



**THE ECONOMIC DETERMINANTS OF
FAMILY TAKAFUL CONSUMPTION :
EVIDENCE FROM MALAYSIA**

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ABSTRACT

Family Takaful is one of the service segments that are relied upon to continue to grow in the economy. In this manner, the family Takaful market plays an imperative part in supporting economic development. The purpose of this research paper is to study and examine the economic determinants of Family Takaful Consumption in Malaysia. The dependent variables used is the Net Contribution Family Takaful. The independent variables used in this study are Gross Domestic Product (GDP), Income (INC), Inflation (INF) and Savings (SAV). The methodology used in this study is the Multiple Linear Regression with time series data that are gathered from World Bank. Eviews is used to generate the data collected and providing the results. Using time series data over the period 1985-2014, this study finds that net contribution Family Takaful is a predictor of family takaful demand, while Inflation (INF) have significant relationship with family takaful consumption. Other factors such as gross domestic products, income and savings do not appear to be significant influence on family takaful purchase.

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

It is indisputable fact that all human beings are exposed to the possibility of meeting catastrophes and disasters such as death, loss of limbs, property damages and unforeseen accidents. Islam provides that the individual must find ways and take precaution to avoid such catastrophes in order to minimize financial losses in case of occurrence of such events. The core of insurance is risk transfer. Insurance is designed to provide protection to individuals or businesses against specified unforeseen event. In today's insurance industry, there is an alternative form of insurance coverage for Muslim customers, which is called takaful.

Takaful is a system of Islamic insurance based on the principle of mutual cooperation (ta' awun) and donation (tabarru'). The risk is shared collectively and voluntarily by the group of the participants. It is derived from an Arabic word meaning "joint guarantee" or "guaranteeing each other " (Mahmood, 2008). It is an arrangement by a group of people with common interests to guarantee or protect each other from certain defined misfortunes such as premature death, disability and property damages (Obaidullah, 2005). As a concept, insurance actually does not contradict the teachings of Islam, as it is a scheme by way common resources are pooled in order to help the needy . The objection is not against the concept of insurance but against the existence of the weaknesses in the insurance contract namely involves the elements of uncertainty (gharar) and gambling (maysir) in the contract of insurance, and usury (riba) in its investment activities, which do not conform to the requirements of Shariah.

The Gharar may exist regarding to the scope of coverage, terms of the contract and source of the claim payments. Maysir may arise from any speculative element present in the contract, for example an unequal exchange of the amount of money. Riba or an excessive profit may arise from interest received from the investment of funds collected from the participants. Prevention of these elements is crucial in an insurance system acceptable by the Syariah, and this is where Takaful differs with the conventional insurance.