimin, a Chief Executive Officer of Etiqa Takaful Berhad in his presentation at The 5th Annual World Takaful Conference (WTC) 2010, believed that the scheme can be effective as long as the products, procedures and policies are simple, the premium is affordable and supported by effective and efficient administration and distribution channels (Jimin, 2010). Since 2008, Etiqa Takaful Berhad had successfully attract more than 120 cooperatives to participate in the scheme with their more than 110,000 members enjoying the takaful benefits (ICMIF Takaful, 2012).

## **2.0 DEVELOPMENT OF LITERATURE**

Microinsurance, is a product that are designed to suit the demand of low income market in relation to terms, coverage, delivery mechanisms as well as cost by using a risk-pooling method and already being establish in most of country in the world (McCord, 2005). Since the demand of Muslim for the same type of product known as microinsurance is emerging, therefore microtakaful come into a picture. As microinsurance, the establishment of microtakaful is to cater the needs of poor, but it was based on cooperative and mutual principles that in line with syariah principle. In addition to that, Capt. M. Jamil Akhtar Khan, Chief Executive Officer Takaful Pakistan Limited, define microtakaful as "A mechanism to provide Shariah-based protection to the blue collared, under-privileged individuals at an affordable cost". (Khan, 2008)

According to Fisher (2009), in Muslim countries, takaful become as a second most important social institution to counter poverty and deprivation. The same opinion also shared by Farooq, Chauldry, Fakhr-e-Alam and Ahmad (2010). Their study found that takaful operator can provide a welfare benefit by targetting to the needs of users because they have an opportunity to administer it by lower cost. On the other hand, Patel (2004) puts that in Muslim countries, the middle and working classes was protected from falling into poverty by engaging with takaful products. The need of poor to achieve sustainable poverty alleviation is cater by a microtakaful scheme which a scheme that based on cooperative and mutual principles. Despite that, Mr Ajmal Bhatti, CEO of Takaful, Tokio Marine Middle East, commented that microtakaful is not exist to alleviate poverty, but it is a tools for people to find way out of their poverty and provide hope to sustain financially (Bhatti, 2010).

In order to penetrate the untapped market with microtakaful scheme, it is crucial for insurance company as well as other interested body to understand the factor that influencing the target market to participate into this scheme.

### **2.1 PROMOTION**

Promotion is the element to make the product or services become well known by communicating with peoples either face to face or by using media such as television or radio. The promotion should be simple and easy to understand, so that people will understand on what the message that the seller is trying to deliver. Besides that, promotion also can be defined as activities and process that can reinforce behavior and ideas of consumers to buy something that they actually do not plan to buy (Kumar & Sharma, 1998).

In addition, Neil H. Borden in his article "The Concept of Marketing Mix" (1965) wrote that the promotion is in the element of marketing mix of 4P's, which involve price, place,

product and promotion. Promotions are used by organizations to communicate with customers with respects to their product offering. In this sense, promotion is one side of the communication process with customers. Promotion is crucial in new product launch as it helps to attract the customer's attention towards the new product in a market cluttered with similar product. (Sikdar and Vel, 2010) . According to Kotler(2001), one of three distinctive characteristics of sales promotion is communication. By communication, the company gains attention and usually provides information that may lead the awareness of customer to the product.

For promoting life insurance business, sales promotion activities are carried out by the agent, development officers and branch offices. All these activities increase the public awareness as well as retaining the market share for the insurance products (Benna, 2009). A study on Prospecting for Sustainable Micro-Takaful Business in Nigeria revealed that one of the success factors for Micro-takaful operations in Nigeria is through promotion. By using media to promote takaful concept, it will help the takaful operators to earn government support and legislative backing and at the same time may attract the prospect customers who wish to have affordable syariah compliance protection product (Usman, 2012).

## **2.1 AWARENESS/EDUCATION LEVEL/KNOWLEDGE**

Education or knowledge on insurance can increase the awareness towards potential risks to which individuals are exposed. By having the knowledge, awareness and understanding on policies, the public will know where to look for additional information and derive to the right decisions about how to protect themselves and their relatives and to adopt a proactive and responsible behaviour as regards to their risk exposure and insurance coverage (OECD, 2008).

In addition, Akotey, Osei, & Gemegah (2011) in their study, "The demand for micro insurance in Ghana" found that knowledge on insurance, expectation (trust) and marital status have positive and significant impact on the demand for micro insurance. The empirical analysis of the study shows that formal education is not a significant determinant; however insurance knowledge has a positive and significant impact on micro-insurance demand. It proved that, the idea for microinsurers to explain to their prospect on how microinsurance works and benefit associate with the product by Churchill (2006) is relevance to be applied by takaful operators to boost for microtakaful demand. Adding up, in order to facilitate the adoption of microtakaful and microinsurance demand, it is very important for reinsurer and takaful operator to create an insurance culture by changing their consumer knowledge, skills and attitudes towards insurance (Cohen & Sebstad, 2006). Although there are a few takaful operators in Malaysia that do offer microtakaful products, doubt relating the availability of the product and coverage provided contribute to the low demand of the products (Ismail, et al., 2012).

Previous study found that the level of education positively affects the demand for life insurance. Truett and Truett (1990) proved that a higher level of education is associated with a stronger desire to protect dependents and safeguard their standard of living. Whereas, Browne and Kim (1993) explain that a higher level of education results in a greater awareness of life uncertainties and hence highlights the benefit of life insurance coverage. The same ideas also shared by Outreville (1996).

## **2.2 BENEFIT**

Benefit package offered by microtakaful scheme is very important to attract demand from insurance prospect. Consumer always consider the premium and benefits when purchasing insurance, therefore, appropriate premium and benefit offered is a key to gain for market opportunities (Radermacher, Dror, & Noble, 2006). According to a study by Rom, Rahman, & Hassan (2012) 'Financial Protection for Low Income and Poor' found that the benefit seek by prospect of microtakaful includes medical, death and saving benefit. The prospect willing to allocate about RM35 or (USD10.940) of their monthly income for the coverage (Rom, Rahman, & Hassan, 2012).

However, instead of individual perspective on benefit preferences, there is a study carried out to investigate the expectations of micro enterprises on the benefits of takaful product. Based on the study, it was found that, the enterprises are willing to participate in microtakaful scheme if the scheme provide good service in terms of faster claim management and it also provide a long term security where the protection includes medical coverage from any accidents involving death, injury or disability among micro entrepreneurs in Malaysia. In general, these micro entrepreneurs seek for the product, which is affordable, and provide coverage that can reduce their problems in dealing with the risks involved in their business operation (Ismail, et al., 2012).

## **3.0 METHODOLOGY**

There are several procedures of analysis chosen to evaluate the data. The procedures of data analysis been done after the data collection. Then the data collected been keyed in and analyzed through the SPSS program after coding. There are several procedures of analysis chosen to evaluate the data.

### **3.1 FREQUENCY**

When the raw data has been collected, the researcher used the descriptive statistical tools from SPSS program to analyze the data. Tabulation consists simply of counting the number of cases that fall in various categories. From tabulation of the data, the researcher is aimed to determine the frequency distribution of the variables in the question and also calculating the descriptive statistic.

Frequency distribution is a mathematical distribution where the researcher tried to obtain and count the number of responses associates with different values of variables and expressed them in percentage term.

### **3.2 HYPHOTESIS TESTING**

In statistical theory, a hypothesis is an unproven proposition or supposition that tentatively explains certain facts or phenomena. Usually, symbol  $H_0$  is assign to null hypothesis and  $H_1$  to the alternative hypothesis. The researcher use hypothesis testing to determine which of the two hypotheses is correct.

### **3.3 CORRELATION COEFFICIENT**

It is to be employed in determining the relationship between the dependent variable and independent variables. This method helps the researcher to distinguish whether the positive association tested, possesses a strong or weak relationship. Thus, besides being acquainted with the negative or positive relationship between the variables, the researcher may also discover if there is a strong or weak relationship. Additionally, the researcher also performs the test for any element that falls under particular independent variables, which also possess significant relationship to dependent variable.

### **3.4 REGRESSION ANALYSIS**

Researcher also used regression test for hypothesis test. It helps researcher to determine whether the independent variables explain a significant variation in the dependent variable, whether a relationship exists. Besides, it determines how much of the variation in the dependent variable can be explained by the independent variables, strength of the relationship and predict the values of the dependent variable. In this study, the researcher used Correlation Coefficient and Regression analysis. These tests measure and find out the significance relationship for all research hypotheses.

### **4.0 CONCLUSION**

Selling microtakaful is not easy. Convincing low income clients of the value of insurance is difficult, especially when sellers have no previous insurance experience or have other responsibilities in addition to selling insurance. Adequate education level, promotion, and product's benefit of the sales force are indispensable for selling microtakaful effectively. From this study, by running the multiple regression analysis, the result is expected to be significant.

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