



DETERMINANTS OF PROFITABILITY OF LOCAL TAKAFUL

COMPANIES IN MALAYSIA

ANIS AMALINA BINTI ISMAIL

**Submitted in Partial Fulfilment of the Requirement for the Bachelor
of Business Administration (Hons) Islamic Banking**

FACULTY OF BUSINESS MANAGEMENT UITM, JOHOR

2013

TABLE OF CONTENTS

Table of contents

Abstract.....	I
Acknowledgment.....	II
Chapters	
1. Introduction.....	1-2
1.1 Background of the study.....	3-4
1.2 Problem statement.....	4
1.3 Research questions.....	5
1.4 Objective of study.....	5
1.5 Significance of the study.....	5
1.6 Scope of study.....	6
1.7 Limitations of study.....	6
1.8 Definition of terms.....	7
1.8.1 Profitability.....	7
1.8.2 Liquidity.....	7
1.8.3 Return of equity.....	7
1.8.4 Inflation.....	8
1.8.5 Firm size.....	8
1.9 summary.....	8
2. Introduction.....	9
2.1 Previous study.....	9-10
2.1.1 Inflation.....	10
2.1.2 Liquidity.....	11-12
2.1.3 Firm size.....	12-14
2.1.4 Return on equity.....	14-15
2.2 Summary.....	15

ACKNOWLEDGMENT

Allahamduillilah . . .

*In the name of ALLAH, The Beneficient, The merciful,
Praise be to ALLAH, Lord of the Worlds, The Beneficient, The merciful,
Owner of the Day of Judgment;
Thee (alone) we worship; Thee (alone) we ask for help,
Show us the straight path, The path of those whom Thou hast favoured;
Not (the path) of those who earn Thine anger
Nor of those who go astray.*

Thank to Allah, the Most Gracious, the Most Merciful and peace blessing of Allah be upon His beloved Muhammad S.A.W, for giving me strength and inspiration to complete this project paper, as to fill the requirement of faculty in obtaining Bachelor in Business Administration (Hons) Islamic Banking.

I would like to express my heartfelt gratitude and appreciation to the people and institutions for making this study possible and thereby dedicate this to them: Encik Mohd Khairul Ariff Bin Noh for his kind guidance and encouragement in the preparation of this research project paper. I really appreciate his patience, tolerance, and most of all, their assistance in the writing of this project paper.

Last but not least, I would like to thank to everyone that involved directly or indirectly for their contribution, invaluable support and encouragement they have place on me. Without everyone continued support, this study would not been the same as presented here.

May the Grace and Blessings of ALLAH be upon all of you.

ABSTRACT

Takaful industry plays an important role in prevailing needs of the Muslim public. Takaful system has shown better development and now is widely accepted by Muslims as well as non-Muslims in Malaysia. The objective of this study is to examine the determinants of local Takaful companies in Malaysia. Therefore, the aim of this paper is to measure the profitability of Takaful industry and identify the factors affecting the profitability. The sample selected are from eight Takaful companies annual report in Malaysia from year 2008 until 2011 using the method employed Generalized Least Square (GLS) panel data analysis. The dependant variables of this study are profitability of Takaful industry in Malaysia. The independent variables that affect Takaful industry profitability are firm size, liquidity, inflation, and return on equity (ROE). The expected findings are positive relationship between liquidity and return on equity (ROE) towards its profitability and find a negative insignificant relationship between firm size and inflation towards profitability. Increased exposure to credit risk is normally associated with decreased firm profitability; hence, a negative relationship is expected between ROA and CR. This study found negative relationship between inflation and profitability.

CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

Takaful or more known as Islamic insurance is based on the concept of social solidarity, cooperation and mutual guarantee of losses of members. It means each participant fulfil his or her obligations by contributing a certain amount of donation into a fund, which is managed by Takaful operators. It is not a new concept; in fact it had been practised by the Muhajirin of Mecca and the Ansar of Madinah following the Hijrah of the Prophet over 1400 years ago. It is generally accepted by Muslim Jurists that the operation of conventional insurance does not obey the rules and requirements of Shariah.

It enclose different views of conventional insurance where it involves the elements of uncertainty (gharar) in the contract of insurance, gambling (maisir) as the result of the occurrence of uncertainty and interest (riba) in the investment activities of the conventional insurance companies which contravene the rules of Shariah. As such, a compromise has been evolved about its prohibition in the light of principle of the Shariah.