

FAMILY TAKĀFUL: IT'S ROLE IN SOCIAL ECONOMIC DEVELOPMENT AND AS A SAVINGS AND INVESTMENT INSTRUMENT IN MALAYSIA – AN EXTENSION*

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ABSTRACT

This study has dual objectives: first, to investigate whether any relationships exist between the macro economic variables and the demand for family takāful (Islamic life insurance) in Malaysia. Second, to examine whether the establishment of takāful institutions has produced a positive social economic impact in Malaysia as measured by the economic indicators. Islamic life insurance or family takāful, is a form of savings instrument that is popular among Malaysian Muslims in general and has its appeal due to its shari'ah compliant attributes compared to conventional life insurance products. This study found that from the time of inception, Takaful Malaysia and Takaful Nasional in 1984 and 1994 respectively, their existence has had a healthy impact on the socio economy of the country. This is attested by

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the effect that the positive employment increment and its profit before tax and zakāt (tithe) has on the economy. Being the pioneer in offering shari'ah compliant insurance products, Takaful Malaysia's profit performance and its capacity to generate new business in the form of premium or contribution is directly affected by the macro-economic variables, as measured by Malaysia's gross domestic product, consumer price index and treasury bills or short-term interest rates. If this trend continues, then it is signalling to the government the necessity to provide a conducive economic environment that will ensure this business activity continues to flourish in Malaysia. Lastly, it is common knowledge that 90 percent of the Muslim market, comprising the indigenous race or Malays, have not purchased any form of life insurance or family takāful, thus, it is pertinent that the Central Bank of Malaysia, the regulatory body of financial institutions in Malaysia, considers issuing new licences to would-be takāful operators to provide a wider offering of takāful products that would appeal to this untapped market.150

Keywords: *Family takāful, social economic development, saving instrument, investment instrument.*

INTRODUCTION

Insurance or *Takāful* in Arabic, means joint guarantee. In practice, however, it can be visualized as a pact among a group of members or participants who agree to jointly guarantee one another against loss or damage that may be inflicted upon them. Each member of the group pools effort to support the aggrieved member. This is similar to some customs or traditions practiced in Arab society during the *Jāhiliyyah* period, where mutual help was extended within the society upon the death of its members. They contribute together in terms of energy to help settle the funeral affairs of the deceased member. Some were more sympathetic, and went further to offer material or financial assistance to the deceased family. During the era of the Prophet Mohammed s.a.w., some of the practices of the *Jāhiliyyah* were continued. This specifically involved the payment of compensation to the relatives of the deceased in one tribe when killed by a person from another tribe. The practice was thought to be able to reduce the tension between the tribes, as the Arabs during that era, were more prone towards revenge. This practice of paying compensation is called *diyat* or blood money

and must be paid by the killer's relatives *āqilah* to the heirs of the deceased. This was later extended to include that if a tribe killed someone from another tribe, all the people from the same tribe must be held responsible to compensate the deceased relatives under the doctrine of *Aqilah* enshrined under Article 3 of the Madinah Constitution.¹

In this era of peace, however, members of society pool resources in order to compensate one another after sustaining an accidental loss. A person in distress or experiencing loss may not be the result of animosity between humans as witnessed during the pre-Islamic age, but more so from unexpected events, such as natural death, health impairment, unemployment, sickness, retirement and others. Because in essence insurance is an important device created to solve many social obligations, as mentioned above, there must, therefore, exist an urgent need to create a *shari'ah* based insurance practice, especially in developed Muslim majority countries, such as Malaysia.

LITERATURE REVIEW

Theoretical and Operational Aspects of *Takāful*

As outlined by Chua (2000), the characteristics of *shari'ah* compliant insurance are that both parties be sincere and the policy be for the sake of the hereafter and that there is nothing illegal in its aim and operations. It must be a commercial, profit-sharing, *muḍārabah*-based contract between the insured or participant, who is the provider of funds, and the insurer or *takāful* operator (custodian and manager of the funds). It has to be stressed that the creation of the *takāful* contract itself is very much in line with Islamic values. These are, providing financial help against unexpected future loss, contributing to the reduction of poverty, as well as encouraging the development of mutual cooperation and the spirit of brotherhood. It ultimately, cultivates solidarity, establishing a self-reliant society, and lastly, encouraging trade and commercial activity to flourish. Insurance or *takāful* is a mechanism to help the *ummah* solve some of the social economic problems faced by many nations in this world.² As narrated by Abū Hurayrah, the Prophet s.a.w. says,

“Whoever removes a worldly grief from a Muslim, Allah will take away one of his griefs in the hereafter, whoever

¹ Chua Abdullah, O. (2000), “A Critical Evaluation of Insurance and Takaful”, *Proceedings From The International Conference On Takaful/Islamic Insurance*, Kuala Lumpur.

² *Ibid.*

alleviates the needy, Allah will alleviate from him in both the world and hereafter.”

Hence, bearing this in mind, Malaysia took the bold step of establishing the first Islamic insurance company or *takāful* operator in 1984, followed by a second *takāful* operator in 1994 and a third and fourth in 2003.

Yusof (1996) cited a number of reasons influencing the design and offerings of *takāful* business. First, Muslims felt the need to practice Islam and apply its rules and regulations in total. Second, Muslims desire a financial system that is able to create a truly Islamic economy for the sake of the *ummah*. Third, with the establishment of the Islamic banking system an inherent need arose for *takāful* or Islamic insurance to complement its services and offerings.³

It was the historical evidence that led Muslim jurists to acknowledge that the basis of shared responsibility in the system of *āqilah*, laid the foundation of mutual insurance, and in general conclude that insurance in Islam must be based on the principles of mutuality and cooperation. Muslim jurists acceptance of insurance is outlined as follows:

1. that the spirit of cooperation will lead to a common good,
2. that assistance is provided to those in need through the contributions,
3. that the donation of a small sum is intended to divide losses and spread liability according to the community pooling system,
4. that all elements of uncertainty, *gharar* and *maysīr* will be eliminated through the contribution and compensation offered,
5. that there is no taking advantage of another at the cost of other individuals, i.e. a fair scheme for all.⁴

In light of the above explanations, one should take note that in a family *tākāful* contract, once it is signed, the participant shall agree to relinquish as a donation, a certain portion of his contribution enabling him to fulfil his obligation of mutual help and joint guarantee, called *tabarru'*. The incorporation of *tabarru'* is to eliminate both the element of *gharar* and *maysīr*. Besides enabling the participants to perform their divine duty of helping the unfortunate few in hardship, there is another aspect of the contract called *muḍārabah*, which comprises of the profit-sharing element between the participants and the *tākāful* operator to enable both parties to reap some worldly benefits. This is allowable in Islam. Therefore, the *tākāful* contract affords the protection element as mentioned above as well as the savings or investment element. If the participant dies before matu-

³ Yusof M. F. (1996), *Takāful Sistem Insurans Islam*. Kuala Lumpur: Utusan Publications and Distributors, pp. 9-18.

⁴ Yusof M. F. *et al.* (1996), *Takāful (Islamic Insurance) Concept And Operational System From The Practitioner's Perspective*. Kuala Lumpur: BIMB Institute of Research and Training, pp. 7-15.

rity, the *takāful* operator will compensate the heirs of the deceased; however, if the participant lived until maturity, the benefits will be paid to him. Either way, the social obligation of helping the unfortunate few, as well as preparing for retirement days when one is physically helpless, will be met by this scheme.⁵ The nobility of this contract can never be over emphasized.

It is without doubt, a financial instrument catering for both the worldly affairs as well as the affairs of the hereafter. According to the views of '*ulamā*', for as long as the *shari'ah* conditions are met, i.e. risk sharing under the *ta'āwuni* principles, coincidence of ownership, participation in management by the contributors of funds or participants, avoidance of *ribā* at all costs and shying away from *haram* investments, and the incorporation of the management practice of *muḍārabah*, *takāful* is definitely acceptable in Islam. Putting it simply, *takāful* practices, allows piety, brotherhood, charity, mutual guarantee and is self-sustaining, which no other financial instrument could compete with.⁶

Performance of Family *Takāful* Business in Malaysia

The family *takāful* business, accounting for 66.7 percent of total contributions in 2002, remained the major income generator for the *takāful* industry in Malaysia. Market penetration, based on the number of new businesses, also increased tremendously, even during the period of the economic or financial crisis of 1997-2000 (Table 1). This pattern seems to indicate that Malaysian Muslims in general already have a high level of awareness of the importance of the family *takāful*'s role in their daily lives.

Table 1: New Business

Year	No. of Certificates	Contributions (Millions)	% Change (Contributions)
1997	50,005	79.2	44.0
1998	56,126	119.3	50.7
1999	100,511	154.6	29.6
2000	163,492	279.5	80.8
2001	221,868	1,306.4	367.4
2002	237,037	452.2	-52.5 *
2003	263,101	511.0	13.0

* Excludes the annuity scheme marketed to contributors of Employees Provident Fund discontinued in May 2001

Source: Takaful Annual Report, Central Bank of Malaysia 2002/3

⁵ *Ibid.*

⁶ Fisher & Taylor (2000), *Prospects For Evolution Of Takaful In The 21st Century*, Fellows and President of Harvard University, Massachusetts, April 2000.

Likewise, the total assets of the *takāful* funds accounted for 5.6 percent of the total assets of the insurance sector (Central Bank of Malaysia Takaful Report, 2003), a marked increase since its entry into the industry, from USD 0.5 million in 1986 to USD995 million in 2003.⁷ Moving forward, there are indications of definite potential growth for the *takaful* industry as it remains positive with the entry of two new industry players.

If the trends are indeed the indicators of a positive outlook for the life insurance and family *takāful* business, the penetration rate of about 3 percent of the Gross Domestic Product (GDP) in the year 2000⁸ and an increase of 1.5 percent according to the Central Bank of Malaysia *Takaful* Report (2003) to 4.5 percent of GDP could be expanded further. Market penetration of family *takaful*, measured by the number of certificates in force to total population, increased from 3.2 percent to 3.8 percent to RM 251.5 million, constituting 28.3 percent of total net contribution income in the year 2002. Thus, then, it is natural to ask whether the GDP is a good predictor for the demand of family *takaful* or Islamic life insurance and whether there are any other economic indicators that could accurately predict the performance of the family *takaful* business in Malaysia?

A study carried out by Ahmad Baharul-Ulum and Yaakob (2003), found that the GDP has indeed played an important role in determining the demand for life insurance (measured by the new and in-force policy) in Malaysia.⁹ This concurred with another study by Outreville (1996), which showed a positive and significant relationship of GDP to the growth of life insurance. Other studies have also shown other economic variables predictive roles as well.¹⁰ This includes Chang's (1995) findings that interest rates, mortality charges, life policy sales, short-term interest rates, savings and inflation rate or the consumer price index have a direct influence on life insurance demand.¹¹ Given this backdrop, the question that this research seeks to answer then is, do all these economic factors have the equivalent predictive qualities for the demand for family *takāful* or Islamic life insurance policies?

⁷ Aziz, Z. (2003), "Building A Comprehensive Islamic Financial System: New Financial Opportunities" [(International Conference On Islamic Insurance: Promoting New Financial Opportunities, London, UK)].

⁸ Damhoeri, K. (2000), "Relationship Expectations Of The Muslim Marke", *Proceedings From The International Conference On Takaful/Islamic Insurance*, Kuala Lumpur.

⁹ Ahmad Baharul-Ulum, Z. K. and Yaakob, R. (2003), "Life Insurance's Demand: Role Played by Economic Variables – A Malaysian Case", *Proceedings From The International Conference: Asia Pacific Business Environment: Innovative Responses To Regional Events*, Selangor, Malaysia.

¹⁰ Outreville, J. F. (1996), "Life Insurance Markets In Developing Countries", *Journal Of Risk & Insurance*, 63 (2), p. 263.

¹¹ Chang, D. H. (1995), "Economic Analysis Of The Development Of Universal Life Insurance In The 1980's", *Journal of the American Society of CLU & ChFC*, 49, pp. 82-87.

RESEARCH OBJECTIVE

1. To investigate whether the macro-economic variables could predict the potential profit of family *takāful* business.
2. To determine whether economic indicators measured by the macro economic variables – Gross Domestic Product (GDP), rate of inflation or Consumer Price Index (CPI) and 3-month treasury bill rate (TBR) as well as the Kuala Lumpur Composite Index (KLCI) could predict the demand for family *takāful*, measured by the new business, profits (before and after *zakāt* and taxes), premium or contributions by participants of family *takāful* schemes.
3. To determine whether the demand for family *takāful* business is greatly affected by economic conditions as well as the stock market performance.
4. To determine whether the establishment of an Islamic institution (*takāful* operator) achieves the social economic objective of eradicating poverty, i.e. providing employment to society.
5. To determine whether the establishment of an Islamic institution (*takāful* operators) achieves both the business objective and *shari'ah* objective via the *zakāt* or tithe and income tax contributions.

METHODOLOGY

Data Collection

Annual data on GDP, CPI, TBR rates and KLCI for the period covering 1995 to 2003 were used in this study (Central Bank Annual Report 1995-2002). The economic factors being the independent variables while the demand or growth for family *takāful* policies, measured by the i) new business/certificates issued for family *takāful*, ii) profits (before and after *zakāt* and taxes), and iii) premiums or contributions being the dependent variables. Although the pioneer *takāful* operator began operation ten years earlier, this study took into account the period of the last nine years when the second *takāful* operator started, i.e. 1994. Likewise, the yearly new business/certificates issued for family *takāful*, inclusive of individual, group and annuity schemes as well as the participants' contributions (premium), were extracted within the same period from the Central Bank of Malaysia Takaful Report (1995-2003), the respective company's annual reports (Takaful Malaysia and Takaful Nasional 1995-2003) for the relevant year under study as well as assistance from the officer from the particular company involved in the study.

Our empirical analysis will therefore be based on the following empirical models:

Empirical Models

- i) New Business = $\alpha_0 + \alpha_1 \text{GDP} + \alpha_2 \text{CPI} + \alpha_3 \text{TBR} + \alpha \text{KLCI} + e_t$
- ii) Profits (B/A) = $\alpha_0 + \alpha_1 \text{GDP} + \alpha_2 \text{CPI} + \alpha_3 \text{TBR} + \alpha \text{KLCI} + e_t$
- iii) Premium Contributions = $\alpha_0 + \alpha_1 \text{GDP} + \alpha_2 \text{CPI} + \alpha_3 \text{TBR} + \alpha \text{KLCI} + e_t$

The other aspect of the study, i.e. the employment rates, income tax and *zākat*, looked into the possibility of an impact on social and economic development for the nine-year period. This information was obtained from the respective company's financial report and from the relevant officer from the organization concerned.

The plans considered as a savings instrument under the family *takaful* policy include individual, group and annuity policies. Mortgage *takaful* plans although dominating the family *takaful* business (accounting for 70.4 percent of total new business contributions for 2002) is not included in this research because it does not have a savings element but rather a protection mechanism to safeguard financial obligations in case of early death.

Analysis

In statistics, it is assumed that when variables have a consistent and systematic linkage between them, a relationship is present. In this research, correlation and regression techniques were used to help determine if such a relationship exists. The test for correlation was carried out between new business, profits (before and after taxes and *zakāt*) and premiums (dependent variables) and the economic variables, the independent variables (GDP, CPI and TBR and KLCI). The test found the presence of a relationship between new business and economic variables for both companies (TM and TN) as well as when combined. The direction of the relationship was found to be positive for new business and CPI and GDP, but negative for TBR and KLCI. This is consistent with the study of Redzuan and Yaakob (2004), which states that the conventional life insurance in Malaysia is a luxury good and, therefore, is positively related to economic growth. Interest rates and stock returns may have a negative effect on the demand for life insurance as they are seen as alternative savings instruments.¹² Our results

¹² Black, Kenneth, Jr. and Harold Skipper, Jr. (1994), *Life Insurance*. New Jersey, Prentice Hall Inc., pp. 57-61.

seem to echo this finding and that of Redzuan and Yaakob (2004). However, our study indicates that there seems to be a negative correlation between family *tākāful* and the inflation rate. This could be due to the fact that in Malaysia, family *tākāful* is seen as a luxury good and therefore an increase in the general price level leads to a decrease in the demand for family *tākāful*. A test on the strength of the association and the size of the correlation coefficient, seemed to indicate that there is a high correlation in the relationship in question (Table 2). Rules of thumb have been proposed, that coefficient correlation between (+-) .91 to (+-) 1.00 are considered “very strong,” (+-) .71 to (+-) .90 are “high,” (+-) .41 to (+-) .70 are moderate and the rest are small to negligible.¹³

Looking at the pattern of the relationship, a statistical significance exists between the demand for family *tākāful* and the economic variables namely, the GDP, CPI, TBR and KLCI.

Table 2: Correlation Coefficient Size Between Variables

Serial Correlation Among Variables

	CPI	GDP	TBR	KLCI
NB (M'sia)	0.777427**	0.601228*	-0.851275**	0.559275*
NB (Nasional)	0.65757	0.822255**	-0.772775**	-0.067351
NB (Combined)	0.851445**	0.73512**	-0.931967***	-0.362471
BP (M'sia)	0.126733	0.004678	-0.21118	-0.40465
BP (Nasional)	0.710814**	0.600977*	-0.771187**	-0.540037*
BP (Combined)	0.775318**	0.596585*	-0.831287**	-0.518293*
PA (M'sia)	-0.167746	-0.23486	-0.0138	-0.100983
PA (Nasional)	0.71037**	0.623105*	-0.774144**	-0.523405*
PA (Combined)	0.794577**	0.623304*	-0.872414**	-0.374968
Premium (M'sia)	0.554394*	0.419631*	-0.658331	-0.402801
Premium (Nasional)	0.674153**	0.548964*	-0.721772**	-0.473649*
Premum (Combined)	0.684766	0.53192	-0.753099**	-0.448508*

¹³ Hair, J. F., Babin, B., Money, A. H. and Samouel, P. (2003), *Essentials of Business Research Methods*. USA: Wiley and Sons, pp. 279-285.

*** Very strong coefficient correlation

** High coefficient correlation

* Moderate coefficient correlation

Note: NB = New Business

BP = Profits before Taxes and *Zakāt*

PA = Profits after Taxes and *Zakāt*

A second analysis was conducted, where multiple regression was used to test for a significant relationship between the macroeconomic indicators and the demand or growth of family *takāful*. All four macroeconomic variables, namely the GDP, TBR, CPI and KLCI indicated a negative relationship to the demand (measured by the new business) for family *takāful* policies of Takaful Malaysia (TM). However, only TBR and KLCI were found to be significant. Perhaps, this can be explained by consumers tending to invest in alternative saving instruments (in money market or stock market) when the investment returns are higher. Also, given its long-term nature of investment, it is naturally attractive as compared to short-term investments during periods of economic uncertainty. This finding is not consistent with that of Chang (1995) who asserts that short term interest rates were found to be insignificant with the sales of universal life policies.

For Takaful Nasional (TN), only GDP was found to be a significant variable. At this juncture, we conclude that different macroeconomic variables seem to affect the demand for family *takāful* offered by both firms. These differences in the findings could be due to the small sample bias present in the study (only two companies were involved). Some deductions could be made at this point, i.e. Malaysians generally view the idea of purchasing family *takāful* or life insurance as a luxury good. Normally, the size of income generated predicts the demand for the product and during the 1997 financial crisis, demand for family *takāful* (as measured by new business) for Takaful Nasional was negatively affected.

Generally, the results for Takaful Malaysia provide some information about the accuracy of the prediction. In this case a relatively high adjusted R-squared at 83 percent indicates that the observed values for the dependent variable falls close to the values predicted by the regression model.

It is also possible that due to the relatively short period taken for this study, no significant relationship was established between profits (before and after taxes and *zakāt*), premiums and the economic variables.

Table 3: Regression Analysis - Demand for Family *Takāful* Policy (New Business) and Economic Variables for Takaful Malaysia

Model	Coefficient	t-value	Adjusted R-squared	F-value	Durbin-Watson Statistic
CPI	-5.160464	-0.803942	0.83	11.14*	2.48
GDP	-8.127	-0.523880			
TBR	-1.480	-2.230920**			
KLCI	-1.730257	-2.980126**			

** significant at the 0.05 level

* significant at the 0.01 level

Table 4: Regression Analysis - Demand for Family *Takāful* Policy (New Business) and Economic Variables for Takaful Nasional

Model Watson	Coefficient	t-value	Adjusted R-squared	F-value	Durbin-Statistic
CPI	14.53495	1.599902	0.679	5.239**	2.179
GDP	4.918332	2.229706**			
TBR	0.326683	0.883731			
KLCI	0.931889	1.134051			

** significant at 0.05 level

Employment Market

Based on the performance of the *takāful* industry and its effect on the social-economy of the country and on the employment creation by both *takāful* operators, a positive trend seemed to appear. This could indicate acceptance of the service provided to the public and the need for such a service is creating an increase in the job-market. Over a twenty-year period for Takaful Malaysia and Takaful Nasional, they have, combined, created a job market comprising of 1.5 percent of the national employment (Table 5). Compared to other industries, this shows a promising trend. Of the approximately 6 percent contribution by the finance, insurance, real estate and business services sector to the employment market, 1 percent is contributed by the *takāful* industry (Figure 1).

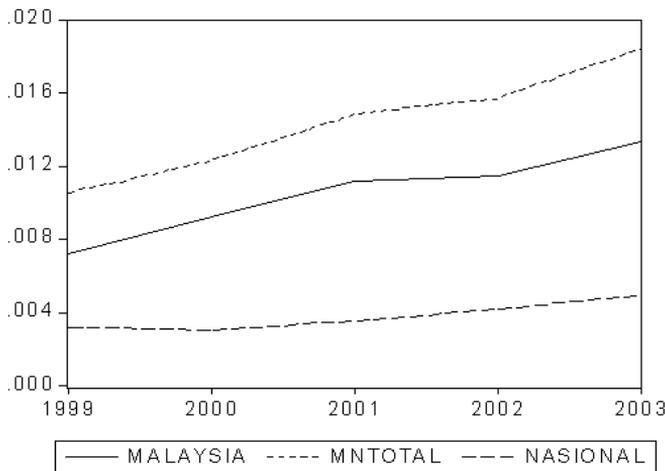
Table 5: Employment by Sector

	('000)		Share (%)		Change (%)	
	2000	2001	2000	2001	2000	2001
Agriculture	1,407.5	1,397.1	15.2	14.8	-0.8	-0.7
Manufacturing	2,558	2,574.2	27.6	27.4	9.2	0.6
Wholesale/retail/hotels	1,584.2	1,627.4	17.1	17.4	4.5	2.7
Finance/Insurance/ Real estate/business	508.7	527.1	5.5	5.7	7.3	3.6
Government services	981.0	998.6	10.6	10.6	2.1	1.8
Others	2,231.18	2,286.7	-	-	-	-
Total	9,271.2	9,411.1	100.0	100.0	-	-

Source: *Economic Report*, Ministry of Finance 2001-2002

Despite the impact of the global economic slowdown and the number of re-trenched workers increasing, which was especially felt in the manufacturing sector, electronics and electrical sub-sectors, (69.4%) the finance, insurance, real estate and business service job loss was negligible. In fact in the *takāful* industry, no retrenchment exercise was carried out, and the reverse situation occurred, i.e. creation of new job opportunities as indicated by an earlier analysis and illustrated in figure 1 below:

Figure 1: *Takāful* Industry Employment Rate vs. National Employment Rate



The performance of the *takāful* business as measured by total income (contribution receipts and investment earnings) and expenditure (claims, surrenders, profit payments *retakāful*, commission and management expenses) (Table 6), showed a steady and positive increase even during the difficult times. This also seems to indicate a healthy growth and a bright future ahead.

Table 6: Income & Outgo

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003
Income	40.6	97.5	138.7	193.5	264.8	883.8	1,327.4	799.0	969.0
Outgo	5.8	14.5	24.7	42.4	60.1	126.2	210.1	284.7	359.3
Excess	34.8	83.0	114.0	151.2	204.7	757.5	1,117.4	514.3	609.7

Source: *Central Bank of Malaysia Annual Report 1999-2003*

Subsequently, looking at Table 7 below, regression analysis on Takaful Malaysia's net profit versus the economic variables showed statistical significance, mainly indicating that the economic variables, the GDP, CPI and TBR are good predictors of its profits performance. This scenario does not exist in Takaful Nasional's experience. There is a possibility that being the "new kid on the block", the nine year period of this study is not long enough to show any significant results. When short-term interest rates are low, the public turns to Takaful Malaysia's family *takāful* policies as a form of safe investment, and vice-versa. This study also found that the inflation rate factor (CPI) has an effect on the demand for family *takāful* products and concurred with earlier studies by Cargill and Troxel (1979)¹⁴ and Mass (1994)¹⁵, which found negative correlations with life insurance demand. The latter and this research found a significant and negative relationship with demand for family *takāful* or Islamic life insurance products.

¹⁴ Cargill, T. F. & Troxel, T. E. (1979), "Modelling Life Insurance Savings: Some Methodological Issues", *The Journal of Risk and Insurance*, Vol. 46, No. 2, pp. 391-410.

¹⁵ Maas, P. (1994), "Insuring The Future", *Business Latin America*, 29, 2, 1994.

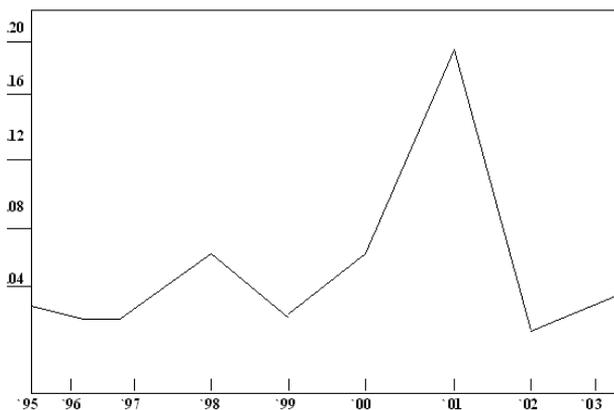
Table 7: Regression Analysis of Net profit vs Economic Variables for Takaful Malaysia

Model	Coefficient	t-value	Adjusted R-square	F-value	Durbin-Watson Statistic
CPI	-34.53177	-4.062**	0.669	5.051*	2.145
GDP	-8.127	-3.938**			
TBR	-1.480	-4.281**			
KLCI	-1.114	-1.449			

** Significant at 0.05 level

Analysis on the tax and *zakāt* also showed a positive and increasing trend during the period under study (Figure 2). From its humble beginnings, Takaful Nasional contributions to the GDP increased from nil to 14 percent and dropped to a record low of almost zero again in 2003. This fluctuation however is not present in Takaful Malaysia’s performance, considered to be more stable, contributing between 2 to 5 percent of the GDP during the 9-year period. From the trends above, Takaful Malaysia seemed to be more resilient financially, economically stable, and generally not affected by economic conditions. This is testimony to its almost 20-year existence whilst at the same time leading the market in the industry. Putting it in more divine terms, the *barakah* achieved due to one’s effort to enshrine the tenets of Islam will result in returns that knows no bounds.

Figure 2: Tax & Zakāt of the Takāful Industry to Gross Domestic Product



CONCLUSION, DISCUSSION & LIMITATIONS

This study concluded that to a certain extent, the economic variables, namely, the GDP, CPI, TBR and KLCI may be important and potential indicators in determining the performance of the *takāful* industry, particularly the family *takāful* market. While it is normal to conclude that the higher the income of a country, the higher will be the demand for family *takāful* policies, this study showed the reverse is true for the case of Takaful Malaysia where demand is measured in terms of net profits earned. The general public has a very high awareness of the product and its benefits, therefore, no amount of contraction in income will induce them to reject purchasing the policies. That family *takāful* policies will be considered only as a last choice amongst all the wants in life does not hold true here because the occurrence of an unexpected event is enough to influence the purchase of the product. It has reached the standard of being a necessity, just like any other necessity in life such as food. It is of paramount importance to outline here that what makes the product appeal to the masses, is its saving and protection element, i.e. either in life or in death, one gets to experience its benefits and advantages. On survival, one is assured of a sum of money to send his/her children to school up to tertiary education, provides for his/her retirement needs, medical expenses, and other benefit payouts during periods of hardship and many more. On the other hand, if one were deceased, his/her contributions would have alleviated the burden of his family and the family of others who have met the same fate.

To ensure that the other 90 percent of the Muslim population do purchase family *takāful* products in the future, the promotion exercise to be undertaken by *takāful* operators needs to emphasize and promote the role of its products and its benefits in this world and the hereafter. Sometimes, in any promotional effort, it may become more effective if the savings and investment element is made known rather than disclosing only the benefits of what is offered after one is deceased.

A few limitations that need to be highlighted include, the period undertaken for this study, which is relatively short, i.e. nine years, could have posed a problem to the analysis resulting in no significant relationship between the variables in question. Additionally, the small sample size, that is, with only two companies in the survey, does not augur well for the research. However, the results of the study have shown some positive socio-economic impact on Malaysia in terms of employment opportunity and contribution to the country's gross domestic product, an experience, although small in contribution, could be used as a model for other countries in order to boost savings and investment in their respective countries.

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