

THE ROLE OF ISLAMIC FINANCIAL INSTITUTIONS IN WEALTH ACCUMULATION, OWNERSHIP & PROTECTION BY THE *UMMAH*: CONCEPTUAL AND IMPLEMENTATION CHALLENGES

*Assoc. Prof. Dr. Zuriah Abdul Rahman
Universiti Teknologi MARA
(UiTM)*

INTRODUCTION

Wealth Accumulation from the Islamic Perspective

In countries where there is a large Muslim population, it is important that the financial planner of properties belonging to a Muslim be provided with adequate information on laws and practices affecting the accumulation, protection and distribution of wealth or assets in accordance with *Shariah* laws. Islam is a unique and only religion which specifies and dictates how man should perform his business and economic activities in accordance with the teachings of the *Al-Quran* and *Hadith* (sayings and deeds of the Prophet Mohammed, pbuh), Muslims are encouraged to plan for their life in this world and then to seek help from Allah, i.e. *tawakkal* for whatever Allah has planned for him/her.

There are a number of verses in the *Al-Quran*, e.g. *Surah al-Nur*, 24:33, *Surah al-Naml*, 27:36, *Surah al-Muddhathir*, 74:12, which allows human to accumulate wealth/assets but subjected through *halaal* (permissible) means (*Surah al-Baqarah*, 2:188) so as not to bring destruction to mankind and to spend towards a *halaal* cause so as to receive *barakah* (blessings) from the Almighty (*Surah al-Isra'*, 17:6 and *Surah Nuh*, 71:12). From one authentic (*sahih*) *hadith*, a question is asked during the Day of Judgment, not only how the wealth was spent but as to what source did it originated from (Abdullah, 2004); Rasullullah s.a.w. says:

The two legs of the servant (men) will be immovable until he is asked with regards to four matters: during his lifetime, how was it utilized, during his younger days how was it spent, with

regards to his property, where (how) did he acquire it and how was it spent and lastly, to what extent did he practiced his acquired knowledge.

(Hadith narrated by Al Bazzar and Tabarany)

According to Yahya and Azhar (2005), in the Arabic language, wealth/assets or *mal* or *rizq*, or *mata'* means to accumulate, to acquire and to own. What constituted wealth is something that could be accumulated, in the form of material assets like money, real estate, and the like, while non material assets are those referred to as intellectual capital, copyrights and the like. In many verses of the *Al-Quran*, in *Surah al-Fajr*, 89:20, *Surah al-Balad*, 90:6, *Surah al-Khafi*, 18:34, *Surah al-Humazah*, 104:1-3, Allah warned about the dangers of wealth accumulation which could bring about decay in character leading to greed, conceit, stingy and others.

In general, wealth/assets should be used to meet the needs of human, whether individual, family, society or country. Positive benefits derived from wealth/assets in returned will be blessed, while negative benefits will render pain and suffering on the Day of Judgment, as illustrated in *Surah al-Baqarah*, 2:261 and *Surah Ali-Imran*, 3:186. According to Abdullah (2004), *halaal rizq*, will be blessed on this earth while *haraam* (prohibited) *rizq* will result in anxiety and uneasiness on this earth, and more than that, on the Day of Judgment, he will be punished in hell, as the saying of the Prophet s.a.w.:

It is not wealth due to bountiful assets owned, rather real wealth are those that result in serenity and tranquility in life.

(*Hadith* narrated by Bukhari & Muslim)

A person will not enter paradise, if his growth is derived from *haraam* or illegal means/efforts.

(*Hadith* narrated by Imam Ahmad)

Islam has concluded that work or any practical acquisition or efforts aimed towards acquiring *rizq*, is considered as *ibaadah*, (initiatives or efforts in pursuance of Allah's commands) which means, it does not only bring returns on this earth only but will also be compensated in the hereafter. *Rizq* or assets discussed here are those that are accumulated. Abdullah (2004) adds, that to accumulate more wealth or *rizq*, one has to ask for forgiveness (*istighfar*) and seek forgiveness as stated in the Al-Quran:

“I said (to them): Ask forgiveness from your Lord, verily, He is Oft-Forgiving. He will send rain to you in abundance, And give you increase in wealth and children and bestow on you gardens and bestow on you rivers.“

(*Surah Nuh, 71:10-12*)

Allah also promised in another *surah* to put his trust in Him and He will provide for his servants:

“And He will provide him from (sources) he never could imagine. And whosoever puts his trust in Allah, then, He will suffice him. Verily, Allah will accomplish his purpose. Indeed Allah has set a measure for all things“

(*Surah al-Talaq, 65:2-3*)

According to Yahya and Azhar (2005), assets can be accumulated through three means:

1. through exploration of earth natural resources, e.g. agriculture, animal husbandry and mining.
2. through commercial efforts or trade or buy and sell, *tijarah* and *bai'un* in Arabic.
3. through gifts, such as donations or *sadaqah*, *zakat* (Islamic tax system), *ghanimah* (assets from non-Muslim taken legally (e.g. won in a war), *jizyah* (tax imposed on non-Muslim in return for protection) and inheritance passed down from generation or family line.

From the above explanations, Allah truly encourages human beings to accumulate assets on earth but puts a limit to it through various terms. *Halaal* income according to the *Sunnah* is:

Rasulullah s.a.w. was asked, what are the types of blessed income and he answered, "One who works with his hands and any commercial transaction which is allowable in Islam."

It is clear that Islam encourages individuals to work in order to seek *halaal rizq*, accumulate and spend it in the way allowable (*halaal*). During the time of the Rasulallah s.a.w., his companions, Saidina Abu Bakr and Saidina Othman are cloth traders, Saidina Umar was a corn trader while the Ansars (residents of the city, Madinah) were into agriculture.

Wealth Accumulation in Malaysia

Therefore, is the method of wealth accumulation these days, especially in Malaysia appropriate and acceptable by *Shariah*? To answer this question, we need to elaborate in detail several features with regards to practice and ethics in the business world, which to a certain extent does not meet the standards or terms set by the *Shariah*. In investment, there are several financial instrument laced with interest and usury, numerous financing techniques offered as start up capital to begin a business which still could not be categorized as *halaal*. As a result of the need and realization by the Muslims and the Malaysian government to introduce a viable environment where the individual, the businessman and the investor does not have any doubts in their efforts to accumulate assets, the Central Bank of Malaysia introduced the Islamic Financial Master Plan (IFMP) in 2001 which indirectly, besides offering financial instruments and financial services which are *halaal*, Malaysia has notched itself or singled itself in the eyes of the world as the offeror and manufacturer of *halaal* financial services so as to convince the Muslims around the world that they could invest in Malaysia without any doubts. The existence of the IFMP, offers opportunities to individuals and businesses to continue doing business and accumulate assets and income with the choice of methods which does not run contradictory to the *Shariah* laws (Central Bank of Malaysia Report, 2002).

Ethics in Wealth Accumulation

In trying to realize efforts in wealth accumulation, it is appropriate if this discussion is taken to another level with regards to ethical methods of assets accumulation. According to Beekun (1997), in Islam, ethics revolves around all aspects of life, whether in daily activities of individuals or in business enterprise or during commercial transaction between human beings. According to definition, ethics is a moral principle which can differentiate between right and wrong, and it applies to both Muslims and Non-Muslims. For the former, it advises on what is allowable and what is not allowable, i.e. to be able to differentiate between *halaal* and *haraam* during the carrying out of activities. In the context of Islam, this definition is also known as *khuluq, khair, birr, qist, 'adl, haq, ma'ruf* and *taqwa*.

Several factors influenced ethical behavior. It ranges from:

- Imposition of *Shariah* law;
- The organization – the level of commitment of the head of organization in trying to show and lead in the example of ethical attitude;
- Individual – level of moral development of an individual, a) prone towards evil tendencies, b) realization towards evil and reject it, and to seek Allah's forgiveness with the hope that attitude will change and c) the soul will achieve high level of realization and satisfaction after the rejection of evil by the brain which always influences human towards it, self-worth and personality; that is, one who can be trusted is vastly different from one who does not respect the property of others.
- Family influences – the shaping of ethical attitude begin from young and will reflect the same if his/her family members also demonstrate such features.
- Friends influence – every day interaction with friends will shape an ethical attitude and vice-versa if the close friends do not display such attitude.
- Lifetime experience – whether positive or negative, will to a certain extent influence the individual's ethical attitude.

- Situational factor – behavior sometimes is dictated by situations a person is in. A person in dire financial need may commit white collar crime in order to get out of the situation but in other different situations, he/she behaves normally

The Philosophy and Practice of Islamic Ethical System according to Beekun begins with:

1. *Tauhid*

This earth and all the assets on it belongs to Allah, therefore, there is no room for wrong thoughts and attitude; there is no one who could be influenced to carry out any activities which runs contradictory to Islam because of the belief in Allah, Who can provide and recall anything at any time. Therefore, a Muslim should be humble and moderate at all times.

Never lose hope with Allah’s help and always be sure to acknowledge that Allah is All-Knower even though certain activities are carried out in private and away from the knowledge of others, for fear of His retribution.

A Muslim should not be influenced by profits only because he knows that by owning property/assets:

“Wealth and children are the adornment of the life in this world. But the good righteous deeds, that last, are better with your Lord for rewards and better in respect of hope”

(Surah al-Kahfi, 18:46)

2. *‘Adl or Moderation*

The need for moderation is stressed greatly by Allah; for those who have and those who have not, and Allah encourages mankind to give and despise excessive use of wealth or waste. The key to management of wealth is moderation.

In commercial transactions, there is a need for justice. Islam does not side with those who go on *jihad* (in the cause of Allah) in business without any thoughts of acquiring any profits nor encourages the trader who acquires excessive profits in the hope of accumulating excessive wealth.

3. The Freedom to Choose

Humans are given the freedom to think and make decisions but within the limitations set by Islam if they profess to be Muslim. Humans also have to accept whatever is fated to them by Allah and *tawakkal* in everything they do.

Mankind has the responsibility to *tawakkal* to Allah, to make good his promise whether in the social context, like a marriage contract, political and commercial agreements.

4. Responsibility

Freedom without limitation does not exist in Islam because it would encourage laxity or result in irresponsibility and unaccountability. Responsibility in Islam has different levels, at the micro level focusing on the individual and at the macro level focusing on the organization and society. Responsibility means, if someone behaves in an unethical manner, he cannot put the blame on others or the environment, instead accept it as his own doing:

“Every person is a pledge for what he has earned”

(*Surah al-Muddhathir, 74:38*)

5. *Ehsan* (Benevolence)

Ehsan means to do good deeds for others without hoping for anything in return. If this is practiced in a business transaction it would mean:

- a) if someone has a need for something, then, it should be sold with minimum or without profits at all, would be better for him
- b) if someone purchases from a poor person, it would be better if he is paid a higher price than that demanded
- c) if someone gives a loan, it would be better if the duration of the loan is extended or to reduce the amount in order to reduce his burden
- d) if someone purchases something and wishes to return the item, he should be allowed to do so
- e) if someone accepts a loan, it would be better if he repays before the amount is requested and before the term of the loan expired
- f) if someone sells something on installment, it would be better for him not to force the buyer to pay during the appointed time, if he could not afford it.

WEALTH PROTECTION OF ACCUMULATED ASSETS

Wealth, whether substantial or little, material or non-material has to be protected from loss, damage or stolen. These are some of the responsibilities acknowledged by many parties. It does not matter whether it is individual wealth, company or society, there must be someone responsible to take care of its safety. Accumulated wealth of an individual could be in the form of income, liquid assets (stocks, investment, cash in the bank, etc.) and fixed assets (house, land, orchard, factory, etc.). Income could be terminated due to death, poor health, sickness, injury, retirement, unemployment and others. Assets also could be exposed to a number of dangers which could bring about loss to the owner, such as threats due to natural hazards such as storm, floods, earthquake and etc, man-made hazards such as fire, theft and others. In handling these potential losses, i.e. loss of property and income, there are a variety of ways that have been introduced for this purpose. In the context of risk management, it is divided into two categories:

- 1) **Risk Control** – also known as risk avoidance or risk reduction to property and income, or,
- 2) **Risk Financing** – where an individual or company prepares a fund to pay for losses or compensation to those who experience loss of property or income due to any hazards experienced or transfer the risk to another party who is able to finance the loss

WEALTH PROTECTION IN ISLAM

Tawakkal

After efforts have been carried out to avoid or reduce potential losses to property and income using the two methods mentioned above, it is appropriate to introduce what Islam expects a Muslim to do by going one step further, i.e. to *tawakkal* to Allah. According to Abdullah (2004) the meaning of *tawakkal* is to put one's trust with Allah swt., and anything that takes place after comes with the will of Allah. This is because Muslims must believe that everything that exist, humans, *rizq*, good or bad, rich or poor, health and sickness, life and death and everything else occur and comes from Allah swt.

Evidence for the above comes from the following hadith:

If you put your trust in Allah, i.e. real trust, you will be endowed with rizq, just like the bird who is given its rizq, as soon as it leaves its nest in the morning with an empty stomach and returns in the evening with its stomach filled.

(Hadith narrated by Imam Ahmad, Tarmidzi, Ibnu Majah, Ibnu Mubarak, Ibnu Hibban, Al-Hakim and others)

The conclusion derived from the above is, humans have to initiate both, that is through their own efforts, to decide on any of the above conventional method and lastly resort to *tawakkal* to Allah swt.

A man asked the *Rasulullah* s.a.w. “Should I leave the camel and *tawakkal* to Allah?”

Rasulullah's s.a.w. reply was, "Tie your camel first then *tawakkal* to Allah"

For a Muslim who had accumulated his wealth through his own efforts and without *tawakkal* is not sufficient. More so, it is compulsory to double one's efforts in increasing *rizq* or wealth for a good and comfortable life on this earth but not to forget to take care of it in the best possible manner and finally to lean back on the Provider of this *rizq* by putting all your trust in Him.

Risk Financing Mechanism for Wealth Protection the Islamic Way

Takaful or Islamic Insurance

Allah is Most Merciful by providing its creations with children, wife/husband. These are also *rizq* or wealth that needs protection and taken care off to the best of ones ability. From the physical point of view, their safety and security on this earth should be given priority just like any other material wealth, i.e. avoidance from being kidnap, sickness, injured, murdered and many others. This responsibility is very grave, therefore, the head of the household is given this task to ensure the safety and security of his family by providing them with food, clothing, good health and growth without any interference to their physical and mental health; providing them with education and to ensure that the family's future is taken care off for life. This responsibility must be carried out to the best of one's ability and must be done with sincerity (*ikhlas*) as Allah commanded:

"And give you increase in wealth and children, and bestow on you gardens and bestow on you rivers "

(Surah Nuh, 71:12)

"It is prescribed for you, when death approaches any of you, if he leaves wealth, that he makes a bequest to parents and next of kin, according to reasonable manners. (This is) a duty upon *Al-Muttaqun* (the pious)"

(Surah Al-Baqarah, 2:180)

Those among you who die and leave their wife behind, ensure that there is a will for their wife/wives, so that they will have their sustenance for one year and do not have to leave their homes. Unless they leave their homes out of their own free will, then there is no sin on you (allowing them to do sins towards themselves by their *wali* or heir of the deceased)

(Hadith narrated by Bukhari and Muslim)

Other than *tawakkal*, the introduction of the Islamic financial system also has facilitated Muslims in their efforts to care for their assets and those assets that have been left behind after their death, which include children and spouse(s). Among the most popular financial instrument to assist Muslims in this aspect are various *takaful* products which are based on the concept of just, *adl*, and *ehsan*. These *takaful* products is one branch of the Islamic financial system which prepares funds, either long term i.e. family *takaful* that provides protection to the family, or short term i.e. general *takaful* which provides protection to property/assets such as *takaful* for fire , *takaful* for theft or *takaful* for motor, etc. Other than getting compensation for losses, participants to the *takaful* scheme also could be rewarded with profits from investment which is shared between them and the *takaful* operator via the principle of *mudharabah* (profit sharing), which follows a set percentage fixed at the beginning when the contract was signed between both parties.

Takaful scheme encourages its participants to invest with the hope of getting profits while at the same time donate to a special fund via the concept of *tabarru'* to those members of the scheme who experienced losses brought about by any of the risks insured against (Mohd Fadzli, 2006). The above discussion covers the aspect of physical wealth protection and assets in the form of family members, material and non-material assets which are all gifts from Allah. We now proceed further to discuss to what extent are Muslims in Malaysia are committed towards protecting their *rizq* or wealth from Allah.

Takaful or Islamic Insurance has been in existence in Malaysia the last two decades, resulting from the approval leading to the introduction of Syarikat Takaful Malaysia Berhad by Bank

Negara Malaysia in 1984. Within a span of more than 24 years, and additional 7 *takaful* operators, very few research have been undertaken to study Malaysia's Muslim population perception on *takaful*.

This research is undertaken to address a basic issue, i.e. to assess whether the general public are fully aware of the existence of *takaful* offerings in the market. If they are aware, this research seeks to be able to measure the level of awareness using various criteria.

RESEARCH DESIGN AND ITS JUSTIFICATION

This is a cross-sectional, descriptive field study on the awareness of *takaful* amongst Malaysian aged 18 and above. It is a nationwide survey, or more specifically, data are collected from all 13 states and 3 Federal Territories of Malaysia. This study offers a profile and describes relevant aspects of this phenomenon from an individual's perspective. Such information is vital to position *takaful* as the premier Islamic Insurance provider regardless of race, religion, educational level, income etc. in Malaysia. To gain answer to the research objective, a primary data collection is conducted. In order to provide an insight on how this primary research is carried out, this section outlines the objectives of the primary research work, population and sampling, the sample size, methods of data collection, data analysis and interpretation.

Objectives of the Study

- To develop a demographic profile of potential *takaful* customers
- To gather to what extent, the public is aware of the *takaful* industry
- To evaluate the level of awareness of *takaful* product offerings
- To assess the level of awareness on *takaful* product attributes
- To ascertain to what extent religion plays a role in influencing demand
- To evaluate the important factors influencing demand for *takaful* products

Scope of the Research

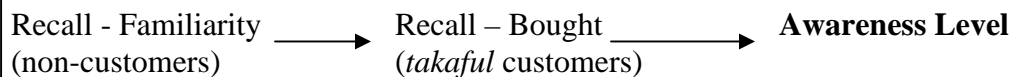
- Assessment of approximately one thousand two hundred general public
- Nationwide study and assessment of awareness level covering all 13 states in Malaysia as well as the federal territories of Kuala Lumpur, Putrajaya and Labuan
- The measurement of awareness level is based on the general public perception of the *takaful* products offerings based on a set of criteria
- The assessment took into account respondents needs and expectation of *takaful* product offerings to enable the *takaful* industry to design attractive products or packages

Research Framework

The framework is a conceptual model with adequate level of information to enable the assessment of the objectives stated above. (Figure 1, below).

Figure 1: Framework of the Proposed Study

DIMENSIONS USED FOR MEASURING CONCEPTS



Determining Sampling Frame

The total population of Malaysia as at July 2007 is 27.17 million. (Department of Statistics Malaysia). The distribution of age group within the population is as follows:

| | |
|--------------------|--------|
| Below 15 years | 32.00% |
| 15 to 64 years | 63.40% |
| 65 years and above | 4.40% |

Life Expectancy: Male: 71.8; Female: 76.3

Birth Rate: (a) 23 live birth/1000 population: approximately 2.3% p.a. (Wikipedia Encyclopedia);

(b) 18.7 live birth/1000 population: approximately 1.87% p.a. (Department of statistics, Malaysia)

Since the population for each state is cited from Wikipedia encyclopedia, the birth rate of 2.3% cited from Wikipedia is utilized to compute the current population of the following states and Federal Territories in Malaysia. Table 1 is tabulated based on citation from Wikipedia encyclopedia (downloaded in 2007). This is the estimated population by state/FT of Malaysia for the year, 2007, projected at 2.3% birth rate p.a.

Table 1 – Total population by state / FT estimated based on 2.3% birth rate p.a.

| State / FT | Year of data | Population x birth rate x #yrs (to 2007) | *Current population (2007) | % of total population |
|-----------------|--------------|---|----------------------------|-----------------------|
| Johore | 2005 | $3,170,000 \times 2.3\% \times 2 = 145,820$ | 3,315,820 | 12.13% |
| Melaka | 2005 | $713,000 \times 2.3\% \times 2 = 32,798$ | 745,798 | 2.72% |
| Negri Sembilan | 2007 | $1,004,807 + 0 = 1,004,807$ | 1,004,807 | 3.68% |
| FT Kuala Lumpur | 2004 | $1,800,674 \times 2.3\% \times 3 = 124,247$ | 1,924,921 | 7.04% |
| FT Putrajaya | 2004 | $45,000 \times 2.3\% \times 3 = 3,105$ | 48,105 | 0.18% |
| Selangor | 2005 | $4,736,100 \times 2.3\% \times 2 = 217,860$ | 4,953,960 | 18.12% |
| Pahang | 2005 | $1,372,500 \times 2.3\% \times 2 = 63,112$ | 1,435,612 | 5.25% |
| Trengganu | 2005 | $1,055,943 \times 2.3\% \times 2 = 48,573$ | 1,104,516 | 4.04% |

| | | | | |
|---------------------------|---------------------|--|-----------------------------------|------------------------------|
| Kelantan | 2000 | $1,313,014 \times 2.3\% \times 7 = 211,395$ | 1,524,409 | 5.57% |
| State / FT | Year of data | Population x birth rate x #yrs (to 2007) | *Current population (2007) | % of total population |
| Perak | 2007 | $2,260,576 + 0 = 2,260,576$ | 2,260,576 | 8.26% |
| Penang | 2006 | $1,470,000 \times 2.3\% \times 1 = 33,810$ | 1,503,810 | 5.50% |
| Kedah | 2003 | $1,778,188 \times 2.3\% \times 4 = 163,576$ | 1,941,764 | 7.10% |
| Perlis | 2000 | $198,335 \times 2.3 \times 7 = 31,932$ | 230,267 | 0.84% |
| Sabah | 2000 | $2,449,398 \times 2.3\% \times 7 = 394,352$ | 2,843,741 | 10.41% |
| Sarawak | 2006 | $2,357,500 \times 2.3\% \times 1 = 54,223$ | 2,411,723 | 8.82% |
| Labuan | 2000 | $78,000 \times 2.3\% \times 7 = 12,558$ | 90,558 | 0.34% |
| Total national population | 2007 | 24,490,012 | 27,340,387 | 100% |

Source: Wikipedia Encyclopaedia downloaded from: <http://en.wikipedia.org/Malaysia> downloaded on 24/10/2007

The sample population to be used in this research is 67.8% of the total national population. This is due to the fact that the available data compiled by the Department of Statistics, Malaysia provides percentage of population distribution based on age ranging from 15-64 and 65 and above only. Therefore computation of potential eligible respondents is as follows:

$27,340,387 \times 67.8\% = 18,536,782$ eligible respondents

The sampling technique is called proportionate stratified random sampling method involving the following steps:

- The population frame was the more than 27.17 million residents in Malaysia
- representations from each state was calculated based on a pre-determined formula

Using Davis (1997) table for estimating sample size, n:

| | | |
|---|---------|----------------------------|
| Population of approximately 18 million adults aged 18 and above of the general public | n = 954 | To measure awareness level |
|---|---------|----------------------------|

LITERATURE REVIEW

Development of Islamic Finance and *Takaful* in Malaysia

The main foundations of Islamic finance which upholds the Principle of Equity has won wide appeals and recognition, both among Muslims and non Muslims in Malaysia. Besides functioning as a mobilizer of funds for investment and finance, Islamic finance propagates profit and risk sharing between provider and recipient of funds, hence, promoting socially responsible financing. (Keynote address of Prime Minister of Malaysia YAB Dato' Seri Abdullah Haji Ahmad Badawi at the Islamic Financial Services Board Annual Meeting and Global Islamic Finance Forum, March 2007, Kuala Lumpur).

Globally, Islamic finance has only been for a relatively short span of time but the number of Islamic financial institutions has grown exponentially operating in more than 75 countries with total assets exceeding one trillion U.S Dollars and a growth rate of between 15 and 20 percent. This may be considered small in comparison to the conventional financial system, nevertheless,

evidence has it that there is a strong demand for *Shariah* financial compliant products in the global market.

Malaysia is fully committed in developing a comprehensive Islamic financial services industry. In its agenda to be the hub for Islamic financing, Malaysia has ensured that the policymakers, regulators and market participants work together and continuously look for strategic measures to further enhance the existing market.

The *takaful* industry in Malaysia can be considered as a young and vibrant industry as compared to its counterpart, the conventional insurers. Historically, in terms of its origins and beginnings in Malaysia, the conventional insurance market has been a developed market prior to independence and was mainly dominated by foreign insurance companies. Nevertheless, Bank Negara in its latest study cited that the *takaful* business in Malaysia is growing at a faster pace than the conventional insurance business. The *takaful* industry in Malaysia is in fact the largest outside the Arab region.

Based on the fact that there is a strong consumer appetite for *Shariah* compliant products, banks in Malaysia have also joined the band wagons by incorporating *takaful* products into their wealth management offerings. This is evident when the investment-linked *takaful* showed a seven fold increase in its share of new business within one year (0.6 percent in 2003, 1.6 percent in 2004 and 9.7 percent in 2005).

To ensure that the *takaful* business remains resilient, viable and sustainable, the *takaful* operators are subject to both forms of regulations. The regulations encompass those which apply to conventional insurance companies and those governing *Shariah* compliance in ensuring that the Islamic principles are held steadfastly.

To further strengthen the *takaful* industry in Malaysia, the Central Bank of Malaysia focuses on 6 core areas. These key areas as outlined in the Takaful Report 2005 are hoped to assist the *takaful* operators in facing global challenges and ensure the resilience of the sector. The key areas spelt out in Takaful Annual Report 2005 are:

- Strengthening institutional infrastructure
- Strengthening cooperate governance and risk management
- Enhancing operational efficiency
- Strengthening the *Shariah* framework
- Enhancing intellectual capital development; and
- Improving market conduct.

RESEARCH FINDINGS

The Nationwide Survey – Descriptive Analysis on Demographic Variables

The survey was carried out in February and March, 2008. A total of 1,169 usable questionnaires were analyzed. Table 2a & 2b provides a detailed breakdown on the number surveyed by states in Malaysia.

Table 2a: Total Number of Respondents by States in Malaysia

| States/Region | No. Surveyed | No. Usable | Total by Region |
|---------------|--------------|------------|-----------------|
| Perlis | 19 | 19 | |
| Kedah | 91 | 91 | |

| | | | |
|--------------------------|--------------|--------------|--------------|
| Penang (Pulau Pinang) | 79 | 78 | |
| NORTHERN REGION | | | 188 |
| Perak | 81 | 78 | |
| Selangor | 225 | 225 | |
| Kuala Lumpur | 103 | 98 | |
| Putrajaya | 7 | 5 | |
| CENTRAL REGION | | | 406 |
| Negri Sembilan | 42 | 42 | |
| Melaka | 40 | 40 | |
| Johor | 116 | 114 | |
| SOUTHERN REGION | | | 196 |
| Pahang | 70 | 63 | |
| Terengganu | 55 | 53 | |
| Kelantan | 70 | 68 | |
| EAST COAST REGION | | | 184 |
| Sabah | 109 | 101 | |
| Sarawak | 91 | 91 | |
| Labuan | 3 | 3 | |
| EAST MALAYSIA | | | 195 |
| TOTAL RESPONDENTS | 1,201 | 1,169 | 1,169 |

Table 2b: Total Number of Towns & Cities by States in Malaysia

| States/Region | Town or City | Total |
|----------------------|---|--------------|
| Perlis | Padang Besar, Kangar, Arau, Chuping, Mata Ayer, Kuala Perlis, Padang Siding | 7 |
| Kedah | Alor Star, Baling, Sungai Petani, Gombak, | 8 |

| | | |
|------------------------|---|-----------|
| | Pendang, Sungai Layar, Bedong, Naka | |
| Penang | Kepala Batas, Relau, Jelutong, Gelugor, Sg. Dua, Sg. Nibong, Bayan Baru, Bayan Lepas, Balik Pulau, Bukit Gambir, Pulau Tikus | 11 |
| NORTHERN REGION | | 26 |
| Perak | Batu Kurau, Simpang Pulai, Kamunting, Taiping, Ijok, Tg. Malim, Ipoh, Selama, Bota, Slim River, Teluk Intan, Sungkai, Bidor, Seri Manjung, Pantai Remis, Tg. Piandang, Parit Buntar | 17 |
| Selangor | Meru, Banting, Shah Alam, Bangi, Petaling Jaya, Kapar, Puchong, Gombak, Keramat, Hulu Kelang, Lembah Jaya, K. Selangor, Sg. Buloh, Subang Jaya, Klang, Sekinchan | 16 |
| Kuala Lumpur | TTDI, Maluri, Ampang, Keramat, Setiawangsa, Kepong, Sentul, Wangsa Maju, Cheras, Bukit Bintang, Ulu Kelang, Pandan, Bangsar, Sg. Besi, Pantai Dalam, Setapak, Taman Melawati/Melati, Kemensah Heights | 19 |
| Putrajaya | Putrajaya | 1 |
| CENTRAL REGION | | 53 |
| Negeri Sembilan | Port Dickson, Seremban, Teluk Kemang, Lobak, Nilai | 5 |
| Melaka | Semabok, Batu Berendam, Duyong, Bukit Rambai, Bandar Hilir, Ayer Molek, Ayer Keroh, Alor Gajah, Bukit Baru, Cheng, Bertam Hulu, Masjid Tanah, Bukit Katil, Pengkalan Balak | 14 |
| Johor | Segamat, Kluang, Batu Pahat, Johor Baru, Mersing, Muar, Kota Tinggi, Kulai, Skudai, Machap, Pontian | 11 |
| SOUTHERN REGION | | 30 |
| Pahang | Bentong, Temerloh, Gambang, Kuantan, Muazam Shah | 5 |

| | | |
|-----------------------------------|--|------------|
| Terengganu | Kuala Terengganu, Kemaman, Marang, Dungun, Jerteh | 5 |
| Kelantan | Rantau Panjang, Pasir Mas, Pasir Puteh, Machang, Kg. Kerian, Kota Bharu, Tanah Merah, Bachok, Kuala Krai | 9 |
| EAST COAST REGION | | 10 |
| Sabah | Tuaran, Kota Kinabalu, Kuala Penyu, Keningau, Ranau, | 5 |
| Sarawak | Kuching, Miri, Mukah, Bintulu | 4 |
| Labuan | Kampung Kerupang, Labuan | 2 |
| EAST MALAYSIA | | 11 |
| TOTAL # TOWNS & CITIES | | 130 |

Table 3: Total Number of Respondents by Occupational Group

| | Frequenc | Percent | Valid | Cumulative |
|--|----------|---------|-------|------------|
|--|----------|---------|-------|------------|

| | | y | | Percent | Percent |
|---------|--|------|-------|---------|---------|
| Valid | 1. Legislator, Senior Official & Managers | 28 | 2.4 | 2.4 | 2.4 |
| | 2. Professionals | 197 | 16.9 | 17.0 | 19.4 |
| | Technician, 3. Associated Professionals | 226 | 19.3 | 19.4 | 38.8 |
| | 4. Clerical Workers | 170 | 14.5 | 14.6 | 53.4 |
| | 5. Service & Shop & Market Sales Workers | 120 | 10.3 | 10.3 | 63.8 |
| | 6. Skilled Agricultural & Fishery Workers | 24 | 2.1 | 2.1 | 65.8 |
| | 7. Craft & Related Trade Workers | 10 | .9 | .9 | 66.7 |
| | 8. Plant & Machine Operators & Assemblers | 78 | 6.7 | 6.7 | 73.4 |
| | 9. Elementary Occupations | 22 | 1.9 | 1.9 | 75.3 |
| | 10. Self- Employed | 177 | 15.1 | 15.2 | 90.5 |
| | 11. Others | 110 | 9.4 | 9.5 | 100.0 |
| | Total | 1162 | 99.4 | 100.0 | |
| Missing | System | 7 | .6 | | |
| Total | | 1169 | 100.0 | | |

Source: Classification by Occupational Group is based on the **Malaysian Standard Classification of Occupation, 1998** derived from the Economic Planning Unit, Prime Ministers Dept., Malaysia

The samples were subsequently categorized by gender, marital status, age and race. Tables 4, 5 and 6 below provide details for each group.

Table 4: Total Number of Respondents Grouped by Gender

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------|--------|-----------|---------|---------------|--------------------|
| Valid | Male | 646 | 55.3 | 55.5 | 55.5 |
| | Female | 519 | 44.4 | 44.5 | 100.0 |
| | Total | 1165 | 99.7 | 100.0 | |
| Missing | System | 4 | .3 | | |
| Total | | 1169 | 100.0 | | |

Table 5: Total Number of Respondents Grouped by Marital Status

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|---------|-----------|---------|---------------|--------------------|
| Valid | Married | 625 | 53.5 | 53.5 | 53.5 |
| | Single | 530 | 45.3 | 45.3 | 98.8 |
| | Others | 14 | 1.2 | 1.2 | 100.0 |
| | Total | 1169 | 100.0 | 100.0 | |

Table 6: Total Number of Respondents Grouped by Age

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
| Valid | Below 25 years | 328 | 28.1 | 28.1 | 28.1 |
| | 25-30 years | 311 | 26.6 | 26.6 | 54.8 |
| | 31-35 years | 155 | 13.3 | 13.3 | 68.0 |
| | 36-40 years | 98 | 8.4 | 8.4 | 76.4 |
| | 41-45 years | 110 | 9.4 | 9.4 | 85.9 |
| | 46-50 years | 74 | 6.3 | 6.3 | 92.2 |
| | 51-55 years | 54 | 4.6 | 4.6 | 96.8 |

| | | | | | |
|---------|---------------|------|-------|-------|-------|
| | Over 55 years | 37 | 3.2 | 3.2 | 100.0 |
| | Total | 1167 | 99.8 | 100.0 | |
| Missing | System | 2 | .2 | | |
| Total | | 1169 | 100.0 | | |

Table 7: Total Number of Respondents Grouped by Race

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------|---------|-----------|---------|---------------|--------------------|
| Valid | Malay | 671 | 57.4 | 57.4 | 57.4 |
| | Chinese | 271 | 23.2 | 23.2 | 80.7 |
| | Indian | 112 | 9.6 | 9.6 | 90.2 |
| | Others | 114 | 9.8 | 9.8 | 100.0 |
| | Total | 1168 | 99.9 | 100.0 | |
| Missing | System | 1 | .1 | | |
| Total | | 1169 | 100.0 | | |

Table 8: Total Number of Respondents and their Dependents (Children)

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------|-------------|-----------|---------|---------------|--------------------|
| Valid | 0 | 605 | 51.8 | 51.8 | 51.8 |
| | 1-2 | 231 | 19.8 | 19.8 | 71.6 |
| | 3-4 | 213 | 18.2 | 18.3 | 89.9 |
| | 5-6 | 90 | 7.7 | 7.7 | 97.6 |
| | 7-8 | 20 | 1.7 | 1.7 | 99.3 |
| | more than 8 | 8 | .7 | .7 | 100.0 |
| | Total | 1167 | 99.8 | 100.0 | |
| Missing | System | 2 | .2 | | |
| Total | | 1169 | 100.0 | | |

Table 9: Total Number of Respondents and Income Level

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------|--------------------|-----------|---------|---------------|--------------------|
| Valid | below RM3,000 | 910 | 77.8 | 79.1 | 79.1 |
| | RM3,001- RM6,000 | 177 | 15.1 | 15.4 | 94.4 |
| | RM6,001- RM9,000 | 43 | 3.7 | 3.7 | 98.2 |
| | RM9,001- RM12,000 | 14 | 1.2 | 1.2 | 99.4 |
| | RM12,001 and above | 7 | .6 | .6 | 100.0 |
| | Total | 1151 | 98.5 | 100.0 | |
| Missing | System | 18 | 1.5 | | |
| Total | | 1169 | 100.0 | | |

Table 10: Total Number of Respondents and Education Level

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------|-------------------|-----------|---------|---------------|--------------------|
| Valid | Secondary School | 513 | 43.9 | 44.1 | 44.1 |
| | Diploma/ST PM | 317 | 27.1 | 27.3 | 71.4 |
| | Bachelor's Degree | 246 | 21.0 | 21.2 | 92.6 |
| | Master's Degree | 59 | 5.0 | 5.1 | 97.7 |
| | PhD | 10 | .9 | .9 | 98.5 |
| | Elementary School | 17 | 1.5 | 1.5 | 100.0 |
| | Total | 1162 | 99.4 | 100.0 | |
| Missing | System | 7 | .6 | | |
| Total | | 1169 | 100.0 | | |

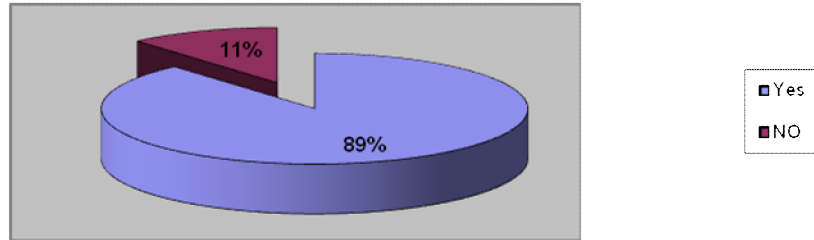
ANALYSIS ON FINDINGS

Q1. Are you aware of the existence of *takaful* (Islamic insurance) in Malaysia?

Table 11: Existence of Takaful

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------|-----------|---------|---------------|--------------------|
| Valid Yes | 1036 | 88.6 | 88.6 | 88.6 |
| No | 133 | 11.4 | 11.4 | 100.0 |
| Total | 1169 | 100.0 | 100.0 | |

Figure 2: Awareness on Existence of Takaful



The table showed that although the majority, 88.6% of the respondents are aware of the existence of *takaful* in Malaysia, the penetration rate is still very low, about 5.7% (6.5% for family *takaful*). Among the respondents who are not aware, comprising of 11.4% or 133 respondents, they are mostly among the non-Muslims and the respondents from Sabah and Sarawak.

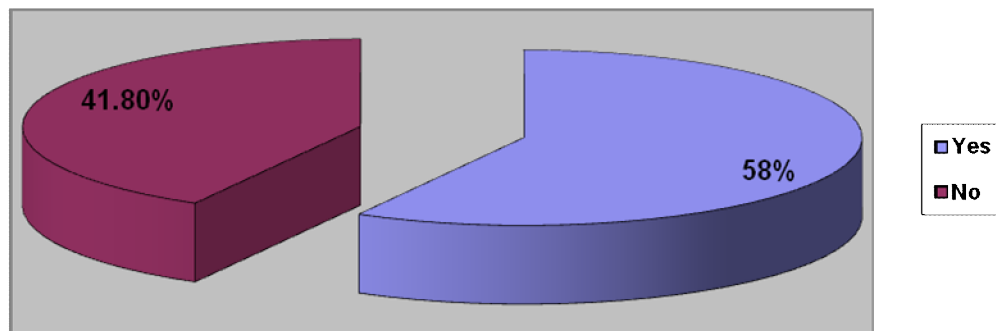
Q2. Do you know any *takaful* company (operator) that offer *takaful* certificates (policies) & products in Malaysia?

Table 12: Ability to Name Any Takaful Operator

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|--|-----------|---------|---------------|--------------------|
|--|-----------|---------|---------------|--------------------|

| | | | | | |
|-------------|--------|------|-------|-------|-------|
| Valid | yes | 678 | 58.0 | 58.1 | 58.1 |
| | no | 489 | 41.8 | 41.9 | 100.0 |
| | Total | 1167 | 99.8 | 100.0 | |
| Missin g | System | 2 | .2 | | |
| Total | | 1169 | 100.0 | | |

Figure 3: Ability to Name Any Takaful Operator



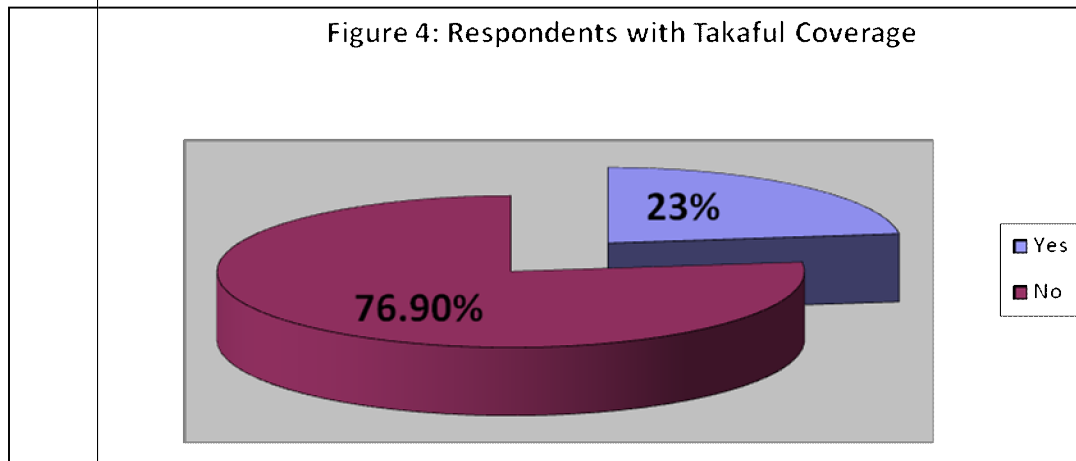
Even though the percentage of awareness on the existence of *takaful* among the respondents is high, surprisingly this is not reflected in the ability to name any *takaful* operator. The percentage of respondents who were able to name any *takaful* operator was slightly more than half.

Q3. Do you have any *takaful* coverage?

Table 13: Number of Respondents with Takaful Coverage

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|--|-----------|---------|---------------|--------------------|
|--|-----------|---------|---------------|--------------------|

| | | | | | |
|-------|-------|------|-------|-------|-------|
| Valid | Yes | 269 | 23.0 | 23.0 | 23.0 |
| | No | 899 | 76.9 | 76.9 | 99.9 |
| | 3.00 | 1 | .1 | .1 | 100.0 |
| | Total | 1169 | 100.0 | 100.0 | |



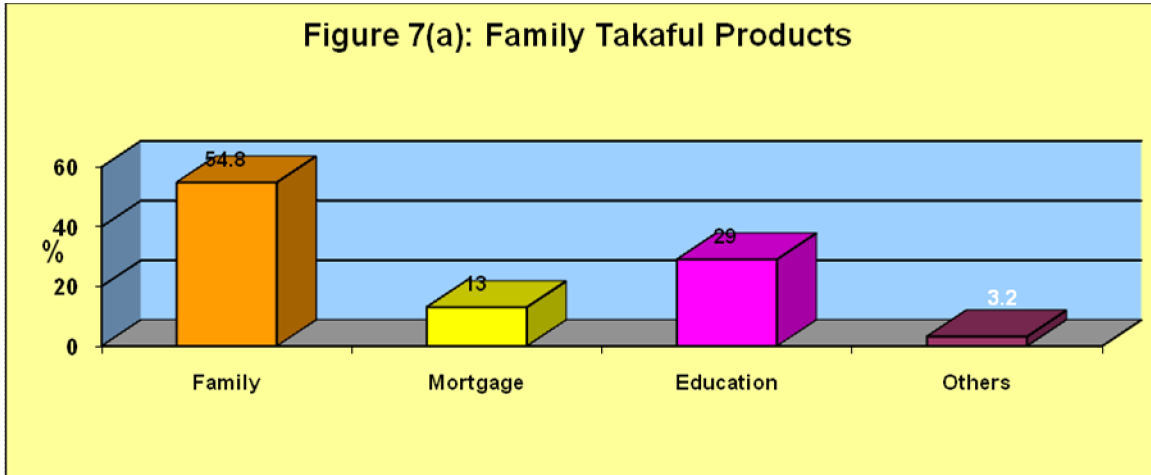
The rapid growth and transformation of *takaful* since its inception more than 20 years ago, however does not match with the result of this survey when only 23% of the respondents have *takaful* coverage (Table 13, Figure 4). *This indicates that many respondents are aware of the existence but chose not to participate in takaful. The analysis reflects that potential participants still lack understanding on takaful, its objective and operations, therefore, could not make an informed decision on whether to participate in it.*

Referring to Q.3 above, and for those who answered in the affirmative, Q.4, provides us with the types of *takaful* cover that they participated in.

Q4. Do you have *takaful* cover? (269 responded “YES”)

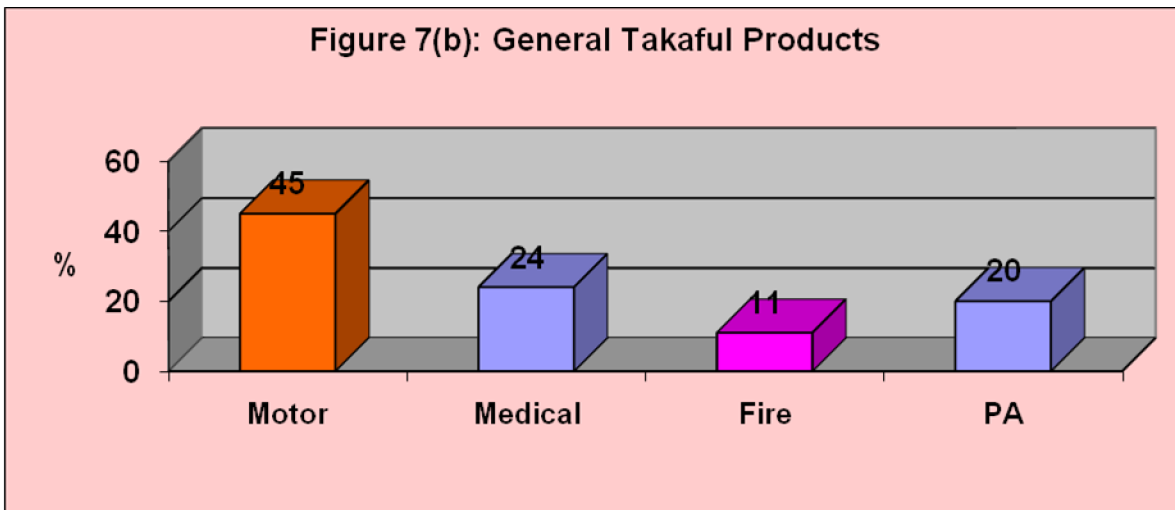
Q4. If yes, what type of *takaful* cover do you have?

(a) FAMILY TAKAFUL PRODUCTS (197 responses)



The biggest number of Family *Takaful* Plan products purchased are Family *Takaful* 54.8%, followed by Education: 29%, Mortgage: 13% and others: 3.2%. This proves a point that *takaful* cover, particularly Family and Education which were among the priority and personal choice of individuals. It is not a compulsory coverage as in motor takaful or credit related transaction.

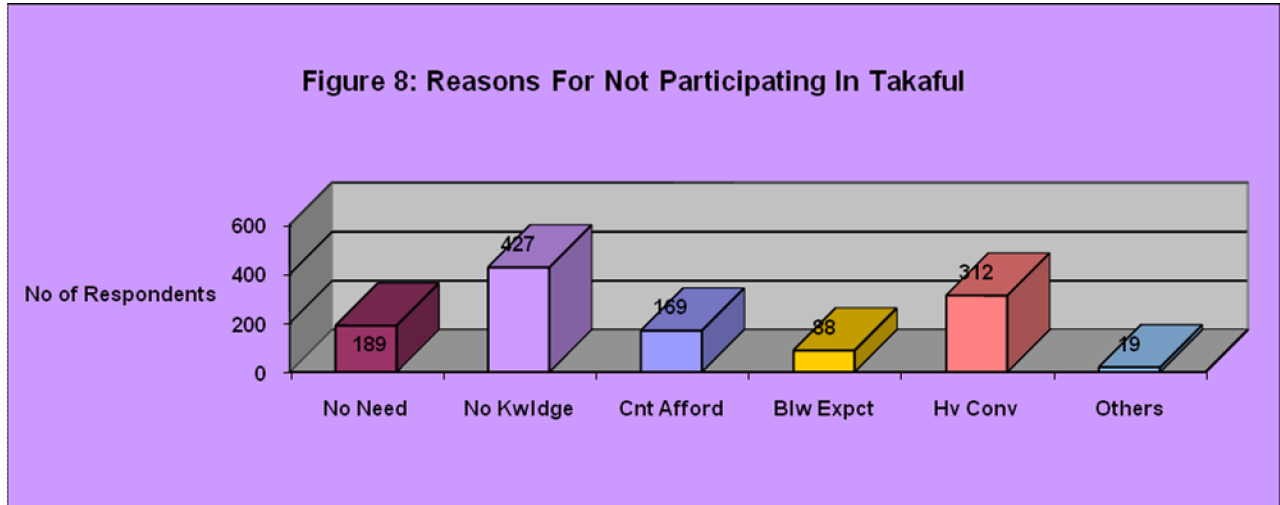
(b) GENERAL TAKAFUL PRODUCTS PURCHASED (236 responses)



Motor *Takaful* is the highest selling General *Takaful* product, i.e. 45%, followed by Medical: 24%, Personal Accident: 20% and Fire: 11%. This is expected as Motor Insurance is compulsory. Medical *Takaful* showed promising prospect, this provide opportunity to build on this class of *takaful*.

Q5. If no, why did you not purchase *takaful*? (886 responses)

Note: Frequency counts because respondents can tick more than one response.



Out of 886 responses, the three responses that got the highest frequency counts are **“lack of knowledge” (427); “have conventional insurance” (312); “do not have a need” (189) and “cannot afford” (169).**

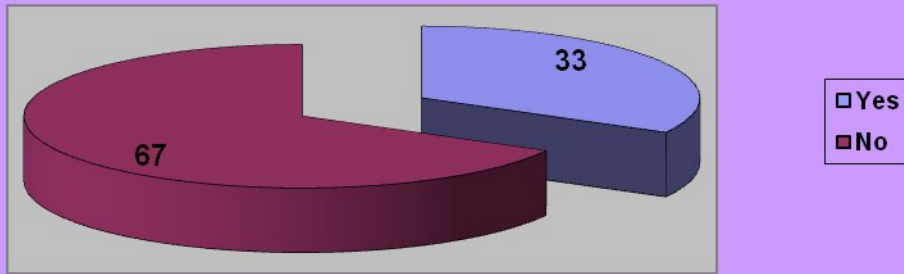
Majority of the respondents who did not participate identified “lack of knowledge” and “have conventional insurance” as the main reason for not participating. This could be due to lack of or ineffective promotion.

Q6. (a) Do you have intention to participate in the near future? (1169 respondents)

Yes: 343

No: 698

Figure 9: Intention to Participate in Takaful



67% have no intention to purchase *takaful* in the near future. As such, majority of the respondents have no intention to participate in the near future. This is quite worrying but again this may be due to “lack of knowledge” and “have conventional insurance”

Finally, taking into account the overall mean response of 3.41 out of a possible score of 5.00 (Table 14) for all the 10 elements to measure awareness, this survey found a fairly low awareness level. In general, the public knows about *takaful* (88.6%) but are not familiar on its operations, product attributes and many other factors of which the relevant information have not been adequately disseminated to them.

Table 14: Awareness Level Mean Score

| | N | Minimum | Maximum | Mean | Std. Deviation |
|--------------------|------|---------|---------|--------|----------------|
| FAMILIAR | 1169 | 1.00 | 5.00 | 3.4054 | .67997 |
| Valid N (listwise) | 1169 | | | | |

Further analysis on the responses received from the Malay respondents who are presumably Muslim population the following results were found:

Table 15: Participation in Takaful by Malays

| Race | With Takaful Cover | Intention to Participate in Takaful |
|------|--------------------|-------------------------------------|
|------|--------------------|-------------------------------------|

| | | |
|-------|-----|-----|
| Malay | 42% | 33% |
|-------|-----|-----|

The results indicate that the majority of the Muslim, Malay population in Malaysia is still behind in comparison with the other races in their attitude towards the acceptance of *takaful* as an investment and protection tool for their physical well being and material wealth despite the gigantic task from the government to push Malaysia into the limelight as the provider of Islamic financial products in the region. Several factors could be identified contributing to this phenomenon. Low education level coupled with low awareness level, *takaful*/Islamic insurance is considered to be of least priority in life or simply leaving their fate to the will of Allah.

RECOMMENDATIONS FOR THE ISLAMIC FINANCIAL INSTITUTIONS AND TAKAFUL OPERATORS

1. *Takaful* demand driven by religious conviction

- Since the majority of *takaful* customers and demand for the products comes largely from Muslims, it is essential that *takaful* operators must position their product as *Shariah* compliant, that the benefits provided meet with their needs and contributions (premium for Family *Takaful*) are based on affordability.
- *Takaful* brand needs to be established amongst Muslims as being *halaal*, in order to convince the Muslims and also in line with ethics in order to appeal to the non Muslims. Transparency of product terms and conditions as well as pricing are important catalysts to boost the market for the product.

2. Education and its influence

- Explanations on the benefits and *takaful* operations must be supported with the Malay or English interpretations of the Arabic versions to ensure the public and customers understand what they are going into. Differing scholarly interpretations of *takaful* operations should be minimized to avoid customer's confusion of the product.
- *Takaful* operators have a long way to go in trying to capture the Malaysian population interest in the product because there is a need to increase the acceptance level in order to create the need for the product. Heightened acceptance level can be achieved through consumer education and providing adequate information via various channels of distribution.

3. Information dissemination

- Aggressive promotional campaign is necessary via various mediums to provide essential, adequate and relevant information to enable the general public to make informed decisions on the *takaful* contract that they will be entering into.
- In general the potential market lacked knowledge, are not clear about *takaful* benefits, and does not see the need for *takaful* right now, therefore, there is an urgent need for Malaysian *takaful* operators to take on the challenge to promote

takaful aggressively because market growth can only occur with relevant and timely information.

4. Marketing channel & the role of Information technology

- It is vital that the agency system be revived for those *takaful* operating without one, since, studies have shown that effective information dissemination for a product that is ‘sold’ not ‘bought’ is the link to the potential customer.
- *Bancatakaful*, the other alternative medium to reach a wider spectrum of the common customers’ database of financial institutions needs to be expanded. Banks generally enhance customer relationships and retention rate.
- The growth of the internet has transformed society tremendously and this has changed the way people communicate, exchange information, sells products etc. and *takaful* is no exception to this rule.

5. The role of economic variables

- There is a need to emphasize a great deal on affordability especially for family *takaful* products, because the potential *takaful* market falls within the lower to medium income groups who are young and need a tremendous amount of convincing on the importance of *takaful* in their lives.
- Emphasis should be made on *takaful* product attributes that is designed to take care of both the worldly matters as well as the hereafter, emphatically ‘killing two birds with one stone’ with a small contribution at the outset.
- The ‘single’ who formed the majority of the respondents are the ones lacking in knowledge, are not clear about *takaful* benefits, have the lowest income, and does not see the need for *takaful* right now, therefore, there is an urgent need for Malaysian *takaful* operators to take on the challenge to promote *takaful* to them because they will be the ‘married’, the ‘parents,’ the ‘larger income group’ of the future.

6. Current *takaful* customers’ and non-customers demographic profile

- This survey has confirmed that the rural who, generally are, lower in educational level and are in the lower occupational groups residing in the geographically Malay states are the ones who chose *takaful*, therefore the it is pertinent that *takaful* operators must again aggressively promote to them to ensure loyalty and remained as repeat customers.
- For the non-*takaful* customers, who largely reside in urban areas and rich states, forming the larger income groups and possessing a higher education level, a different marketing strategy is recommended. Changing of mind set, requires a psychological as well as physical approach which *takaful* operators must put their thoughts together in order to achieve the objective of creating demand for their products. They are presently the consumers of conventional insurance products and services.

7. Increased acceptance level through increased awareness level

- *Takaful* operators have a long way to go in trying to capture the Malay Muslim population interest in the product because there is a need to increase the acceptance level in order to create the need for the product.