

DEVELOPING AN INVESTMENT PREFERENCE  
MODEL FOR FAMILY *TAKAFUL* INVESTMENT  
LINKED PLAN IN KLANG VALLEY, MALAYSIA

BY

TAMIZA PARVEEN

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## ABSTRACT

Family Takaful is a *Shari'ah* compliant insurance alternative that offers investment options to *Takaful* participants. Family *Takaful* investment-linked products provide a means of investment with proper financial protection. However, based on market observation, the penetration rate of Family Takaful remains small compared to that of conventional life insurance. According to the Malaysian *Takaful* Dynamic, the current penetration rate for Family Takaful was 14.5 per cent, while that of conventional life insurance was 41.2 per cent. Lack of awareness among the investors has limited the potential for unit-linked products with an emphasis on the investment link products in the *Takaful* industry. This research focuses on the investment aspect of Family Takaful known as investment-link *Takaful* by developing an investment preference model. Theory of Planned Behaviour (TPB) and Theory of Interpersonal Behaviour (TIB) are used to develop the conceptual framework. This study uses a quantitative research method. A questionnaire survey is used to collect primary data from 323 Family Takaful plan holders. Structural Equation Modelling (SEM) results validate the conceptual model. The findings reveal that perceived risk has a negative impact on attitudes toward the investment-linked plan and awareness has a positive impact. Attitude has a positive impact on preference towards Family Takaful investment-linked plan. Attitude is also found to play a mediating role between religiosity, awareness and preference. The results provided by the study contribute to the existing literature and benefit *Takaful* operators in understanding the significant factors that affect investor preference in investment-link Family Takaful plans.

Keywords: *Takaful*, Investment-linked plan, Malaysia, *Shari'ah*

## مُلخَص البَحْث

التكافل العائلي هو بديل تأمين متوافق مع الشريعة الإسلامية، حيث يوفر خيارات استثمارية للمشاركين في برنامج التكافل. توفر منتجات التكافل العائلي المرتبطة بالاستثمار وسيلة استثمار مع حماية مالية مناسبة. ومع ذلك، بناءً على مراقبة السوق، يظل معدل انتشار التكافل العائلي صغيراً مقارنةً بالتأمين التقليدي على الحياة. وفقاً لديناميكية التكافل الماليزي *Malaysian Takaful Dynamic*، بلغ معدل الانتشار الحالي للتكافل العائلي 14.5%، في حين بلغ معدل انتشار التأمين التقليدي على الحياة 41.2%، أدى نقص الوعي بين المستثمرين إلى الحد من إمكانات المنتجات المرتبطة بالوحدات مع التركيز على منتجات الارتباط الاستثماري في صناعة التكافل. يركز هذا البحث على الجانب الاستثماري في التكافل العائلي المعروف باسم تكافل ربط الاستثمار من خلال تطوير نموذج تفضيل الاستثمار. تم استخدام نظرية السلوك المخطط (TPB)، ونظرية السلوك الشخصي (TIB)، لتطوير الإطار المفاهيمي. تستخدم هذه الدراسة طريقة البحث الكمي. تم استخدام استبيان لجمع البيانات الأولية من 323 (عائلة) من حملة وثيقة التكافل العائلي. تتحقق نتائج نمذجة المعادلات الهيكلية (SEM)، من صحة النموذج المفاهيمي. كشفت نتائج البحث عن أن المخاطر المتصورة ذات تأثير سلبي في المواقف تجاه الخطة المرتبطة بالاستثمار، وأن الوعي له تأثير إيجابي. الموقف له تأثير إيجابي في التفضيل تجاه خطة التكافل العائلي المرتبطة بالاستثمار. أظهرت النتائج أيضاً أن الموقف يؤدي دوراً وسيطاً بين التدين والوعي والتفضيل. تسهم النتائج التي قدمتها الدراسة في الأدبيات الحالية، وتفيد مشغلي التكافل في فهم العوامل المهمة التي تؤثر في تفضيل المستثمرين لخطة التكافل العائلي المرتبطة بالاستثمار.

## **APPROVAL PAGE**

The dissertation of Tamiza Parveen has been approved by the following:

---

Siti Salwani Bt. Razali

Supervisor

---

Marhanum Che Mohd Salleh

Co-Supervisor

---

Azman Mohd Noor

Internal Examiner

---

Sharifah Faigah Syed Alwi

Examiner 1

---

Asmak Abd Rahman

Examiner 2

## DECLARATION

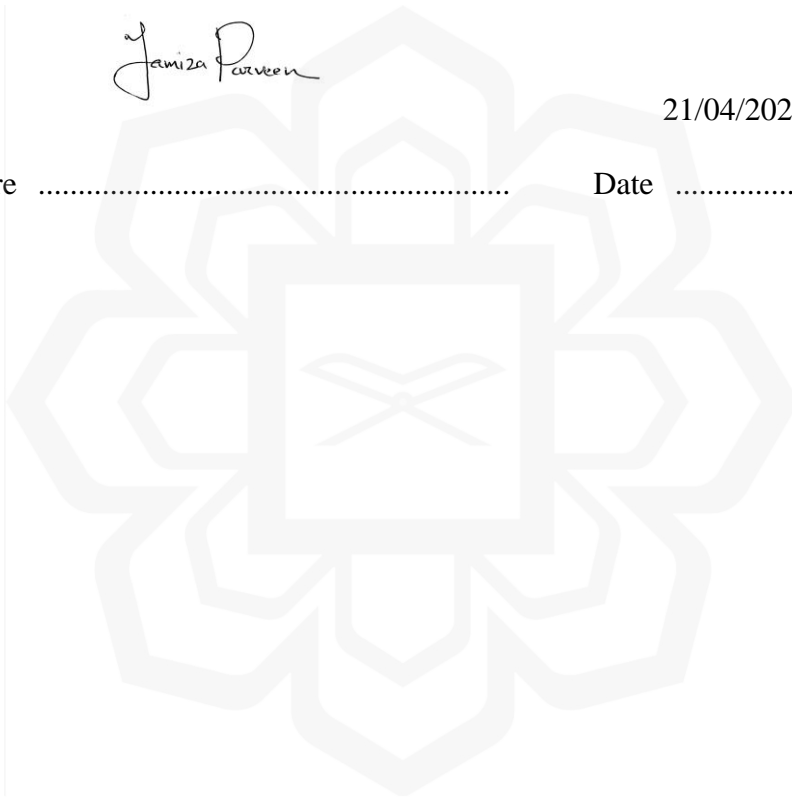
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*To these special people whose endless love and support I can never repay:*

*My Husband:*  
**RASHEDUL HASAN**

*My Parents:*  
**S.M. HAIDER**  
**MAHFUZA RAHMAN**

*My Daughter*  
**MAISARAH HASAN**

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# CHAPTER ONE

## INTRODUCTION

### 1.1 INTRODUCTION

The discussion in this chapter is centred on the emergence of *Takaful* in Malaysia, as well as its current achievements in the Islamic financial industry. This chapter is crucial, as it provides a background of the research. The main focus of the research is Investment-Linked products (ILPs) offered by *Takaful* operators in Malaysia. While conventional insurance has dominated the industry, *Takaful* has seen emerging growth in Malaysia through innovative product offerings. Investment-linked *Takaful* is an innovative concept which provides both protection and investment opportunities to interested investors.

However, lack of awareness of ILPs has restricted their growth potential in Malaysia. Therefore, this chapter states the research problem before establishing research objectives and research questions. As mentioned earlier, the scope of the research is the Family *Takaful* investment-linked plan offered by *Takaful* operators in Malaysia. This study aims toward exploring the factors responsible for the Investment-Linked plan preferences in Malaysia. The investigation depends on the theoretical underpinning of the Theory of Interpersonal Behaviour (TIB) and Theory of Islamic Consumer Behaviour (TICB). A brief description of the score and methodologies are provided in this chapter, followed by a description of the structure of the thesis. Finally, the chapter is summarized by concluding remarks.

## 1.2 BACKGROUND OF RESEARCH

*Takaful* offers risk sharing opportunity for its customers in a participatory form. It operates under co-operative principals and focuses less on the risk transfer motive inherent in a conventional insurance contract (Gustina & Abdullah, 2012). *Takaful* is positioned as an alternative to conventional insurance due to its Shari'ah compliant nature in selecting investments. In addition, *Takaful* is expected to ensure the greater good of the community and the environment by following ethical investment principles (Bhatty, 2010).

Both conventional and Islamic Insurance products are available for consumers in Malaysia. Islamic Insurance is often referred to as Takaful. Takaful differs from conventional insurance as it requires its consumers to pay contribution to ensure risk mitigation for all parties included in the insurance pool. Takaful operators serve the role of managing these pool of insurance funds and has the legal responsibility to ensure financial security against any unfortunate events covered within the policy. This unique feature of mutual pool of contribution to prevent losses in the event of an unprecedented event is referred to as Tabarru. Such mutual exchange of risk feature is absent in conventional insurance. Conventional insurance contracts rely more on a bilateral exchange of contractual obligations between insurance provider and the consumer ensured against a specific insurance policy.

Innovation can be defined as an idea or a process that changes the present condition for the better; bringing a positive difference to the way things are done, satisfying specific needs and improving the quality of life of people in general. *Takaful* is

an innovation in the insurance industry because it brings revolutionary changes to those who did not have any options besides conventional insurance. While there are certain religious limitations with conventional insurance, *Takaful* brings innovative ideas to products and services that address these issues (*Global Islamic Finance Report*, 2012).

The global Takaful sector contributed to the growth of the global Islamic finance sector. While the Islamic banking and Sukuk has been the primary contributor to the growth of the Islamic finance sector, contribution of the Takaful sector has been growing slowly. In 2005, the global Islamic finance sector witnessed a fourteen percent increase in the growth of the Takaful industry. Such growth resulted to an estimated value of fifteen billion (approximately, in US Dollar) for the Takaful sector. Such growth prospect for the Takaful sector should be capitalised by the global Islamic sector and Takaful operators should concentrate on penetrating more jurisdictions. Takaful operators could capture the market share in non-Muslim countries in the future as takafu; products are not restricted to Muslim consumers only, non-Muslim consumers could also find Takful products attractive when compared to their conventional counterparts (Swartz & Coetzer, 2010). More specifically, Takaful operators offer Shari'ah compliant products which mirror conventional insurance offerings. For example, general Takaful can serve as an alternative to general insurance while family takaful is an alternative to life insurance contracts.

The primary difference between convention and Islamic insurance (Takaful) is the prohibition of interest element by Shariah. Conventional insurance contacts has interest element which is prohibited for Muslim consumers (Gustina & Abdullah, 2012). As such, Takaful insurance was innovated to offer risk protection mechanisms for Muslim

consumers which follows the guidance of the Shari'ah. . The Fatwa committee in Malaysia concluded that life insurance is void due to non-compliance of Islamic principles. In addition, Takaful insurance contracts are free from *Gharar* (uncertainty) and *Mysir* (gambling).

In the search for alternative insurance coverage for Muslim investors, a special task force was created on 25 October 1982. The primary objective of the task force was to conduct a feasibility study for Islamic Insurance companies in Malaysia. The task force visited several countries that had already implanted Islamic insurance (Rahman, Mohamad, Ahmad, & Hussin, 2011). After two decades of operations of the *Takaful* industry in Malaysia, it was found that conventional insurance still occupies the leading position in the insurance market. This is because conventional insurance has a majority share in the insurance market (Rahman et al., 2011) The market share of Family Takaful is 7 per cent while conventional life insurance is 55 per cent (Ismail et al., 2017). Within two types of insurance in *Takaful* business, Family Takaful has proven significant growth potential in Malaysia as compared to general *Takaful*. The Family Takaful covers several areas that include investment, health, education and mortgage (Rahman et al., 2011).

Malaysia show significant growth in Takaful sector with a thirty three percent market share in the Family Takaful. In the South Asian region, Malaysia has a fifty seven per cent market share in the Family Takaful. Malaysia's dominance in the Takaful sector is growing, RAM ratings indicate a twelve per cent increase in the annual growth of the Malaysian takaful sector. Such growth is a result of new and innovative products offered by the Malaysian Takaful operators. One of such recent innovation is the Investment-linked policy (ILP) Takaful which offers both Shari'ah compliant investment and

protection benefits within the family takaful contract. ILP contracts are the main interest in this research due to its unique features.

As discussed earlier, consumers can get access to Investment-linked products through family takaful plan. When selecting family takaful plans, consumers has the option to dedicate a portion of their contribution for protection to receive death and disability benefits. Another part of the contribution can be dedicated for investment. However, such investment must comply with Shari'ah standards and investments can be made in Shari'ah approved assets only. Takaful participants have the option to allocation the portion of protection and investment contribution based on the selections available within the family Takaful plan. In general, investments dedicated through ILP are tied with a Shari'ah compliant unit fund. This allows greater transparency of the investment management as the unit fund prices are publicly available.

*Takaful* is not only constrained to providing protection, but also serves as the avenue of investment opportunities. Participants participate in various schemes in Family Takaful, especially investment-linked products, for their attractive features and from which they can generate a return on their chosen investments (Noor, 2009). This is the only option for the long-term Shariah-based investment, rather than any investment through Islamic banking products. According to the Malaysia International Islamic Finance (MIFC, 2015), Islamic financial services such as Islamic banking and capital markets are supporting economic growth across the world by providing Shariah-based structure for funding and financing. It does not only provide alternative financing for real economic development, but also offers certain principles that lend themselves well to

catalysing and promoting economic development. Islamic finance is a service sector which was less affected by the 2008 financial crisis.

### **1.3 STATEMENT OF PROBLEM**

The Takaful industry operates in a highly competitive environment. The conventional insurance industry is their major competitor and is a well-developed sector in terms of products and regulatory requirements. As such, Takaful operators in Malaysia faces great challenge to penetrate the insurance sectors. There are many factors that could prevent takaful operators to gain market share in the Malaysian insurance industry. Low level of awareness among prospective consumers have been identified in past literature as one of the major impediments for the growth of Takaful sector in Malaysia (Salleh, Irwani, & Razali, 2013). While Malaysian Takaful sector have seen tremendous growth despite such challenges, increase of awareness for Takaful products could allow Takaful operators to reach the uncharted territories and maintain such growth potential for the forcible future.

The low level of awareness is not a country-specific problem, it is a global phenomenon. According to the Global Islamic Finance Forum (GIFF), the global Takaful sector could not achieve its growth potential due to lack of awareness of various takaful products among potential consumers. Salleh, Abdullah and Razali (2012) indicate that a lack of attractive marketing strategies could contribute to such low level of awareness. However, such issue has not been explored in-depth in the past to develop a generalizable answer and effective solution.

Recent policy papers by Earnest and Young has indicated that Takaful has the potential to growth into a leading insurance solution for both individual and corporate consumers. However, such growth potential require immediate response to the low awareness problem from the Takaful operators in Malaysia (Ahmad, 2007). More specifically, Takaful operators need to find better ways to market its innovative products, for example investment-linked plan Takaful, to its potential consumers (Salleh, Abdullah, & Razali, 2012).

Secondly, low levels of knowledge and understanding of Muslims about *Takaful* concepts and *Shari'ah* terms are important factors for the low market penetration of the *Takaful* industry in Malaysia (Hamid & Othman, 2009). Financial knowledge is strongly related to financial behaviours (Xiao, J. J., S. Y., Serido, & Shim, 2014), and can influence the attitudes of a person in terms of financial behaviours, mainly to differentiate Islamic and conventional financing (Antara, Musa, & Hassan, 2016). Low levels of Knowledge of financial planning among Malaysian society often discourage higher participation of the individual in planning their financial activities in investments, such as share property and even life insurance (Zakaria et al., 2016).

Thirdly, Maiyaki & Ayuba (2015) found the attitude to be a significant predictor of the preference for Islamic insurance in Malaysia. Customers with a positive attitude prefers to invest in Islamic insurance. While their study provided valuable insights into the impact of attitude on the preference towards Islamic insurance, these results are not generalizable, and further investigation is required to explore the association between investor attitude and preference towards investment-linked *Takaful* products.

Islamic Finance principles are based on the notion that profit and loss should be shared by the investors. However, modern portfolio theory suggests that investors are risk-averse. Therefore, we can expect that, in general, investors would be less keen to share risk of other investors in a *Takaful* system. Such an attitude among investors could affect the growth of investment-linked *Takaful* products in Malaysia, as these require investors to share the inherent risk of investment.

Awareness, proper knowledge about the financial planning, perceived risk and types of attitude can have significant effects on the level of preference for a Family *Takaful* investment-linked plans. This research will attempt to test the impact of several determinants that could have a significant relationship with the preference on the investment-linked product in Family *Takaful*.

Finally, there are limited studies (for example Antara, Musa, & Hassan, 2016; Zakaria et al., 2016; Maiyaki & Ayuba, 2015) done to investigate the investment option related to *Takaful*. Past researchers have studied the *Takaful* and conventional insurance protection preferences, but very few researchers (Salleh, Abdullah, & Razali, 2012) have been conducted on the investment-linked product preference for a Family *Takaful*. This study focuses on Family *Takaful* due to its growth potential and ability to contribute toward the Malaysian economy (Yazid, Arifin, Hussin, & Daud, 2012).

#### **1.4 RESEARCH OBJECTIVES**

The primary objective of this research is to propose an Investment Preference Model for a Family Takaful Investment-linked Plan in Malaysia. More specifically, the objectives of the research are;

1. To develop an Investment preference framework for a Family Takaful investment-linked plan in Malaysia.
2. To examine the impact of awareness, perceived risk, religiosity, social factors, affect and attitude towards the preference for a Family Takaful investment-linked plan.
3. To investigate the mediating influence of attitude between awareness, perceived risk, religiosity and preference for Family Takaful investment-linked plan.

#### **1.5 RESEARCH QUESTIONS**

1. What are the constructs associated with preference for a Family Takaful investment-linked plan?
2. How awareness, perceived risk, religiosity, social factors, affect and attitude influence preference for a Family Takaful investment-linked plan?
3. To what extent attitude act as a mediator between awareness, perceived risk, religiosity and preference for a Family Takaful investment-link plan?

## 1.6 SCOPE OF THE RESEARCH

The current research focuses on the preference for a Family Takaful investment-linked plan among Muslim Malaysian *Takaful* participants. The primary aim of this study is to propose an investment preference model for a Family Takaful investment-linked plan by accompanying two models of social science, namely the Theory of Interpersonal Behaviour (TIB) and Theory of Islamic Consumer Behaviour (TICB). To develop a conceptual model, the Theory of Interpersonal Behaviour has primarily been used to establish the construct, while the supporting theory is the Theory of Islamic Consumer Behaviour.

The findings of this research will help in developing strategies to attract prospective participants in a Family Takaful investment-linked plan. Management will be able to define the role of *Takaful* advisors in shaping customer intention to prefer Family Takaful investment-linked product plan. *Takaful* operators will better understand the influential factors that can lead to a preference to participate in an investment-linked plan in Family Takaful alongside Family Takaful protection plans.

The scope of this research is limited to *Takaful* participants and their preferences towards the investment-linked products of *Takaful*. The sample will be drawn from Klang Valley as a suitable representation of the entire population of Malaysia because nearly all *Takaful* operators are operating from Kuala Lumpur and given that majority of the customers are from the Klang Valley urban area.