

ASSESSING THE NEED OF FINANCIAL PROTECTION AMONG TAKAFUL PARTICIPANTS

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ABSTRACT : *Takaful provide financial protection through family income continuation, hassle-free medical treatment, lifestyle maintenance, education protection and loan repayment. The main idea of this study is to identify the relationship of loss exposure, affordability and financial capacity on the need of financial protection. The study is conducted on employed respondents in Kota Bharu, Kelantan and distributed to 384 respondents. This study used statistical analysis of Pearson's Correlation by using SPSS version 25. The higher correlation denotes the importance of the independent variable to the dependent variable. This study found that all of the independent variables have moderate positive relationship with dependent variables of this study. This study is seen beneficial to the takaful participants, government and takaful operators to promote and enhance family takaful penetration in the country. Future studies with larger sample size are strongly recommended.*

KEYWORDS – *takaful, financial protection, financial capacity*

I.INTRODUCTION

Literally, the word 'kafala' means mutually guarantee each other. Technically, all contributors know that they are financially protected in the event of unfortunate events such as death, total disability and diagnosed of critical illness. The modern creation of *Aqilah* system which known as takaful, allocating sums of money under tabarru' account (also known as risk fund) to prepare for financial assistance and each member who contribute to the same fund indirectly helped the participant encounters unfortunate events (Md Husin, 2019).

At present, there are two main products covered under takaful companies; general and family takaful. The former is an alternative to the general insurance which provides financial protection to participants for losses that result from hazards such as accident, fire, flood, liability and burglary, while the latter, family is an alternative to life insurance that offers participants financial protection against illness, disability and death (Md Husin, 2019).

In Islamic financial market, the takaful segment is one of the growing and competitive industries. As of 2021, the global takaful market reached about US\$ 19 trillion. Based on data published by Malaysian Takaful Association showed that takaful penetration in Malaysia increased to 18.6% in 2021 compared to 16.9% in 2020, reflecting the highest growth in five years. In addition, the total business in-force gross contributions reached 7.4 billion Malaysian ringgits (\$1.7 billion) in 2021, reflecting more than 21% year-on year growth. While 35% of the population have at least some form of life insurance or family takaful policy, that does not necessarily reflect adequacy of protection. On top of that, the coverage of households in the bottom 40% (B40) income group is only 4% according to Bank Negara Malaysia's 2015 Financial Capability and Inclusion Demand Side Survey. Out of 41% who are insured, 90% of them do not have sufficient coverage (New Straits Times, 2020).

Apart from enhancing knowledge, it also helps the organization to expand their wings in contributing to their participants in a more innovative manner. The takaful operators would need to adapt and develop effective marketing strategies to resolve this issue in order to meet their target market and increase the awareness of the participants. Therefore, before further efforts are necessary to expand the takaful market, it is necessary to explore and recognize what may drive the intention of an individual to participate in takaful. Government, to create principles and regulations which will encourage and promote takaful development. It is a national policy to provide

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the participants with essential financial security by providing incentives and expanding financial protection benefits to the participants in takaful.

The main idea of this study is to assess the need for financial protection among takaful participants. The objectives of this study are to:

1. Determine the relationship between the loss exposure and the need of financial protection among participants
2. Determine the relationship between the product affordability on the need of financial protection among participants
3. Determine the relationship between the financial capacity and financial protection among participants

II. LITERATURE REVIEW

This chapter provides understanding related area through revisiting previous literatures. Therefore, this part covers the need of financial protection and its associated factors such as loss exposures, product affordability and financial capacity.

i. Financial Protection

Takaful provide financial protection through family income continuation in the event of death of breadwinner, hassle-free medical treatment and lifestyle maintenance in the event of illness, education protection in the event of death of parents and loan repayment in the event of death of the borrowers. In the same of this study, Yee et al. (2018) identified the impacts of the individual's intention to choose a family takaful scheme based on their perception in which according to them, individual's probability of purchasing financial protection or family takaful is high when an individual mind-set has a positive way to accepting behaviour. Besides, Aziz et al. (2017) explained on the risks covered in family takaful associated to human life, namely death, illness, and disability and also cater for investment needs. The goal of financial protection is to protect against any financial loss that is caused by human life. There are three reasons for the adoption of the family takaful; first, in terms of contribution in a certain period of time; second, the return on investment from the Shariah compliant; and third, other coverage benefits in the form of death, injury or sickness.

Ismail & Hassan (2017) said that taking part in Takaful is one of the most important financial decisions because nobody knows what the future holds. Every person has the potential to face different risks such as financial losses, collateral damage, death by accident, fire, and business (Salleh & Afthanorhan 2018). In addition, the family takaful is often used for saving and investment instruments such as the goal of the accounts of participants. On the other hand, Yazid et al. (2017) stated that the domination of family takaful business shows that there is a potential growth for long-term savings and investment, while protecting against major financial vulnerabilities resulting from serious illnesses, premature death or disability.

ii. Loss Exposure

According to M. Ismail (2019), who defined risk as a potential future accident that its realization requires bearing financial burdens. The concept of risk has traditionally been associated with uncertainty of future events so the greater uncertainty of events, the greater the risk. Every human effort and every business carry a certain risk, but some are much riskier than others. To put it briefly, risk denotes losses characterized by unpredictable events. Hence, it is important for individual to develop their own financial blueprint and ensure it review their financial needs from time to time.

Hassan et al. (2018), revealed the level of awareness in some countries which is still very low. Similarly, Che et al. (2017) found many of prospects remain doubtful whether takaful can be helpful to minimize flood losses and their willingness to spend on monthly takaful contributions. Meanwhile, Ismail & Hassan (2017) ascertained the risks of dying prematurely every year from illness or accident. Thus, engaging in financial insurance can help ones to provide financial stability. One of the most significant investment options is investing in financial protection, since no one knows what the future holds.

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H₁: The greater uncertainty of events, the greater the risk

iii. Product Affordability

Affordability is the degree to which something is affordable, as determined by its expense in relation to the price the participants will pay. Thus, this affordability will be measured by disposable income, in which when the level of income increases, the demand for takaful also increase. Norizan et al. (2017) believed the price affordability leads to increase demand of takaful products, hence improve the living standards among the public, which result in growing demand for financial security. Salleh & Afthanorhan (2018) exposed those who earn higher disposable income will usually purchase takaful products compared to those who earn less. According to Couffinhal et al. (2019) affordability and financial protection are depending on the level of costs for care.

H₂: The cheaper the products, the more likely people buy it

iv. Financial Capacity

Azarenkova et al. (2017) stated the criteria of financial capacity in a country must be analysed in terms of economic and political stability. This analysis would calculate income per capita to measure the disposable income, the GDP-to population ratio. There are several studies that show that financial capacities may be one of the key factors that raise demand for financial protection. Besides, Zulaihati et al. (2020) asserted that financial capacity is one of human resources that can encourage financial action. Besides, Russell et al. (2020) stated that the financial capacities that play a major role in financial well-being will handle money every day, prepare and invest for long-term and financial decision-making. Based on an exploratory study by Salleh & Afthanorhan (2018) found that the purchase of takaful products can be affected by an individual's level of income. Moreover, Uddin & Mohiuddin (2020) stated that income was perhaps the most important factor influencing the family's takaful demand. Therefore, an increase in income will also contribute to higher community buying power and improve standard of living, which contribute to a growing demand for fiscal stability, such as insurance and annuity (Mohamad Puad, 2017).

H₃: The higher of income level, the higher probability for people to opt for financial protection

Figure 1 shows the conceptual framework of this study. It consists of two variables; independent variables; loss exposure, product affordability, and financial capacity. The second variable is dependent variable, which is financial protection.

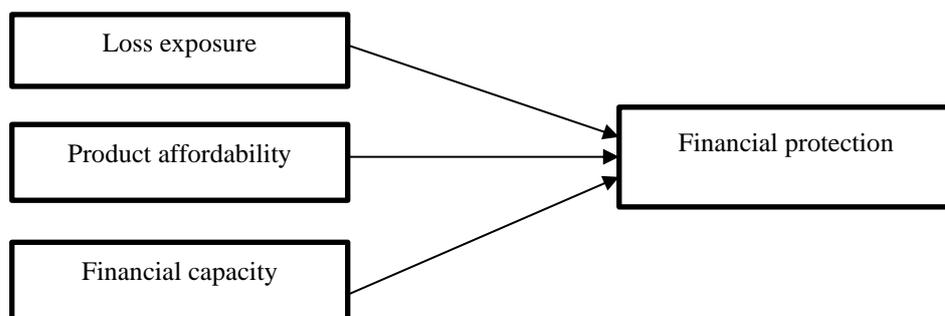


Figure 1: Conceptual Frameworks

III.METHODOLOGY

i.Research Design

This is a quantitative study to determine the relationship between the loss exposure, product affordability, financial capacity and the need for financial protection. Quantitative research includes the collection of primary data which can ensure the validity of the study. Therefore, the study collects information by using a questionnaire to assess the need for financial protection among participants in Kota Bharu, Kelantan. This state is chosen due to its high poverty rate compared to other states. It also has the lowest GDP per capita and its economic structure mainly on services sector.

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ii.Data Collection

Survey using Questionnaire becomes the only primary data instrument for this research since it allowed this study to look into the relevant variables and fit into the research objectives. Hence, it will increase the reliability, accuracy, and consistency of this study.

iii.Population & Unit of Analysis

This study targeted the takaful participants who lives in Kota Bharu, Kelantan. The target population of the study is working people who most commonly purchased takaful. The estimated population is 680,000 and the unit of analysis is the Muslim takaful participants in active employment. Based on Krejcie and Morgan table, 384 employed respondents are considered valid out of the total population.

iv.Sampling Technique

The sampling technique procedure is separated into two parts: probability sampling and non-probability sampling. Each employs a unique set of sampling techniques. This study adopts the latter technique. Therefore, non-probability sampling used is convenience sampling, which is more suitable for this study since it ensures that every individual has an equal opportunity to be selected.

v.Measurement of Scale

In this study, two scales of measurement in order to meet the requirement of measurement to conduct the questionnaire. Firstly, the measurement used in Section A is nominal scales. In section B and C, the interval scale measure was implemented applying a five-point Likert scale.

vi.Data Analysis

In this study, all data collected from the questionnaires were analysed by using the Social Sciences Statistical Package (SPSS) software with version 25. Descriptive and correlation are the statistical analysis adopted in this study. Descriptive methods have been used to simplify and characterize the data. In the descriptive study, the demographics of the respondents, such as mean, mean and mode, were also defined. Besides, the Pearson correlation was used to evaluate the relationship between the variables.

IV.FINDINGS AND RESULT

i.Demographic Profile

The demographic profile of the respondents included the information of age, gender, race, highest education attained, status, and income. From the sample collected, in terms of age, the major occurs in the age range from 35 to 44 (44%), followed by 25 to 34 (25.5%), and 45 to 54 (18.5%). Meanwhile, the respondents that below 24 years old (6.8%) and above 50 years old (5.2%). Hence, in the range age 35 to 44 years old are the majority in this study. It shows that the age of the major which is 35 to 44 years old determine about the knowledge of financial protection. Majority respondents come from female (51%), and male is 74 (49%). Furthermore, in terms of race, Malay is 293 (76.3%), Chinese (12.5%), Indian (10.2%) and lastly Siamese has contributed 4 (1%) people only. Since Malay more understanding about takaful because they are Muslim thus Malay became the majority race in this study. Next, for the academic qualification, there is 153 (39.8%) respondents have Diploma, 141 (36.7%) in graduate Degree, 44 (11.5%) in Master, 43 (11.2%) in SPM level, and 3 (0.8%) have PhD. Thus, respondents with diploma background are the highest education level are slightly higher in this study. Moreover, in terms of status, 198 married respondents (51.6%), 163 single respondents (42.4%) and lastly 23 widow respondents (6%). Besides, for the monthly income of the respondents, the major range is between RM1001 to RM4000 (41.9%), followed by RM4001 to RM7000 (39.8%), RM 1000 and below (10.9%), and monthly income RM7001 and above (7.3%) is the least.

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ii.Descriptive Analysis

The descriptive analysis tested according to their variable and listed out the summary of the mean and standard deviation of computed items in Table 1 below.

Table 1: Means and Standard Deviation

VARIABLES	MEAN	STANDARD DEVIATION
Loss Exposure	4.23	0.8946
Product Affordability	4.16	0.9308
Financial Capacity	4.25	0.8312
Financial Protection	4.35	0.7780

Table 1 indicates all the independent variable consists of loss exposure, product affordability and financial capacity which influence the need of financial protection. Based on the result attained, financial protection obtains the highest mean whereas product affordability has the lowest mean.

iii.Reliability Analysis

The consistency and suitability will be measured by the reliability analysis without any bias and error. To indicate the items in a variable is positively correlated, Cronbach's Alpha will be used as the reliability coefficient and its relevancy according to the level of internal consistency in Table 2(i) and the actual reliability statistics in Table 2(ii) below.

Table 2(i): Level of Internal Consistency

Cronbach's alpha	Internal consistency
$\alpha \geq 0.9$	Excellent
$0.9 > \alpha \geq 0.8$	Good
$0.8 > \alpha \geq 0.7$	Acceptable
$0.7 > \alpha \geq 0.6$	Questionable
$0.6 > \alpha \geq 0.5$	Poor
$0.5 > \alpha$	Unacceptable

Table 2(ii): Actual Reliability Statistics

	Cronbach's Alpha	No of Items	Results
Independent Variables			
Loss Exposure	0.840	5	Good
Product Affordability	0.760	5	Acceptable
Financial Capacity	0.906	5	Excellent
Dependent Variable			
Financial Protection	0.865	5	Good

Based on the result analysed in Table 2, the Cronbach's Alpha for financial protection is 0.865. The result shows that all of the items in the part of the financial protection are related to the title, and it indicated as a "good". Besides that, loss exposure also obtained a "good" result in the reliability test, which is 0.840 respectively. The Cronbach's Alpha for financial capacity achieve as "excellent" which is 0.904 and product affordability is 0.760 respectively, hence considered as "acceptable" reliability. Generally, the items will be acceptable when the result

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of Cronbach’s Alpha is more than 0.70. Based on this statement, all of the items in this research can be accepted and there is positively correlated with each other.

iv. Pearson’s Correlation Analysis

The most popular analytical method for representing the degree of the linear relationship between the dependent variable and the independent variable is Pearson Correlation. In this study, Pearson Correlation is used to define and evaluate the relationship between the need of financial protection and the loss exposure, product affordability and financial capacity. Table 3(i) shows the rule of thumb for interpreting the size of correlation coefficient and Table 3(ii) reflects Pearson’s Correlation Analysis.

Table 3(i): Rule of thumb for interpreting the size of correlation coefficient

Size of Correlation	Interpretation
.90 to 1.00 (-.90 to -1.00)	Very high positive (negative) correlation
.70 to .90 (-.70 to -.90)	High positive (negative) correlation
.50 to .70 (-.50 to -.70)	Moderate positive (negative) correlation
.30 to .50 (-.30 to -.50)	Low positive (negative) correlation
.00 to .30 (.00 to -.30)	negligible correlation

Table 3(ii): Pearson’s Correlation Analysis

		Loss Exposure	Product Affordability	Financial Capacity	Need for Financial Protection
Loss Exposure (IV1)	Pearson Correlation	.651**			
	Sig. (2-tailed)	.0001			
	N	384			
Product Affordability (IV2)	Pearson Correlation	.713**	1		
	Sig. (2-tailed)	.0002			
	N	384	384		
Financial Capacity (IV3)	Pearson Correlation	.677**	.753**	1	
	Sig. (2-tailed)	.000	.000		
	N	384	384	384	
Need for Financial Protection (IV)	Pearson Correlation	.651**	.609**	.673**	1
	Sig. (2-tailed)	.0001	.0002	.0006	
	N	384	384	384	384

Table 3(ii) displayed all of the independent variables which are loss exposure, product affordability, and financial capacity are significantly correlated to the dependent variable which is need for financial protection implemented at 0.01 level (2-tailed). For the first independent variable, there is a moderate positive relationship between loss exposure and the need of financial protection among participants, since the r-value = 0.651 and p-value= 0.0001. Besides, there is also a moderate positive relationship between product affordability and the need of financial protection among participants, as the r-value = 0.609 and p-value= 0.0002. While the last variable, which is financial capacity, achieves almost similar to the first variable, as r-value = 0.673 and p-value= 0.0006. The higher correlation denotes the importance of the independent variable to the dependent variable. Thus, all of the independent variables have significant relationship to the dependent variable of this study.

V.DISCUSSION

This study was conducted to provide an in-depth investigation on the need of financial protection. Based on the result attained, there is a significant relationship between loss exposure, product affordability, financial capacity and the need of financial protection. Based on the result of the significant value p-value<0.01, this shows the significant relationship between loss exposure and the need of financial protection among participants. Therefore, the null hypothesis is rejected and H₁ is accepted. There is a moderate positive relationship between loss exposure and the need of financial protection among participants, since the r-value = 0.651 and p-value= 0.0001 (p-value <0.01). Hence, the result does confirm the work of M. Ismail (2019) in which the greater uncertainty of events, the greater the risk.

Regarding the product affordability, its p-value<0.01, this shows that there is a relationship between product affordability and the need of financial protection among participants. Therefore, the null hypothesis is rejected and H₂ is accepted. There is a moderate positive relationship between affordability and the need of financial protection among participants, since the r-value = 0.609 and p-value= 0.0002. This study is similar to the findings of Norizan et al. (2017) when the cheaper the products, the more likely people buy it.

Based on the result attained for the last variable, this shows that there is a relationship between financial capacity and the need of financial protection among participants. Therefore, the null hypothesis is rejected and H₃ is accepted. Therefore, there is a moderate positive relationship between financial capacity and the need of financial protection among participants since the r-value = 0.673 and p-value= 0.0006. This prove a study by Uddin & Mohiuddin (2020) in which the higher of income level, the higher probability for people to opt for financial protection.

Table 4: Summary of Pearson’s Correlation analysis

Hypotheses		Pearson’s Correlation Result	
H₁	The greater uncertainty of events, the greater the risk	r=0.651 p=0.0001	Supported
H₂	The cheaper the products, the more likely people buy it	r=0.609 p=0.0002	Supported
H₃	The higher of income level, the higher probability for people to opt for financial protection	r=0.673 p=0.0006	Supported

VI. CONCLUSION

Financial protection provides foundation on individual's financial health state based on the inclusion of wealth distribution, wealth preservation, wealth accumulation and wealth protection. To conclude, there are several parties which will gain from this study. First and foremost, the participants. Upon making contribution on monthly or yearly basis, they will learn more on the importance of having financial protection in broader perspective such as peace of mind matters, cost of inflation and figure out on financial sustainability in the long run. Secondly, the government. With the supports given by the government, many initiatives should be proposed to increase penetration rate in Malaysia to ensure financial protection of the family can be sustained and eventually alleviate the poverty rate. Thirdly, takaful operators. Currently there are 11 family takaful operators actively promoting takaful products. As known by many, insurance or takaful relieves the financial worry, hence, this study shed some light for takaful development team to create more innovative products with central focus on Needs-Based Selling in a way it addresses those specific needs. Finally, recommendations for future studies with a larger sample size will be strongly recommended to provide stronger and more reliable results because they have smaller margins of error and lower standards of deviation.

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