



**THE DETERMINANTS OF PERFORMANCE OF
TAKAFUL AND CONVENTIONAL INSURANCE
COMPANIES IN MALAYSIA**

**FARRAH HIDAYAH BINTI ZUHAIMI
2013847688**

**BACHELOR OF BUSINESS ADMINISTRATION
(HONS) ISLAMIC BANKING
FACULTY OF BUSINESS AND MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
SEGAMAT, JOHOR.**

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ABSTRACT

The purpose of this research paper is to investigate the factors that affect the performance of Takaful and conventional insurance companies in Malaysia. 5 companies from Takaful and 5 conventional insurance companies have been selected over the period of year 2005 until 2015. This study was conducted using secondary data which are retrieved from annual report for each of the companies and calculated manually for the given formulas.

Furthermore, in Malaysia, Takaful and conventional insurance companies are very competitive to each other. Based on the BNM annual report on year 2014, the profitability of conventional insurance is slightly higher compare to Takaful. Thus, there are various factors to be looking at such as solvency, capital adequacy, liquidity and operating efficiency. From this study, it is to investigate the significant relationship between the independent variables and performances of Takaful and conventional insurance companies (ROA) in Malaysia.

Moreover, from other previous findings research papers, mostly indicate that some of the factors play a significant role for the performance. The result analysis shows the different factors that influence the performance. Hence, this result would provide important information for policy makers for decisions and strategies to financial and economic stability.

CHAPTER 1

INTRODUCTION

1.0 Background of Study

Insurance industry plays a vital role in business as they are provides protection to individuals or businesses from unexpected losses. As today's insurance industry has been growing rapidly, there is another option of insurance coverage for Muslim customers which is called Takaful. Takaful is an alternative model to conventional insurance.

As conventional insurance companies offer many services for the safety of individuals and businesses like repaying loss to property, life or business etc, conventional insurance companies encourage the individuals and entrepreneurs to go for high return activities which certainly possess a big risk. Due to that, conventional insurance are forbidden because it contains elements that are against Shariah law such as riba (usury), gharar (ambiguity), and maisir (gambling). Contrary to conventional insurance, Takaful is established to strengthen solidarity, brotherhood and mutual cooperation among the society.

Referring to BNM Annual Report of 2014, it can be said that conventional insurance is higher compare to Islamic insurance by looking into their total profit. The total profit of life insurance is RM11634.1 million and general insurance is RM2769.3 million. While,