



Indian Journal of Public Health Research & Development

An International Journal

SCOPUS IJPHRD CITATION SCORE

Indian Journal of Public Health Research and Development

Scopus coverage years: from 2010 to 2017 Publisher:

R.K. Sharma, Institute of Medico-Legal Publications

ISSN:0976-0245E-ISSN: 0976-5506 Subject area: Medicine:

Public Health, Environmental and Occupational Health

CiteScore 2015- 0.02

SJR 2015- 0.105

SNIP 2015- 0.034



Website:

www.ijphrd.com

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Print-ISSN: 0976-0245-Electronic-ISSN: 0976-5506, Frequency: Quarterly
(Four issues per volume)

Indian Journal of Public Health Research & Development is a double blind peer reviewed international journal. It deals with all aspects of Public Health including Community Medicine, Public Health, Epidemiology, Occupational Health, Environmental Hazards, Clinical Research, and Public Health Laws and covers all medical specialties concerned with research and development for the masses. The journal strongly encourages reports of research carried out within Indian continent and South East Asia.

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Dr. R.K. Sharma
Institute of Medico-legal Publications
Logix Office Tower, Unit No. 1704, Logix City Centre Mall,
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Printed, published and owned by

Dr. R.K. Sharma
Institute of Medico-legal Publications
Logix Office Tower, Unit No. 1704, Logix City Centre Mall,
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Examining the Innovative Minds of Takaful Consumers: The Case of Malaysia

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ABSTRACT

Objective: This study aims to examine the factors that will affect Malaysian consumers to participate in Takaful.

Analysis: Out of the 600 questionnaires that were sent to consumers in greater Malaysia i.e. Kuala Lumpur and Selangor, we received 503 questionnaires. The sample is randomly selected from the known population. The total of 35 questions are constructed to know the determinants to choose new products by the respondents.

Method: New product adoption theory is used in developing the questionnaire. In this, questions are organised into seven groups, namely, (a) cost vs. benefit, (b) accessibility, availability and service quality, (c) product features, (d) reputation of the company, (e) attributes of agent, (f) marketing and promotion and (g) social and religious factors. The data collected from respondents were subjected to exploratory factor analysis based on Principal Component Analysis (PCA) through varimax rotation. This was performed in order to reduce the data to a manageable size.

Findings: The findings show that, three predictors out seven predictors significantly contributed to the model and these are social and religious factors, product features, and marketing and promotion.

Result: It can be said that, marketing, social and religion and product features are the most important and dominant factors that can influence Malaysian consumers to adopt and participate in Takaful products. Takaful operators should enhance their marketing strategy and simplify the product features to capture the untouched market.

Keywords: *Takaful, Affecting Factors, Consumers and Malaysia*

INTRODUCTION

Takaful is a social and ethical insurance based on the principles of *Ta'āwun* (cooperation)^[1] and *Tabarru* (donation) where the risk is shared collectively by members of a policy. The concept of Takaful is providing financial assistance to the participants on a basis of mutual assistance, brotherhood and solidarity if the participants face misfortune. Takaful^[2] operation begins with the formation of contract where a person chooses to become a participant and to mutually help each other, specifically when any of the participants faces a defined loss. The participants^[3] have to set aside certain portion of money to a common fund as a contribution. Instead of heavily depending on commercial factors per se, Takaful celebrates mutual co-operation^[4] socially and legally between the participants.

Phase I (from 1984 to 1992): The Takaful Act 1984 or TA 1984 was legislated and became the main reference for regulatory law of Takaful. Among others, TA 1984 was essential provided for (i) the Takaful business and the registration of the Takaful operators; (ii) the roles^[5] of Shari'ah Committees; and (iii) the Shari'ah compliance nature^[6] of the various business operations under the Takaful operators.

Phase II (from 1993 to 2000): during this phase, the regulators allowed the introduction of competition by allowing the establishment of another Takaful operator. Such competition is vital to flourish in Malaysian industry^[7].

Phase III (from 2001 to 2010): The Financial Sector Masterplan or FSMP was introduced in 2001.

Specifically referring to the Takaful industry^[8], FSMP's objective is to enhance the capacity of Takaful operators by strengthening the legal^[9], Shari'ah and regulatory framework for the entire Takaful industry.

LITERATURE REVIEW

The primary focus of this literature review is a detail analysis of Takaful in Malaysia and other countries. The data is taken from credible researchers and the research findings are recent and quite relevant to the subject at hand. The research is based on two different aspects of Takaful industry; one aspect is the demand side of Malaysian Takaful market and the other assesses the knowledge, awareness, ethicality of agents, accounting, and underwriting^[10], etc. of Takaful industry.

Kasim et al. (2016), states that Takaful is based on Islamic ethics and hence, it excludes the practice of interest, uncertainty and gambling from Takaful. These elements are prohibited not only from the teachings of Islam, but also from other religions such as Christianity, Judaism Hinduism, Sikhism, and Buddhism. They added that Takaful is fit for everyone irrespective of faith, and it is a product based on cooperative nature with mutual help and harmony.

RESEARCH METHODOLOGY

New product adoption theory is used in developing the questionnaire. Both primary and secondary data have been used. Primary data are collected by survey questionnaires from consumers in Malaysia. Secondary data that was used in this research includes articles, books and internet resources.

FINDINGS

The Perception of Consumers on Takaful: Innovation plays a significant role for the success of the operators because Takaful is offering attractive benefits compared to conventional insurance. Among the consumers 67.22% said that Takaful is an innovative product and 26.61% said that somewhat Takaful is innovative whereas only 6.16% said that it is not innovative.

Looking forward to the future, the Takaful industry needs to maintain their relevancy and strive to move

towards sustainability. While learning from the experiences of conventional insurances, innovations need to be considered by the stakeholders of the Takaful industry. Not only looking into the advancement of current technology, innovations in Takaful industry can be versatile and flexible.

Mean values of Respondents' Innovative Mind: Table 2 shows the percent of the respondents' innovative mind. To explore the innovative mind of the respondents, a five-point Likert-scale is used ranging from 1=strongly disagreed to 5= strongly agreed, and ten questions are asked. The questions are constructed to examine the innovative attitude of the respondents, and all the mean values are more than 3.4.

Mean Values of Factors in Choosing New Products

Cost vs Benefit: Table 3 shows the mean values of the determinants to choose new products. The total of 35 questions are constructed to know the determinants to choose new products by the respondents. These questions are organized into seven groups, namely, (a) cost vs. benefit, (b) accessibility, availability and service quality, (c) product features, (d) reputation of the company, (e) attribute of agent, (f) marketing and promotion.

Accessibility, Availability and Service quality: Table 4 shows the mean values of the determinants to choose new products. The five questions are constructed for accessibility, availability and service quality. Moreover, the best mean value in the accessibility, availability and service quality is 4.2 for three statements "I like to get easy access to the service e.g.: availability of branches.

Product features: Table 5 shows the mean values of the determinants to choose new products. The five questions are constructed for product features. "I want clear illustrations on the benefits of the products" and lowest is 4 for two statements "I choose the product that is well known in the market and I choose the product if I get the same benefits as my existing plan". All the mean values better than good.

Reputation of the company: Table 6 shows the mean values of the determinants to choose new products. The five questions are constructed for the reputation of the company. Moreover, the best mean value in the reputation of the company is 4.1 for three statements "I choose the product based on its brand, I choose the product if it is ethical and I choose the product if the company is active in the corporate social responsibility".

Attributes of agents: Table 7 shows the mean values of the determinants to choose new products. The five questions are constructed for the attributes of agents. Moreover, the best mean value in the attributes of agents. is 4.2 for all the statements. Therefore, it can be concluded that all the mean values are very good.

Marketing and Promotion: Table 8 shows the mean values of the determinants to choose new products. The five questions are constructed for marketing and promotion. Moreover, the best mean value in the marketing and promotion. is 4.0 for “I choose the product if the brochures provide clear, attractive and reliable information” and lowest is 3.6 for three statements “I choose the product if the advertisement is everywhere (e.g.: e-advertising, television and radio, I choose the product if the product is promoted through agent and I choose the product if the product is offered through the company’s branch”.

Social and Religious Factors: Table 9 shows the mean values of the determinants to choose new products. The five questions are constructed for social and religious factors. Moreover, the best mean value in the social and religious factors is 4.0 for “I choose the product because it is ethical and fair” and lowest is 3.1 for “My employer chooses the product for me”.

FACTOR ANALYSIS

The data collected from respondents were subjected to exploratory factor analysis based on Principal Component Analysis.

To determine the cut-off point, the researcher follows Kaiser’s (1960) recommendation that factors with eigenvalue of one or more should be retained in order to avoid negative reliability.

Reliability Result: Following the construct validity test as presented above, the eight factors produced during the principal components analysis were further tested for reliability using Cronbach’s alpha (α). All factors (innovation, agent, marketing, cost, product, reputation, social, and accessibility) have demonstrated high internal consistency with α greater than 0.7 in most cases.

Table 10: Reliability Statistics

S. No.	Variable	Cronbach’s Alpha
1.	Innovation	.811

Conted...

2.	Agent	.916
3.	Marketing	.830
4.	Cost	.795
5.	Product	.880
6.	Reputation	.820
7.	Social	.751
8.	Accessibility	.698

Pearson Correlation: Another analysis here is correlation analysis to show the relationship between the variables used in this study. As shown in the below table, the relationship between the variables ranged from 0.289 to 0.870, suggesting that there are moderate to strong relationships between the variables used for this study.

Note: correlation of ± 0.1 is weak, ± 0.3 is moderate, and ± 0.5 is strong

DISCUSSION ON FINDINGS

Three predictors out of seven predictors have contributed positively and significantly to the innovative mind and these are social and religious factors, product features, and marketing and promotion.

Since the external factors were constructed according to the new product diffusion theory, the findings of this research are in line with its theoretical expectations, as well as with the findings of prior researchers of Takaful and insurance.

According to Abideen & Saleem (2011) and Salleh et al. (2013), marketing can influence the participant’s behavior towards the product. Arifin et al. (2014), investigate whether product services influence on the customers to engage with Takaful.

CONCLUSION

The study has been conducted based on 503 respondents which consist of 224 males (44.5%) and 279 females (55.5%). To explore the innovative mind of the respondents ten questions are asked. The questions are constructed to examine the innovative attitude of the respondents, and all the mean values are more than 3.40. The total of 35 questions are constructed to know the determinants to choose new products by the

respondents. In addition to this, factor analysis has been done. Moreover, the Kaiser-Meyer-Olkin (KMO) which measures sample adequacy is excellent (0.932), and none of the Anti-image correlation is less than 0.500, suggesting that multi-collinearity assumption has been satisfied. In terms of reliability, following the construct validity test as presented, the eight factors produced during the principal components analysis were further tested for reliability using Cronbach's alpha (α).

It can be said that, marketing, social and religion and product features are the most important and dominant factors that can influence Malaysian consumers to adopt and participate in Takaful products. Takaful operators should enhance their marketing strategy and simplify the product features to capture the untouched market. In addition to this, religion is the most important factor that changes the mind of the consumer. Takaful operators should create the awareness among Malaysian consumers regarding Takaful products to penetrate the market.

Ethical Clearance: Taken from Department

Source of Funding: grant from the Asian Institute of Finance

Conflict of Interest: No

ACKNOWLEDGMENT

The {Examining the Innovative Minds of Takaful Consumers: The Case of Malaysia} has been made possible in part by a grant from the Asian Institute of Finance."

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