

**THE INFLUENCE OF MICROTAKAFUL PRODUCTS
ON THE SUSTAINABILITY OF HALAL SMALL
BUSINESSES IN MALAYSIA**

BY

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degree of Master of Halal Industry Management**

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ABSTRACT

Microtakaful has opened a new paradigm of micro protection for halal small businesses; however, the extent as to which microtakful products have contributed to the sustainability of halal small business is yet to be explored. Microtakaful plays crucial roles in sustaining halal businesses around the world by allowing the owners to run their businesses with less worry about unexpected events that can slow them down or bring the businesses to complete halt. As such, this study examines the influence of microtakaful products on sustainability of halal small businesses in Malaysia. The study explores a range of microtakaful products that can contribute to the sustainability of halal small businesses. The study was motivated by the fact that microtakful products are essentially risk management, which can help to minimise the potential impact of disaster and ensure halal business sustainability. In addition, halal industry and takaful sector in Malaysia have attracted global attention in terms of regulatory standards, particularly with respect to managing social protection risk. Moreover, this study was motivated by the fact that halal small businesses contribute significantly to the Malaysian economy and they require appropriate tools to recover from unforeseen disasters. Based on the objective of this study, a quantitative research approach was adopted, and relevant statistical analyses were employed to assess the influence of microtakaful products on the sustainability of halal small businesses. Following an extensive review of literature, survey questionnaire was developed and used to collect data from 238 halal small business owners and workers in Selangor, Malaysia based on purposive and snowball procedures. The results indicate positive and significant influence of disability microtakaful and family microtakaful products on sustainability of halal small businesses in Malaysia. Whereas property microtakaful and health microtakaful products were found to be positively but insignificantly contributed to the sustainability of halal small businesses in Malaysia. Thus, it is envisaged that the findings of this study would help halal business owners and workers to have a better understanding on why microtakaful products are crucial for the sustainability/continuity of their businesses.

ملخص البحث

لقد دخل التكافل المحدود في حقبة جديدة من الحماية المصغرة للمؤسسات الصغيرة الحلال. ومع ذلك، فإن مدى مساهمة سلع التكافل المحدود في استدامة الأعمال التجارية الصغيرة الحلال لم يتحدد بعد. يلعب التكافل المحدود أدوارًا حاسمة في الحفاظ على الأعمال الحلال في جميع أنحاء العالم من خلال السماح للمالكين بإدارة أعمالهم بأقل قدر من القلق بشأن الأحداث غير المتوقعة التي يمكن أن تبطلهم أو توقف الأعمال التجارية تمامًا. نتيجة لذلك، تبحث هذه الدراسة في تأثير سلع التكافل المحدود على الجدوى طويلة الأجل للشركات الصغيرة الحلال في ماليزيا. تبحث الدراسة في مجموعة متنوعة من عناصر التكافل الأصغر التي يمكن أن تساعد الشركات الصغيرة الحلال على البقاء واقفة على قدميها. كانت الدراسة مدفوعة بحقيقة أن منتجات التكافل المحدود هي في الأساس إدارة مخاطر، والتي يمكن أن تساعد في تقليل التأثير المحتمل للكوارث وضمان استدامة الأعمال الحلال. بالإضافة إلى ذلك، اجتذبت صناعة الحلال وقطاع التكافل في ماليزيا اهتمامًا عالميًا من حيث المعايير التنظيمية، لا سيما فيما يتعلق بإدارة مخاطر الحماية الاجتماعية. علاوة على ذلك، فإن حقيقة أن الشركات الصغيرة الحلال تساهم بشكل كبير في الاقتصاد الماليزي وتتطلب أدوات مناسبة لذلك التعافي من الكوارث غير المتوقعة التي قادتها هذه الدراسة. تم استخدام أسلوب البحث الكمي لتحليل تأثير منتجات التكافل المحدود على استدامة الشركات الصغيرة الحلال، واستخدمت التحليلات الإحصائية ذات الصلة لتقدير تأثير منتجات التكافل المحدود على استدامة الشركات الصغيرة الحلال. بناءً على المقاربات الهادفة باستخدام طريقة كرة الثلج. تم إنشاء استبيان مسح واستخدامه لجمع بيانات 238 من أصحاب الشركات الصغيرة الحلال والعاملين في سيلانجور، ماليزيا، بعد بحث شامل في الأدبيات. تُظهر النتائج أن منتجات التكافل المحدود لذوي الحثيادات الخاصة (المعاقين) التكافل المحدود العائلي لها تأثير إيجابي وهام على الجدوى طويلة الأجل للمؤسسات الصغيرة الحلال في ماليزيا. من ناحية أخرى، وجد أن عناصر التكافل الصحي والممتلكات الصغيرة تساهم بشكل إيجابي، ولكن غير مهم في استدامة المشاريع الصغيرة الحلال في ماليزيا. وبالتالي، فمن المتوقع أن نتائج هذه الدراسة ستساعد أصحاب الأعمال الحلال والعاملين في الحصول على فهم أفضل لسبب أهمية منتجات التكافل الأصغر لاستمرارية واستدامة أعمالهم.

APPROVAL PAGE

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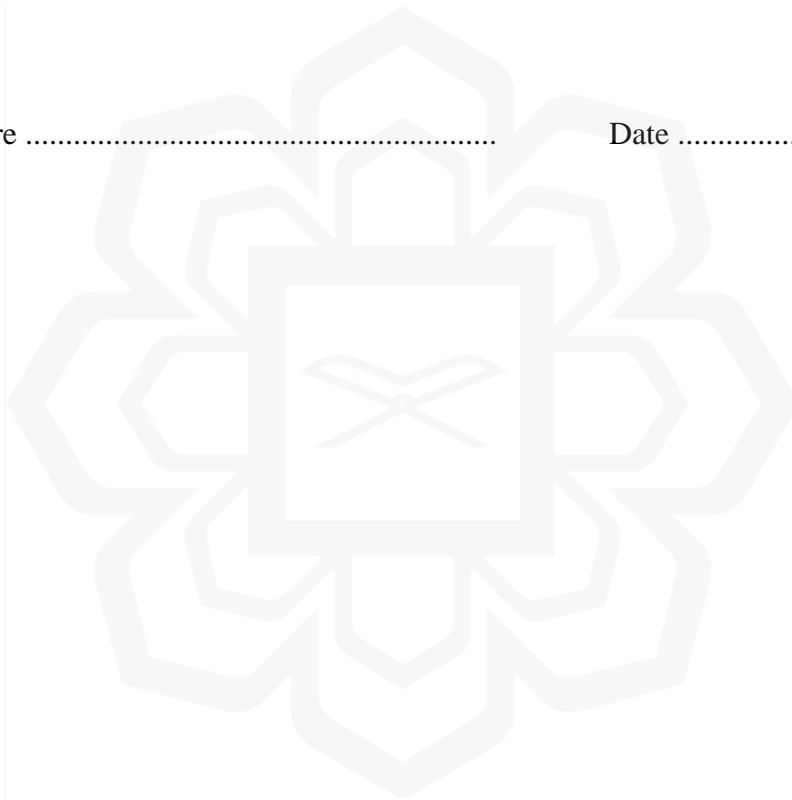
DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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LIST OF ABBREVIATIONS

AIMS	Academy for International Modern Studies
BNM	Bank Negara Malaysia
B40	Bottom 40%
CDC	Centers for Disease Control and Prevention
CFE-DMHA	Center for Excellence in Disaster Management and Humanitarian Assistance
CGAP	Consultative Group to Assist the Poor
DMP	Disability Microtakaful Products
DOSM	Department of Statistics Malaysia
EFA	Exploratory Factor Analysis
EPF	Employees Provident Fund
FMP	Family Microtakaful Products
IAIS	International Association of Insurance Supervisors
HMP	Health Microtakaful Products
IIUM	International Islamic University Malaysia
ILMIA	Institute of Labour Market Information and Analysis
ILO	International Labour Office
IMFIs	Islamic Micro Finance Institutions
IRTI	Islamic Research and Training Institute
JPS	Department of Irrigation and Drainage
KMO	Kaiser-Meyer-Olkin
MFI	Microfinance Institution
MIFC	Malaysia Islamic Financial Centre
MTA	Malaysian Takaful Association
PCA	Principal Component Analysis
PMP	Property Microtakaful Products
SDG	Sustainable Development Goal
SME	Small and Medium Enterprises
SOCISO	Social Security Organisation
SOP	Standard Operation Procedure
SPSS	Statistical Package for The Social Sciences
SSM	Companies Commission of Malaysia
UNDP	United Nations Development Programme Social Security Organisation

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Takaful products are essentially Shari'ah compliant financial instruments that are designed based on mutual agreement and cooperation among the parties involved to protect their common interests against damages from unforeseen circumstances (Salleh, 2016). Recently, there have been strong demands for Shari'ah compliant protection solutions and such demands have resulted in sustained growth of the takaful industry (Bank Negara Malaysia (BNM), 2019). However, despite the growth of this industry, takaful penetration of low income earners in Malaysia is considerably slow with only 30.3% of population subscribing to takaful policy (Md Husina, 2019). As a result, microtakaful products were designed to increase access to quality financial services, and to meet the financial protection needs of low income earners as well as for the sustainability of Small and Medium Enterprises (SMEs) (Salleh & Padzim, 2018). Microtakaful products are alternative risk management tools to conventional microinsurance products (Jaffer et al. 2010). Thus, the design of microtakaful products is based on the same generally accepted practices as other takaful products but aimed at excluded or underserved markets in the country.

The Malaysian economic landscape provides excellent potential for microtakaful to thrive as it is expected to play a crucial role in meeting the protection needs of SMEs and promote financial inclusion among the low-income earners. While stressing on while it is crucial for SMEs, Ahmed (2016) reveals that microtakaful for micro enterprises is important in providing the protection and financing needs of this sector. Sendut (2019) states that the low-income segment of Malaysia comprises citizens that fall into the bottom 40% (B40). The B40s generally work in the informal sector such as micro and small businesses (Mottain, 2018). There are more than 1.1 million micro and small businesses operating in Malaysia in 2020, according to SME Corporation Malaysia (2021b).

Due to their sizes, halal small businesses are normally faced with the catastrophe in their operations with no enough protection and knowledge of risk management (Crovini et al., 2020; Santoro et al., 2021; Ibrahim et al. 2015; O'Regan et al., 2005; Jadi et al., 2014; Salleh et al., 2017). In terms of the performance and number of established SMEs in Malaysia, Selangor and Kuala Lumpur led the economic performance and SMEs establishment by state, and most of the registered businesses operate as sole proprietorship, according to the latest report by the Department of Statistics Malaysia (DOSM) (2021a). Sole proprietorship means a business wholly owned by a single individual (Companies Commission of Malaysia (SSM), 2021).

Specifically, most of the micro businesses operate in the services sector, specifically in subservices sector, whereas wholesale, retail trade, repair of vehicle and motorcycle services lead the total number; while food and beverages services show less involvement (DOSM, 2021; SME Corporation Malaysia, 2021b; Kamaruddin & Shamsudin, 2021). SMEs consist of 97.2% of business establishments in the country and they help in creating more job opportunities as they serve as economic drivers (SME Corporation Malaysia, 2021b; Mahadi et al., 2019). As an important sector to the Malaysian economy, Ismail et al. (2012) note that there is a need for appropriate takaful products to protect SMEs against risks. With the effect of Covid-19 on halal small businesses, subscribing to microtakaful products by the owners and workers of halal small businesses is expected to minimise the risks confronting them and contribute to the sustainability of their halal small businesses. Thus, there is a need to ascertain whether subscribing to microtakaful products contribute to halal small business sustainability.

Meanwhile, it has been established by the Malaysia Islamic Financial Centre (MIFC) (2014) that the global halal economy and Islamic finance industry are natural economic partners with huge potential to further expand. Focusing on halal industry, the growth of global Muslim population is accompanied with the demands for halal products and services (Wilson et al., 2013; Tahir et al., 2016). The expansion of halal industry is well supported by the 2016 economic census publication by the Malaysian Halal Statistics. Halal industry dimensions that meet the needs of administrative

groups, researchers, and the public play an important role in the development of halal industry and remains an important part of national economic activities (DOSM, 2017a). As documented by Ahmed (2016), there is a strong positive relationship between economic growth and the growth of micro protection on the one hand; and micro protection has greater returns on growth rate of small business on the other hand, especially in developing countries. Thus, the sustainability of halal small businesses and their influence on the economy can be harnessed if they subscribed to appropriate protections.

Furthermore, through the designated microtakaful products, the halal small businesses and low income people will have access to a wider range of protections to cover property-related risk, crop failure, loss of livestock, rebuild a business destroyed by fire, health, accidental death and disability, illness, accident or injury, unemployment, plan for the future education of their children, weddings, funerals, and plan for important traditional life events (Frankfurt School of Finance & Management, 2016). Hence, microtakaful products offer opportunities for small businesses to sustain in the market (Sukmana & Hidayat, 2014). Based on the above argument, microtakaful products are critical for achieving a sustainable halal small business and avoid unforeseen disruption.

Therefore, subscribing to the appropriate microtakaful products is important for the sustainability of halal small businesses in Malaysia since doing that can safeguard them against losses. Unfortunately, most microtakaful products have very few participants and as such, identifying the potential influence of microtakaful products on halal small businesses is crucial. Hence, this study aims to examine the influence of microtakaful products on halal small businesses sustainability. Conducting this study is crucial given that the Malaysian economy is highly dominated by the informal sector, where the majority businesses are micro enterprises.

1.2 PROBLEM STATEMENT

The emergence of microtakaful has attracted the interests of researchers and practitioners over the years (A.M. Best Company, 2012; Churchill, 2008). Microtakaful plays crucial roles in sustaining halal businesses around the world by allowing the owners to run their businesses with less worry about unexpected events that can slow them down or bring the businesses to complete halt. In addition, microtakaful schemes also offer a myriad of benefits to the workers of halal small businesses. In Malaysia, microtakaful products offer halal small businesses the confidence they need to manage risks and remain sustainable with full knowledge that their assets are covered against losses and other legal liabilities. Therefore, without this kind of risk management tools, the sustainability of halal small businesses may be affected. To benefit from a range of microtakaful products offered by takaful companies to sustain halal small businesses, business owners and workers mainly must make best strategic decisions in the selection of the appropriate microtakaful products with the potential to contribute to business sustainability. However, the extent as to how these products have contributed to the sustainability of halal small businesses in Malaysia is yet to be discussed in the literature.

Protection of asset, liability and owners' interests is the fundamental aspect of takaful itself (Abdul Rahman, 2009). According to Kandasamy et al. (2018), 50% of small business in Malaysia is home based, followed by kiosk and street stalls but without subscribing to appropriate protection, these physical properties will face difficulty should uncertain events emerge. Furthermore, small businesses are reportedly faced with high risk to survive longer than three years (Abd Aziz & Rosli, 2011). Thus, it is important to note that without having a legitimate financial assurance, such as microtakaful, halal small businesses may find it difficult to remain sustainable in this challenging world (Haroun & Effandi, 2019).

Globally, increasing health care expenditure is pushing 100 million people to extreme poverty per year (Khokhar, 2017). By comparison, Malaysians are also faced with limited personnel, medicine and supplies ratio with population, making it difficult for low income earners to get affordable treatment from private health centres (Salleh et al., 2018). With limited protection products for lower income earners in the market

(Htay, 2015), low-income earners will suffer even more without appropriate health protection in the event of health difficulties.

A study by Ahmed (2016) reveals that disability of the family breadwinner can result in the family inability to pay outstanding balances of debt in the future. Another study by Manan et al. (2013) documents that disability of a breadwinner further complicates the possibility of recovering from poverty due to lack of capabilities as a risk mitigation mechanism. Thus, a minor stun can cause income shock and exceptionally hard to get over the normal situation without appropriate protection against risk (Abdul Wahid, 2014). People with disabilities often are at greater risk of health problems, such as depression, and can later affect their job continuity (Centers for Disease Control and Prevention (CDC), 2019; Harnois & Gabriel, 2000). Therefore, it should be emphasized that it is critical to be covered with disabilities protection.

Moreover, family microtakaful products offer limited protections due to the extent of longevity risk occurring in the future (Loewe et al., 2014). A study by Hui Lin (2018) highlights that vulnerable groups and small businesses are likely to face financial shocks due to low levels of savings. A report published by the BNM (2016) shows that Malaysians and small businesses are unprepared to deal with unexpected costs and income loss because of the lack of a right protection plan. It is more complicated when in old age as individuals are forced to reduce their standard of living due to lack of protection plan (Antolin, 2007). Abdul Wahid (2014) maintains that the cost limitation with low earnings to cope with daily expenses and lower ability to spend initial money are among the reasons why people do not have protection plans.

Therefore, this study intends to establish the link between the microtakaful products and halal small business sustainability by examining the influence of microtakaful products on the sustainability of halal small businesses in Malaysia.

1.3 RESEARCH OBJECTIVES

The main purpose of this study is to investigate the influence of microtakaful products on the sustainability of halal small businesses in Malaysia. The specific objectives of this study are as follows:

1. To investigate the influence of property microtakaful products on the sustainability of halal small businesses.
2. To examine the influence of health microtakaful products on the sustainability of halal small businesses.
3. To investigate the influence of disability microtakaful products on the sustainability of halal small businesses.
4. To examine the influence of family microtakaful products on the sustainability of halal small businesses.

1.4 RESEARCH QUESTIONS

This study has employed appropriate research approach to answer the following research questions:

1. To what extent does property microtakaful product have influence on the sustainability of halal small businesses?
2. To what extent does health microtakaful product have influence on the sustainability of halal small businesses?
3. To what extent does disability microtakaful product have influence on the sustainability of halal small businesses?
4. To what extent does family microtakaful product have influence on the sustainability of halal small businesses?

1.5 SCOPE OF THE STUDY

The present study investigates the influence of microtakaful products on the sustainability of halal small businesses. To achieve the stated objective and based on the operation of takaful operators in Malaysia, four prominent microtakaful products, which

are Property Microtakaful Product (PMP), Health Microtakaful Product (HMP), Disability Microtakaful Product (DMP) and Family Microtakaful Product (FMP), were included in this study. The respondents for this study are halal small businesses owners and workers who are currently working with halal small businesses in the state of Selangor, Malaysia. The study focuses on Selangor because it is the main SMEs hub in the country.

Moreover, before embarking on data from the study's respondents, relevant studies were reviewed particularly to establish the theoretical framework underpinning this study and develop conceptual framework for this study. Following the development of the conceptual framework, four hypotheses were developed, in tandem with the research objectives earlier highlighted, for this study. Besides, this research uses a quantitative approach to assess the influence of microtakaful products on the sustainability of halal small businesses. On this basis, a questionnaire was developed, and the developed questionnaire was used to collect data from the respondents. Due to the outbreak of Covid-19, data were collected online by means of Google Form (an online survey administration) for this study.

In addition, it is also worth mentioning that this study focuses on the subservices sector, covering personal services, transportation and storage services, art, entertainment, and recreation, as well as the food and beverages sector.

1.6 SIGNIFICANCE OF THE STUDY

This research aims to reveal the influence of microtakaful products on the sustainability of halal small business. With the findings of this study, it is envisaged that the present study will improve the knowledge of halal small business owners and their workers on the benefits of subscribing to microtakaful products. By knowing the microtakaful products that contribute to halal small business sustainability, participants will be guided when making strategic decisions regarding the appropriate microtakaful products to be selected as a cover against uncertainty or mishap that may befall on halal small businesses or affect their sustainability.

Moreover, knowing about ways to protect their halal small business and subscribing to appropriate microtakaful products, especially those that contribute to halal business sustainability, will help business owners to operate with no worries, sustain their businesses, and contribute significantly to the development of the country.

Furthermore, this research is also important for takaful operators as it will help them to plan, analyse, and further explore the opportunities in halal small businesses. Based on the findings of this study, takaful operators will be exposed to microtakaful products that can influence the sustainability of halal small businesses and then market those essential products to halal small businesses in Malaysia. Besides, this study has also contributed to the body of knowledge in halal industry, takaful industry, as well as small business. Similarly, researchers in this field will find this study useful particularly when conducting research in this area of study.

1.7 THE STRUCTURE OF THE STUDY

This study is structured into five main chapters. This particular chapter, Chapter One, provides the foundation for this study as it discusses a series of issues aimed at getting the readers familiar with the focus of this study. Specifically, Chapter One covers the background of the study, problem statement, research objectives, research questions, research scope, the significance of the study, and the structure of this study.

Chapter Two focuses on literature review. In this chapter, pertinent issues are discussed essentially to establish a strong theoretical foundation, develop conceptual framework, and set the research hypotheses. Specifically, this section begins with the discussion on sustainability of halal small businesses and deliberates on microtakaful as well as various types of microtakaful products. Additionally, review of literature is also covered in this chapter and the developed conceptual framework, which guides the direction of this study, is presented. Finally, the developed research hypotheses, which would be tested using appropriate techniques, are also presented here in this chapter.

Chapter Three provides detailed discussion on the methodology adopted for this study. It covers issues, such as research design, research population, sample size and procedure, research instrument, data collection, and data analysis procedures. As indicated in this chapter, the analyses methods used in analysing the data that were collected for this study are descriptive analysis, exploratory factor analysis, multiple regression on SPSS platform, following the data screening.

Chapter Four covers data analysis and interpretation. Here, various analyses performed on the data that were collected for the present study were reported and adequately interpreted. Specifically, this chapter covers descriptive analysis, reliability test, exploratory factor analysis, and multiple regression. Most importantly, multiple analysis performed and presented in this chapter helps to identify microtakaful products that are positively and significantly related to the sustainability of halal small business.

The final chapter, Chapter Five, concludes and offers recommendations for relevant parties of interest. This chapter summarizes this study, discusses the findings of this study in relation to the research objectives, and links the findings to the extant literature. Furthermore, the implications of this research for theory and practice are also covered in this chapter. In addition, recommendations and conclusion of this study are also discussed in this chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter begins with the discussion on sustainability of halal small businesses, where issues, such as sustainability, halal industry and protection, risk management theory, small businesses and protection, and halal business sustainability, are comprehensively discussed. The next section discusses microtakaful with respect to differences among social protection, microinsurance, and microtakaful, the characteristics of microtakaful products, as well as the microtakaful trend. Then, the conceptual framework for this study, which is a visual representation of an expected relationship between independent variables and dependent variable, is present. This is followed by hypothesis development. The final section summarises this chapter.

2.2 SUSTAINABILITY OF HALAL SMALL BUSINESSES

This section is included in order to elaborate on the sustainability in halal small business and by extension, microtakaful products as protection mechanisms for halal small business. Hence, this section begins with the meaning of sustainability before discussing other relevant issues.

2.2.1 Sustainability

Sustainability has been initially described by the Bruntland Commission Report as a certain level or long term ability to measure, control and maintain the present need without compromising the need of future generations (United Nations, 1987). At the international level, Malaysia as a member of the United Nations is committed to achieve the Sustainable Development Goals (SDGs) from financing to social protection aspect,

such as with an emphasis on increasing income and quality of life for Bottom 40 (B40), through its 11th Malaysia Plan.

In addition, the Malaysian government, through its 2021 appropriation bill, has also been providing grant, training and moratorium initiatives to small businesses to assist them in generating more cash flows, business continuity, and employment opportunities towards economic recovery from the effects of Covid-19 (Kamaruddin & Shamsudin, 2021; SME Corporation Malaysia, 2021c). This is to empower the excluded group to sustain during the challenging period.

In the context of a sustainable institution, this is an institution that has achieved its independence with respect to the organisational, technical, financial, institutional, and social level (Fersi & Boujelbene, 2016). The aim for future and inclusive need is emphasised as *Hifzul Nasl* translated as the protection of progeny in *Maqasid Syariah* (Haq & Wahab, 2019). This suggests that human beings are responsible to ensure the upkeep of the environment for the present and future generation in most judicious ways.

In a different perspective, it involves efforts to meet halal needs or halal lifestyle in all aspects of the ecosystem, such as good social governance, to be enjoyed by present and future generations (HDC, 2021). In this context, sustainability tools of financial protection underscore the means through which affordable social and financial protection, such as microtakaful products, which is a subset of takaful plays a significant role in helping relevant institutions (Mohamad Hasim, 2014). Therefore, the sustainable institutions participation, involving financial inclusion and social inclusion (protection), is seen as a driver for sustainable development in ensuring that human needs are met not only in the present time, but also in such that benefit the generations to come.