

Corporate demand for general *takāful* in Malaysia

Hamim Syahrums Ahmad Mokhtar, Izwayu Abdul Aziz and
Noraziyah Md Hilal
*Jabatan Perbankan Islam dan Takaful, Bank Negara Malaysia,
Kuala Lumpur, Malaysia*

Abstract

Purpose – This study on corporate demand for general *takāful* (Islamic insurance) aims to identify potential growth areas and areas for improvement in *takāful* business practices in Malaysia.

Design/methodology/approach – A survey on corporates' protection needs, *takāful*/insurance coverage obtained and awareness on *takāful*/insurance was conducted for this paper.

Findings – The findings from the survey are as follows: There is potential for *takāful* operators to further penetrate the corporate sector, as the majority of respondents indicated willingness to spend on *takāful*/insurance. Emphasis on *takāful* value propositions apart from its Shari'ah compliance status is needed to attract corporates, as respondents were found to be indifferent on Shari'ah compliance status of their protection. Strong market presence, expanded product offerings and efficient services were key determinants to attract *takāful* subscription. Respondents' heavy reliance on intermediaries warrants strong collaboration with intermediaries to widen market outreach. The small and medium enterprises segment appeared promising, as it is found to be underserved despite having higher propensity to obtain *takāful*/insurance coverage compared to the overall respondents.

Research limitations/implications – This study is limited to Malaysia's experience. The findings are indicative (though they may not be conclusive) of the target segment as well as the *takāful* industry as a whole.

Originality/value – The insights on respondents' considerations when obtaining *takāful*/insurance coverage and the correlation of these factors with respondents' characteristics can assist *takāful*/insurance providers in structuring products and business strategies to better serve this market segment. The paper may also aid discussions among researchers and regulators on areas for further development of the industry.

Keywords Insurance, corporate, business entities, general *takāful*

Paper type Research paper

Introduction

Malaysia is globally recognized as the leading key market in the *takāful* (Islamic insurance) sector, given its comprehensive and robust legal and regulatory framework, as well as the



presence of many players in the market. Among the Association of Southeast Asian Nations (ASEAN) countries, Malaysia leads the pack and holds nearly three-quarters share (76 per cent, equivalent to approximately US\$3bn, based on total gross contributions) of ASEAN *takāful* business (Malaysian Takaful Association and EY, 2015). Since its inception over 30 years ago, there has been a growing number of players in the market, licensed by Bank Negara Malaysia (BNM) to conduct *takāful* or re-*takāful* business, with eight composite *takāful* operators, three family *takāful* operators and four re-*takāful* operators currently in the market. The Malaysian *takāful* sector has also witnessed a steady growth in size of contributions, with 9.2 per cent average annual growth for 2011-2015.

The family *takāful* sector in Malaysia is noted to make up the larger portion of the *takāful* operators' business portfolio, as measured by the size of contributions. As at the end of the third quarter of 2016, net contributions for family *takāful* business grew by 8.7 per cent on a year-on-year basis and accounted for 75.5 per cent of market share of *takāful* business in the country. Malaysia is also recognized as the largest family *takāful* market in the world, with total contributions of around RM 4.8bn registered in 2014.

On the other hand, the growth trend of the general *takāful* business for the past five years has moderated to 11.4 per cent average annual growth for 2011-2015, as compared to the growth rate of 17.3 per cent in the years 2007-2010. Arguably, many factors could have contributed to this scenario. From the supply perspective, the limited business appetite of *takāful* operators for general *takāful* business—which is focused more on motor- and fire-related products—is one of the reasons for the moderate growth in the general *takāful* market. Other possible reasons that could be inferred for such inclination include the limited capacity of *takāful* operators to withstand the nature of the general *takāful* business, which can be more capital-intensive. It also involves a wide range of risk exposures that require specific expertise and appropriate business scale for the business to be viable.

Notwithstanding that, the landscape for the *takāful* industry is also expected to be more challenging in the coming years, with multiple developments and structural changes affecting the market environment. The implementation of the Islamic Financial Services Act 2013 (IFSA) requirement on conversion of composite business to single *takāful* business is one of the major factors that will change the dynamics of the *takāful* industry. Compounded by the effect of phased liberalisation of motor and fire tariffs, which commenced on 1 July 2016, the general *takāful* sector, in particular, is expected to undergo a shift in business dynamics and marketing strategy. It is crucial for *takāful* operators to develop appropriate business strategies to adapt to the new market setting and rise to any impending challenges to remain relevant and competitive.

Premised on the circumstances described above, this study is conducted to gain further insights on the potential areas of growth and improvement for general *takāful*. Particular focus is given to the prospect of demand and areas of opportunities that can be unlocked to better position *takāful* business in the market. This study particularly aims to:

- gauge the level of awareness of target respondents on the availability of *takāful* and insurance coverage to address their protection needs;
- understand target respondents' *takāful* or insurance needs and how these needs are met;
- identify factors considered by target respondents in securing *takāful* or insurance coverage; and
- understand target respondents' experience in securing *takāful* or insurance coverage from *takāful* operators or insurers.

This paper comprises four main sections. After the introduction, it outlines the methodology adopted for the study. The findings gathered from the study are outlined and discussed in the next section. The final section captures the summary of the findings and provides recommendations.

Survey methodology

Survey design

A survey questionnaire was prepared for conducting the study. The survey questionnaire used close-ended questions with predetermined options of answers for respondents to choose from. For the answer options, a mix of “Likert-type scales”, “Yes-No options” as well as “Multiple choices” were used.

The survey questionnaire was prepared in English and Bahasa Malaysia for circulation. The questionnaire set contained three main parts, namely, Part A: protection needs and awareness; Part B: insurance or *takāful* coverage take-up; and Part C: profile of organization (i.e. the respondents). Additional Part D was set to provide options for the respondents to permit further contact with them. The survey comprised a total of 20 questions.

Distribution of survey

Distribution of the survey questionnaire was done via two main channels: an online platform (including electronic mail) as well as hard-copy distribution.

The team collaborated with SME Corporation Malaysia, the Federation of Public Listed Companies Berhad and Malaysian Takaful Association for the distribution of the survey.

Target respondents

The survey focused on corporations and organizations in Malaysia (non-business as well as business entities) as the target respondents. General *takāful* protection can be the solution to the various types of risks inherent to the day-to-day operations of the target respondents; for example, business interruptions, third-party liability and property and equipment failure.

Analyses of the survey responses

The responses were analyzed using the descriptive method and, where relevant, the correlation technique to generate findings. This involved defining variables of investigation and analysing the interactions between the variables for the purpose of establishing characteristics of respondents, explaining their frequency distribution and measuring trends in the data gathered.

Findings and discussion

Respondent profile

A total of 246 responses were gathered from corporations and organizations of various institutional types, namely, public and private companies, government-linked companies (GLCs), sole proprietorships, partnerships, government ministries/agencies as well as non-governmental organizations (NGOs)/non-profit organizations (NPOs).

The majority of the respondents were public or private companies as well as sole proprietors (87 per cent). A small group of the respondents were partnerships (5 per cent) and GLCs (5 per cent), with the remaining 2 per cent consisting of government ministries/agencies and NGOs/NPOs.

In terms of the length of operation and total number of employees, it was found that the majority of respondents have been in operation for more than six years and have an employee size of 31 or more staff.

It was also gathered that the top three primary businesses of respondents were related to manufacturing, property/real estate/construction and wholesale/retail sales. Figures 1, 2, 3 and 4 provide the following information, respectively:

- breakdowns of respondents according to institutional types;
- composition of respondents based on number of years in operations;

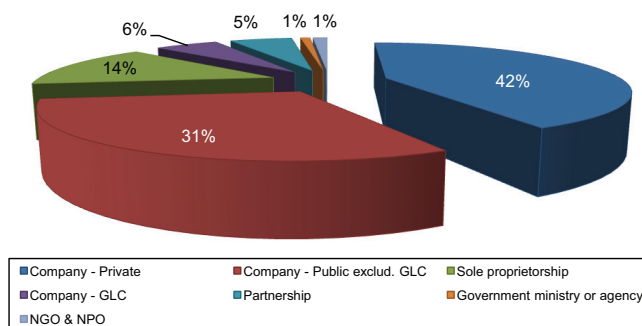


Figure 1.
Composition of
respondents based on
institutional types

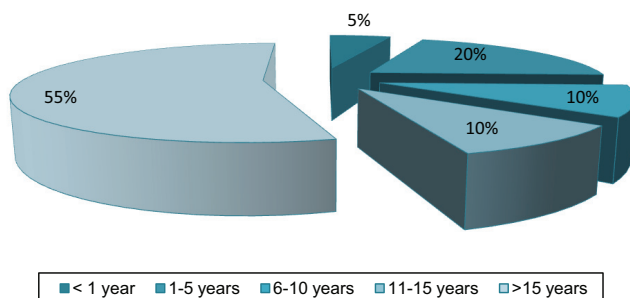


Figure 2.
Composition of
respondents based on
number of years in
operations

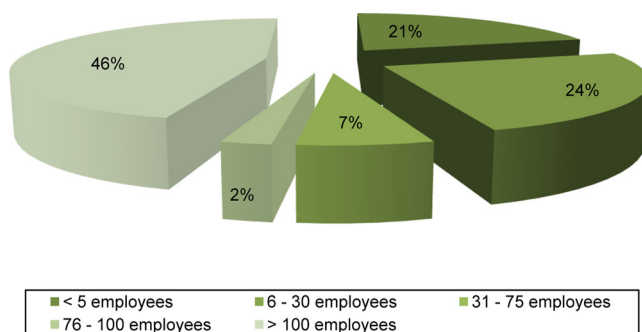


Figure 3.
Composition of
respondents based on
number of employees

- composition of respondents based on number of employees; and
- ranking of primary business of respondents in absolute numbers.

Key areas of survey findings

The survey questionnaire was designed to understand the dynamics motivating demand for general *takāful* protection by the targeted market segment. Findings from the survey were analyzed and reported according to the following key areas:

- awareness on availability of *takāful* or insurance by the corporations and organizations;
- protection needs for operations of the corporations and organizations;
- factors of consideration by the corporations and organizations when securing *takāful* or insurance coverage; and
- the experience of the corporations and organizations in securing *takāful* or insurance protection.

The report on the findings includes discussion on relevant areas of assessment based on insights gathered from the survey and the information available in the current market environment.

Awareness on availability of *takāful* or insurance coverage

The basic area of assessment in analyzing the nature of demand for general *takāful* is the target respondents' level of knowledge on *takāful* and insurance protection. On this note, questions were structured to gauge the target respondents' familiarity with protection solutions (i.e. insurance and *takāful* coverage) that can safeguard their business from risks of financial losses arising from casualties or damages to business properties and operations.

Generally, a good level of awareness on the availability of *takāful* and insurance coverage was noted among the respondents. This is evident as at least 80 per cent of the respondents indicated that they were aware of the availability of *takāful* or insurance to protect their organizations against financial losses upon the occurrence of misfortunes. For insurance



Figure 4.
Ranking of primary
business and
corresponding
number of
respondents

specifically, 89 per cent of the respondents affirmed their awareness about the availability of insurance coverage to cater for their business protection needs.

Comparatively, the level of awareness about *takāful* was slightly lower, i.e. 80 per cent of the respondents, as shown in Figure 5. The level of knowledge on *takāful* is found to be an area for further improvement, as, despite being aware of *takāful*, almost half of these respondents admitted that they did not know further details about it. Only around 31 per cent of the respondents appeared to have a good understanding of *takāful vis-à-vis* insurance.

Examination of the institutional structure of the respondents revealed that corporations and organizations that have larger number of employees and have been in operation longer have a higher level of awareness about *takāful*. Corporations and organizations that are linked to government (i.e. government ministry/agency, GLCs) were also noted to be more aware of *takāful* than sole proprietorships and partnerships (the latter two had the two lowest awareness levels of 17 and 15 per cent, respectively). This may be because of the involvement of *takāful* operators with many initiatives led by or associated with government ministries/agencies.

Examples of the initiatives include the provision of *takāful* coverage for BR1M recipients, fishermen under Lembaga Kemajuan Ikan Malaysia and members of Koperasi Polis Diraja Malaysia Berhad. Figures 6-8 depict these findings, based on number of employees, number of years in operation and institutional types, respectively.

These findings suggest the real need to address the current lower state of awareness about *takāful* relative to insurance. Impactful initiatives, either on the industry's part or by individual institutions, need to be intensified towards improving consumers' perception and understanding of the need for and importance of *takāful*. The value propositions of the *takāful* business should also be highlighted (e.g. the sharing of *takāful* surplus to eligible consumers upon the *takāful* contract's expiry) as part of the process of educating the public and the corporate sector on the distinct features of *takāful*. Such effort is necessary to stimulate more appreciation and demand for *takāful* products.

The survey was also structured to ascertain the respondents' propensity to subscribe to *takāful* or purchase insurance. Without looking into the preference for either *takāful* or insurance coverage, 71 per cent of the respondents indicated willingness to obtain some form of coverage to protect their corporations and organizations against risks that they considered significant to their institutions and their operations. Included in this group were the respondents (37 per cent) who already had existing *takāful* or insurance coverage and the respondents (34 per cent) who were willing to consider future subscription. Figure 9

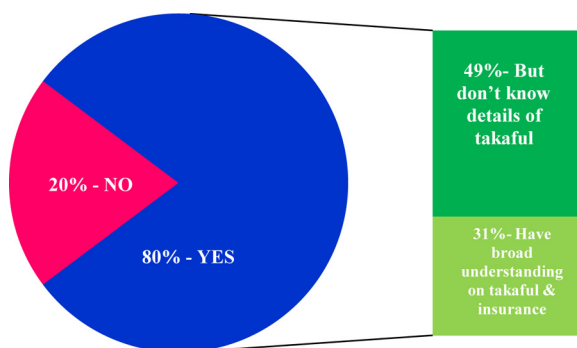


Figure 5.
Composition of
respondents'
awareness on the
availability of *takāful*

Figure 6.
Composition of
respondents
according to
awareness level on
availability of *takāful*
(based on number of
employees)

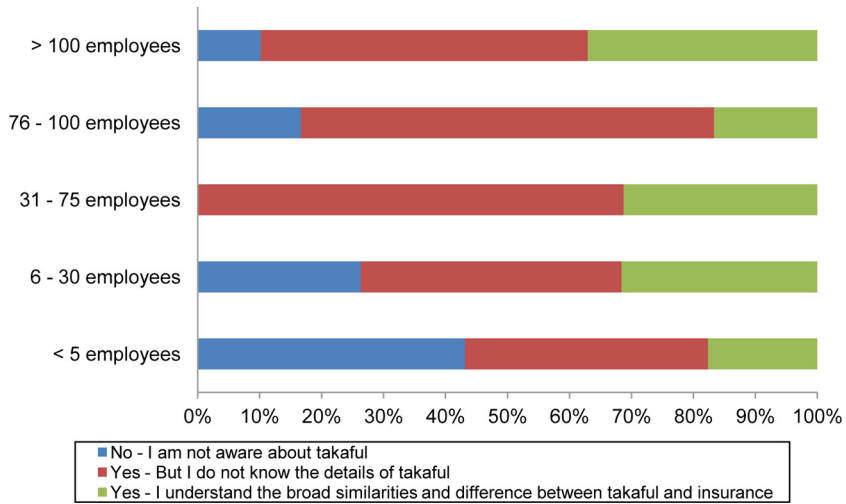
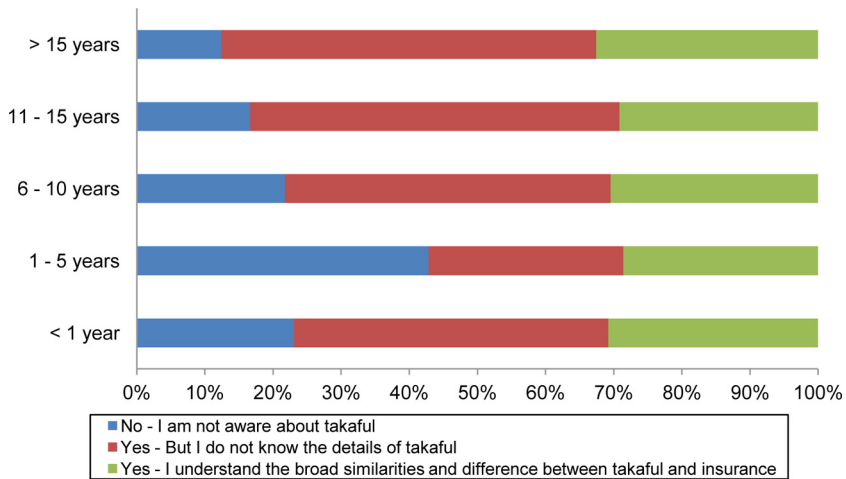


Figure 7.
Composition of
respondents
according to
awareness level on
availability of *takāful*
(based on number of
years in operation)



reflects these findings. The observation on the willingness of the respondents to obtain *takāful* or insurance coverage is definitely indicative of good business prospects for the *takāful* and insurance sectors.

Protection needs for operations of the corporations and organizations

It is ideal that the demand for specific types of *takāful* or insurance protection be driven by customers' protection needs. For this purpose, the respondents were asked to rate the degree of significance of the incidents and risks exposure as listed in the questionnaire to their institutions and operations (e.g. business activities, business premise, staff welfare).

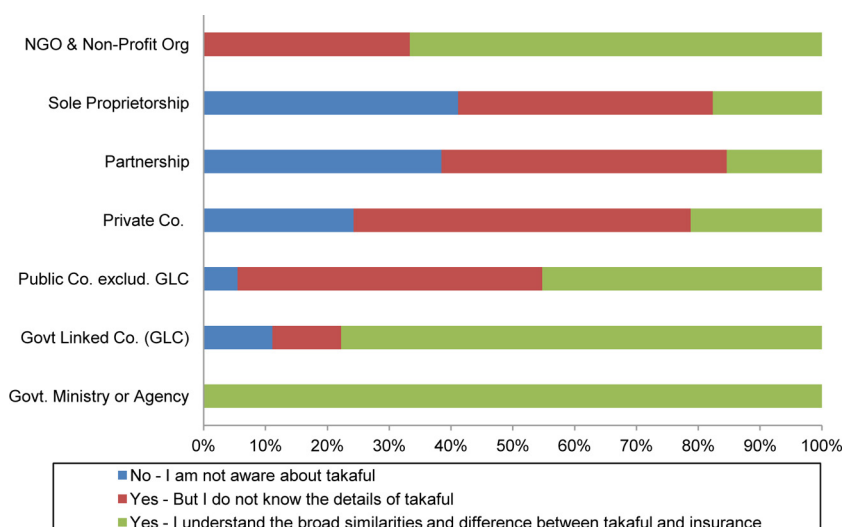


Figure 8.
Composition of
respondents
according to
awareness level on
availability of *takāful*
(based on
institutional types)

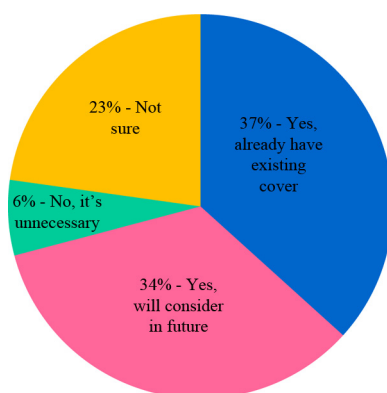
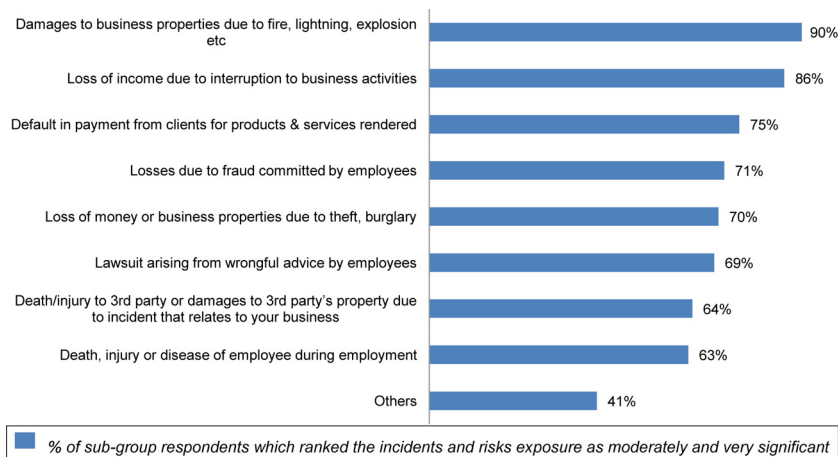


Figure 9.
Composition of
respondents
according to their
willingness to obtain
takāful or insurance
coverage

Measured by frequency distribution of the subgroup respondents *vis-à-vis* the overall respondents for each incident and risk exposure, “physical damage to business properties” topped the list of significant incidents that can affect the respondents. “Monetary loss caused by business interruption” and “default on payment by clients” scored the second and third highest composition at 86 and 75 per cent, respectively. Relevant products in the market that provide protection against these risk exposures include fire, machinery breakdown, consequential loss and trade credit. Figure 10 reflects these findings.

The above findings correspond with the profiles of the respondents in that the top three primary businesses were manufacturing, property/real estate/construction and wholesale/retail business. These lines of business are known to deal heavily with inventory management. Their motivation to minimize the risk of monetary loss provides a strong basis for subscribing to *takāful* or insurance coverage. On this note, Yamori (1999) highlighted that the probability of damage varies according to industry. Some industries

Figure 10.
Ranking of
significance for
incidents and risk
exposure which affect
respondents and their
operations



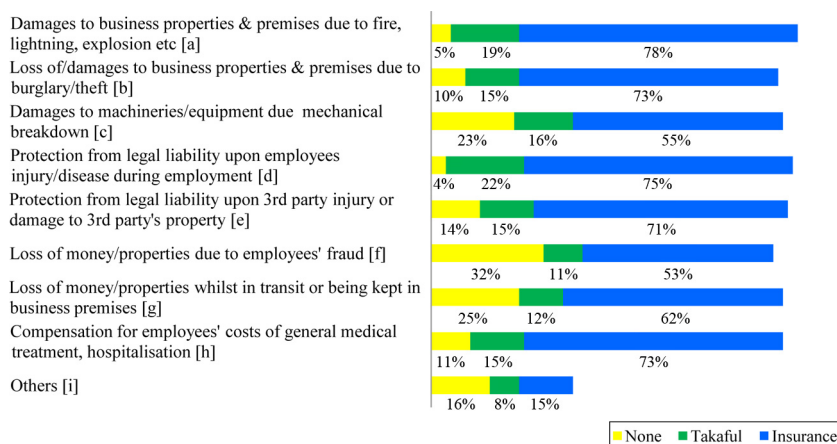
definitely face higher risks than others. For example, the presence of various highly inflammable materials causes higher risk for entities operating in the chemical industry. This suggests that firms operating in a high-risk industry would have higher demand for insurance. In this respect, the business opportunity for *takāful* operators is not limited to the provision of *takāful* protection custom-made to suit potential clients' business needs. *Takāful* operators could also provide consultation services related to risk management for the targeted clients.

In investigating the extent to which the above protection needs actually ended up with participation in a *takāful* plan or purchase of insurance, the respondents were asked to indicate which of the risk exposures as listed in the questionnaire they have *takāful* or insurance coverage for. The questionnaire provides for separate identification of *takāful* and insurance coverage for the respondents to choose from.

Based on the results of the survey, there is a relatively high subscription for *takāful* coverage against employee-liability-related risk exposure (22 per cent of respondents), employees' medical-related exposure (15 per cent of respondents) and possible damages to properties because of burglary/theft (15 per cent of respondents). As the list of risk exposures roughly correspond to specific product types, the survey findings suggest that products such as "workmen's compensation/employer's liability" and "medical-related" are mostly subscribed for *takāful*. Subscription to *takāful* is also comparatively high for coverage related to "fire" products (19 per cent of respondents). This finding is consistent with the current position of the fire portfolio, which has the second highest share of general *takāful* business (20 per cent of total general *takāful* business) among other product lines.

When the results of respondents' subscription to *takāful* were compared with that of insurance, higher subscription to insurance products was noted across all risk exposures, as illustrated in Figure 11. This is consistent with the awareness level for insurance, which is higher among the respondents.

Further investigation was carried out to ascertain the possible relationship between the respondents' actual take-up of *takāful* or insurance coverage with their institutional characteristics. Two proxies were chosen, namely, the size of the corporations and organizations (measured by number of employees) and the number of years these institutions have been in operation. Based on the findings, a probability plot is produced for



Note: Composition of respondents do not add up to 100 per cent – a respondent could choose either only *takāful*/insurance/none or choose *takāful* and insurance

Figure 11.
Composition of
respondents'
subscriptions to
takāful vis-à-vis
insurance coverage
according to the risk
exposures

each proxy, as shown in Figures 11 and 12. The risk exposures will be represented by the respective legends shown in Table I, for incorporation in Figures 12-13.

As depicted in Figures 12 and 13, there appears to be a positive relationship between the actual take-up of *takāful* or insurance coverage with the size and age of the respondents. The larger the number of employees and the longer the years of operations of the respondents, the more likely they were to actually participate in *takāful* or purchase insurance coverage. This finding is also consistent with the result of the correlation study conducted across these variables, as depicted in Table II. There was a strong positive correlation between size and age of the respondents and their tendency to obtain *takāful* or insurance coverage across all types of risk exposures. A stronger correlation was observed in the former.

The correlation between the size of the respondents and their take-up of coverage match with the findings of several other studies on corporate demand for general insurance or *takāful* with regard to the effect of size of corporates with their demand for *takāful* or insurance. Hamid *et al.* (2009) found that large firms are more exposed to financial distress and thus would need to reduce the problem of incurring expected bankruptcy costs. This can be done by obtaining *takāful* or insurance coverage. Mayers and Smith (1982) also claimed that there is a risk-shifting incentive for the purchase of insurance by large corporations. The study stated that the amount of risk that can be allocated to the corporations' stockholders is limited by the capital stock of the firm. Insurance, however, enables the firm to shift risk to the insurance company, achieving an efficient allocation of risk for the firm. Thus, the higher the employees', customers' and suppliers' fraction of claims to the entity's output, the higher the probability that the firm will purchase insurance. In terms of the respondents' age (or number of years of operations), the likelihood to purchase *takāful* or insurance coverage is higher for the respondents that have been in operations longer. This may be because of the sentiment that insurance or *takāful* coverage is not a necessity during the initial years of an institution's establishment *vis-à-vis* other areas which require higher priority such as securing more businesses/clients through aggressive marketing and promotion.

Figure 12.
Probability plot of
respondents’
subscriptions to
takāful or insurance
based on the number
of employees

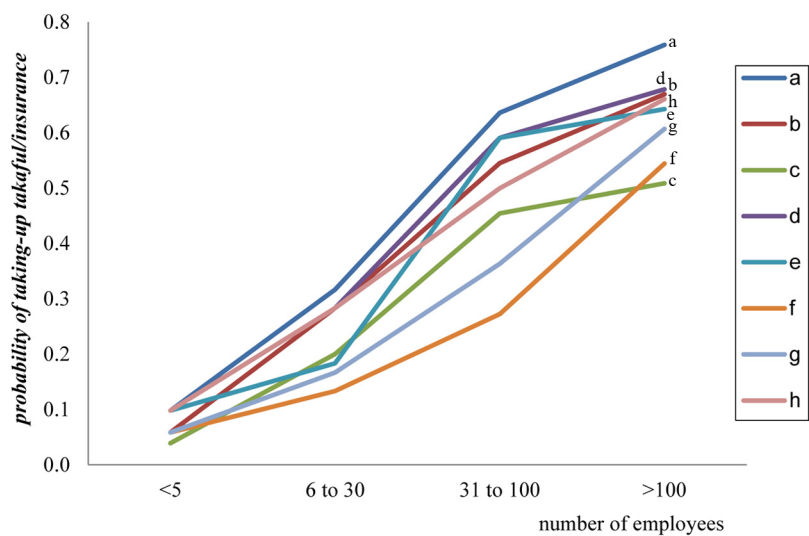


Table I.
Risk exposures and
its corresponding
legend

| Risk exposure | Legend |
|---|--------|
| Damages to business properties and premises because of fire, lightning, explosion, etc. | [a] |
| Loss of/damages to business properties and premises because of burglary/theft | [b] |
| Damages to machineries/equipment because of mechanical breakdown | [c] |
| Protection from legal liability upon employees' injury/disease during employment | [d] |
| Protection from legal liability upon third party injury or damage to third party's property | [e] |
| Loss of money/properties because of employee fraud | [f] |
| Loss of money/properties while in transit or being kept on business premises | [g] |
| Compensation for employees' costs of general medical treatment, hospitalisation | [h] |
| Others | [i] |

Factors of consideration when obtaining takāful or insurance

One of the key areas of assessment in the survey of demand for general *takāful* is the respondents' factors of consideration when deciding whether to secure *takāful* or insurance coverage. Given a list of factors to consider, respondents were asked to rate the degree of importance of these factors in influencing their decision on obtaining *takāful* or insurance. The top three factors that influence respondents' decisions were found to be "scope of protection of the insurance or *takāful*" (97 per cent of the respondents), "affordability of premiums/contributions" (95 per cent) and "the quality of service offered to them" (90 per cent). These results were found by computing the frequency distribution of the subgroup respondents who ranked the factors as moderately or very important *vis-à-vis* the overall respondents who answered the question.

Based on Figure 14, it is interesting to note that respondents were generally indifferent whether or not their protection was Shari'ah compliant (62 per cent of the respondents who answered this question ranked this factor as moderately or very important). On this note, a further test was carried out to see the relationship between respondents' actual take-up of

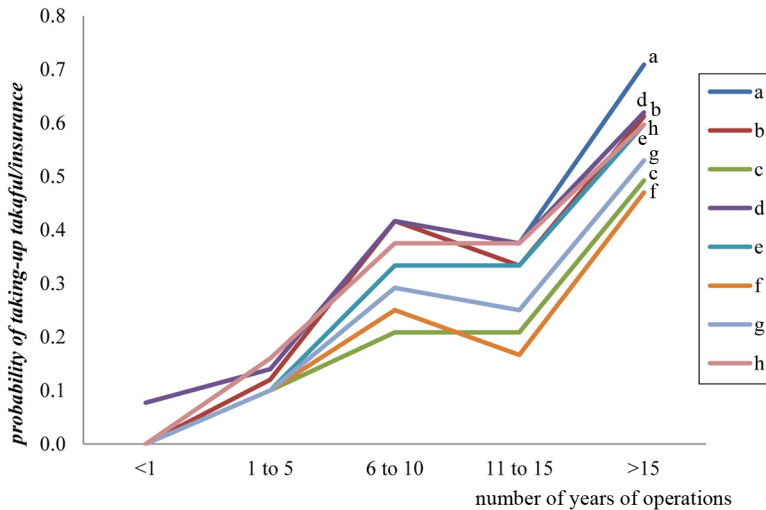


Figure 13.
Probability plot of
respondents'
subscriptions to
takāful or insurance
based on the number
of years of operations

| Legends | Age | Size |
|----------|----------|----------|
| <i>a</i> | 0.455775 | 0.522082 |
| <i>b</i> | 0.409374 | 0.490170 |
| <i>c</i> | 0.347472 | 0.384770 |
| <i>d</i> | 0.386048 | 0.472594 |
| <i>e</i> | 0.421341 | 0.471162 |
| <i>f</i> | 0.341049 | 0.463285 |
| <i>g</i> | 0.380486 | 0.492907 |
| <i>h</i> | 0.391621 | 0.476398 |
| <i>i</i> | 0.128633 | 0.210301 |

Table II.
Correlation test
between respondents'
actual take-up of
takāful or insurance
coverage and
respondents' size and
age

takāful or insurance coverage and their ranking of importance for the “Sharī‘ah-compliant status of the protection”. The results seem to suggest that the respondents who ranked “Sharī‘ah-compliant status” as important have higher tendency to take up *takāful* rather than insurance coverage, compared to the overall respondents. This is evident from the results as shown in Table III.

This observation is expected, given the emphasis on Sharī‘ah compliance by this subgroup of respondents. However, it is interesting to note that, despite their expressed prioritisation of compliance with Sharī‘ah, most of the coverage obtained by the respondents in this subgroup was insurance coverage. There are several possible explanations for these findings. It may be that *takāful* operators offer less competitive products or the *takāful* coverage may be more limited than insurance coverage because of the limited risk appetite of *takāful* operators or *takāful* operators may have less technical expertise regarding such coverage.

In addition to the above, it is also fascinating to find that almost 60 per cent of respondents who rated “Sharī‘ah-compliant status” as important were either not aware of *takāful* availability or did not know further details of *takāful*. While this posits potential for

Figure 14.
Ranking of factors
considered by
respondents whether
to obtain *takāful* or
insurance coverage

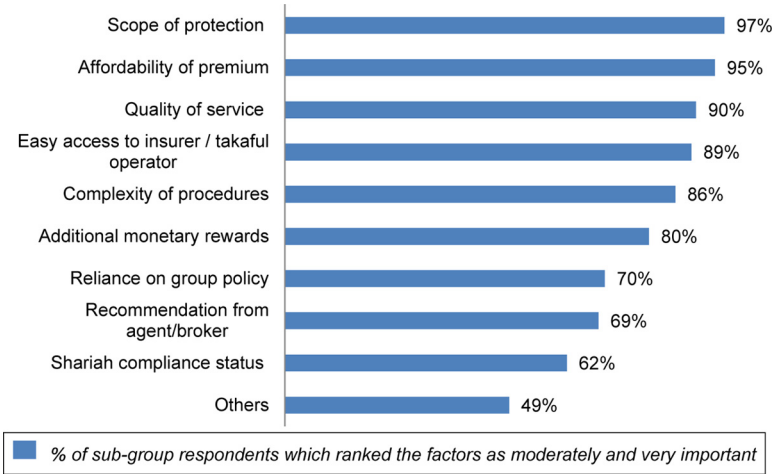


Table III.
Take-up rate of
takāful coverage for
the respondents who
rated “Shari’ah
compliance status”
as important (i.e.
sample respondents)
vis-à-vis all
respondents

| List of risks exposure | Take-up rate | |
|---|------------------------|---------------------|
| | Sample respondents (%) | All respondents (%) |
| Damages to business properties and premises because of fire, lightning, explosion, etc. | 29 | 17 |
| Loss of/damages to business properties and premises because of burglary/theft | 29 | 17 |
| Damages to machineries/equipment because of mechanical breakdown | 37 | 22 |
| Protection from legal liability upon employees’ injury/disease during employment | 35 | 22 |
| Protection from legal liability upon 3rd parties’ injury or damage to 3rd parties’ property | 27 | 17 |
| Loss of money/properties because of employee fraud | 29 | 17 |
| Loss of money/properties while in transit or being kept on business premises | 29 | 17 |
| Compensation for employees’ costs of general medical treatment, hospitalisation | 24 | 16 |
| Others | 29 | 13 |

an untapped market for *takāful* operators among this market segment, what is more important is the existent need to enhance consumers’ appreciation of *takāful*’s unique characteristics and its availability.

The following paragraphs provide the findings and insights on the behaviour of respondents who indicated they have insurance coverage (instead of *takāful*) for their corporations and organisations, as well as those who opted not to purchase any protection solution at all.

Respondents who chose insurance over takāful coverage. To understand the factors motivating the group of respondents who indicated having insurance coverage instead of *takāful*, the survey also included questions on possible reasons that drive such preference.

As shown in Figure 15, the results indicated “insurer’s positive reputation” as the most prominent factor that motivated the respondents to choose insurance (58 per cent of respondents chose this factor), apart from “the more effective claim procedures” (49 per cent of respondents chose this factor). “Familiarity with insurance” was also a strong factor (46 per cent of respondents chose this factor).

The above findings suggest that more needs to be done to strengthen market presence of *takāful* among the corporates. These measures include, among others, elevating consumers’ awareness on the value propositions of *takāful* (e.g. surplus-sharing) and increased offerings of customer-friendly products and services.

Respondents who opted not to purchase any protection solution at all. Out of the total corporations and organizations surveyed, around 35 per cent indicated that they do not currently own any *takāful* or insurance coverage. For this group of respondents, the survey further required them to state the reasons for not obtaining any coverage, from the preset answer options. The findings disclosed that perception of the importance of having a protection solution for their institutions is a more significant factor than weaknesses in the products or providers (i.e. the *takāful* operators and insurance companies). Adverse perception on the importance of *takāful* or insurance coverage was the most common reason cited by 36 per cent of this group of respondents as a deterrent against subscribing to any protection solution. Other reasons related to pricing and complicated procedures scored relatively lower frequencies, i.e. 26 and 22 per cent, respectively. Figure 16 provides further details of the responses.

Given the findings for (1) and (2) as above, it is pertinent for *takāful* operators to improve their competitiveness and elevate market presence to tap into this customer segment.

Method of securing takāful or insurance coverage

Respondents were required to share the sources from which they obtained *takāful* or insurance coverage. Their experience in selecting their existing *takāful* or insurance coverage (e.g. whether they compare terms of coverage across multiple providers) was also assessed via this survey. It is noted that heavy reliance on intermediaries, i.e. agent/broker, existed among the respondents, with 71 per cent of respondents using this channel to secure *takāful* or insurance coverage.

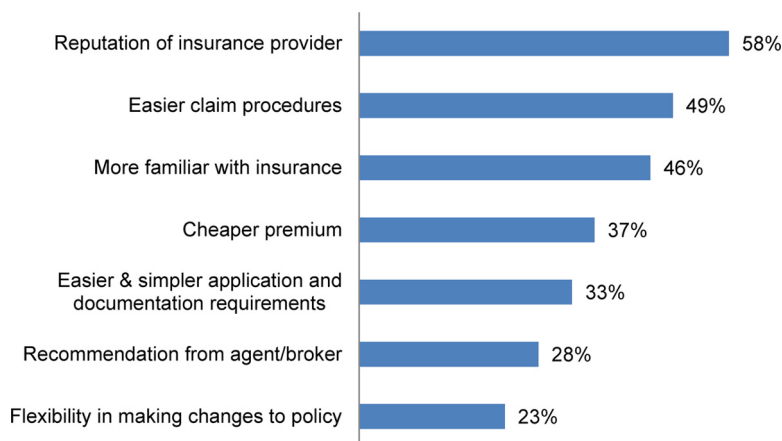


Figure 15.
Ranking of factors for
choosing insurance
over *takāful* coverage

The significant role of intermediaries in finding the right protection solution for each corporation or organization was also consistent with the findings that 15 per cent of the respondents totally depended on their advice when securing *takāful* or insurance coverage. In addition, more than half of the respondents (58 per cent) indicated that they approached more than one company before securing their *takāful* or insurance coverage. The intermediaries' role in facilitating such product comparison is certainly vital. Further details of the survey findings are as shown in [Figures 17 and 18](#).

The results of the survey were further analyzed to find any linkage between the channels used *vis-à-vis* respondents' awareness of availability of *takāful* or insurance. This is to measure the respondents' level of reliance on intermediaries to obtain coverage when awareness and familiarity are already established. Surprisingly, it is found that despite being aware of the availability of *takāful* or insurance, 50 per cent of the respondents still employed agents/brokers' services when securing *takāful* or insurance coverage. Only a small number of respondents (32 per cent) were getting *takāful* or insurance coverage directly from the *takāful* operators or insurance companies. This suggests that the role of

Figure 16.
Distribution of
respondents
according to their
reasons for not taking
up any *takāful* or
insurance coverage

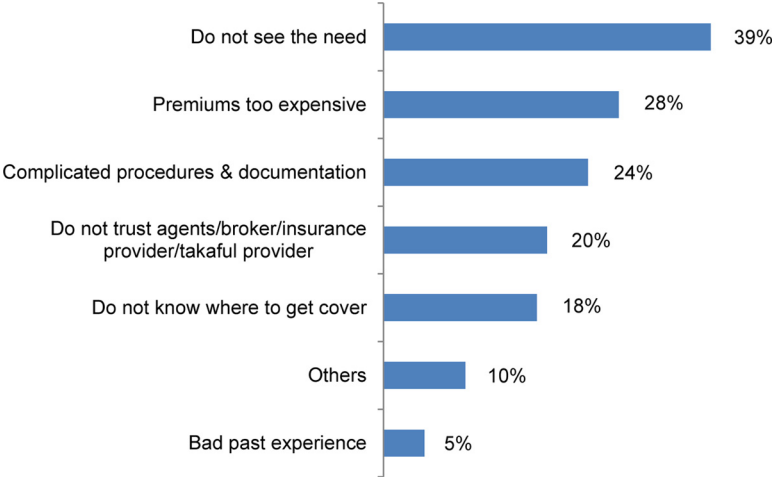
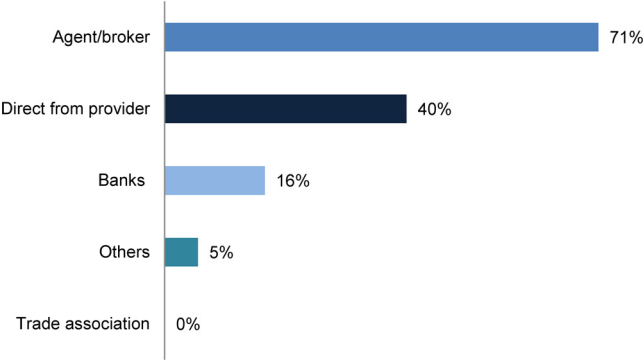


Figure 17.
Channels used by
respondents to obtain
takāful or insurance
coverage



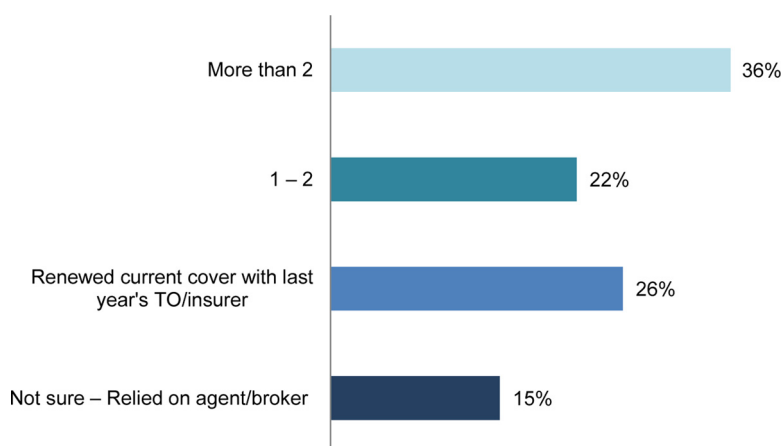


Figure 18.
Number of providers
approached for
current *takāful* or
insurance coverage

intermediaries is of utmost importance in general *takāful*. This is reasonable, as there is an inbuilt expectation that intermediaries have certain expertise on the nature of risk exposures of the corporations and organizations which may be unique to their particular activities.

Potential in small and medium enterprises

The study found that small and medium enterprises (SMEs, categorized according to the definition of small and medium enterprises set by SME Corporation Malaysia), which make up for approximately 45 per cent of the respondents, present good business prospects for the *takāful* industry to venture into. Detailed profiles of the SME respondents are provided in [Tables IV](#) and [V](#).

Consistent with earlier findings on the awareness level of corporates towards *takāful* coverage, SMEs too indicated relatively low awareness on availability of *takāful*. Only 68 per cent of SME respondents indicated awareness of *takāful* as compared to 80 per cent of the overall survey respondents. The level of understanding on *takāful* among SMEs was also relatively lower, as 46 per cent of the SME respondents highlighted their lack of knowledge on details of *takāful*. Such low level of awareness naturally results in lower subscription to *takāful* or insurance coverage among the SME respondents, as evident by the survey results, which revealed that only 20 per cent of the SME respondents have existing *takāful* or insurance coverage (as opposed to 37 per cent for the overall survey).

These findings on lower awareness and subscription to *takāful* or insurance coverage (relative to the overall survey) are consistent with the observation that SME owners perceived no direct benefit from participating in any of the *takāful* or insurance plans. As such, they are reluctant to participate in a *takāful* plan, as it is deemed rather costly ([Ibrahim et al., 2015](#)).

Despite this finding, the survey revealed a strong potential for *takāful* to grow further among SMEs, as 39 per cent of the respondents in this category indicated their willingness to obtain *takāful* or insurance protection. [Figure 19](#) summarizes the SMEs' expressed willingness to obtain *takāful*/insurance coverage.

[Figure 20](#) shows the factors considered by the SME respondents when obtaining protection coverage. The findings revealed that SMEs' considerations in obtaining protection coverage do not differ much from other corporates. They too value the scope of protection and affordability of the contributions/premiums as the main two factors when obtaining coverage. Interestingly, contrary to the preference of other corporates, the SME

respondents highlighted easy access to the protection provider as a more important factor (90 per cent of the subgroup of respondents ranked it as moderately or very important) than other factors such as the quality of service and complexity of procedures. This clearly indicates that the demand for protection coverage from SMEs needs to be catered for in a slightly different way – i.e. through more direct interaction with the SMEs.

Consistent with this understanding, intermediaries (i.e. brokers and agents) were the distribution channel most used by SMEs in obtaining coverage (23 per cent of SMEs). This is reasonable given that such a channel allows closer and more interactive relations between the coverage providers and the SMEs. More information and education on the coverage can be given to SMEs by the intermediaries to cater for their specific business needs. Heavy reliance on brokers and agents is also apparent in SME sectors of other countries. The Boston Consulting Group (n.d.) in its article *Mining the untapped gold in SME commercial insurance* found that 35 and 14 per cent of SMEs in the UK and the USA, respectively reported that they did not know who their insurer was, or they listed their agent or broker as their carrier.

Another finding related to SMEs from the survey reinforces the need for more interaction to cater to specific protection needs for the SMEs' businesses. On this point, a relatively lower subscription to *takāful* coverage related to fire was recorded among the SMEs compared to insurance coverage take-up (4 per cent *vis-à-vis* 96 per cent, respectively). This is despite the product's availability in the market, it being offered by all general *takāful* operators.

Table IV.
Detailed profile of
SME respondents by
size, number of
employees and
business sector

| Characteristics | No. of companies | (%) |
|----------------------------|------------------|-----|
| <i>Size</i> | | |
| Micro | 47 | 42 |
| Small | 56 | 50 |
| Medium | 8 | 7 |
| <i>Business sector</i> | | |
| Manufacturing | 30 | 27 |
| Non-manufacturing | 81 | 73 |
| <i>Number of employees</i> | | |
| Less than 5 | 47 | 42 |
| 6-30 employees | 51 | 46 |
| 31-75 employees | 12 | 11 |
| 76-100 employees | 1 | 1 |

Table V.
Detailed profile of
SME respondents'
business sector –
segregated into
manufacturing and
non-manufacturing
sectors

| Characteristics | No. of companies | (%) |
|------------------------|------------------|-----|
| <i>Business sector</i> | | |
| Manufacturing | 30 | 27 |
| Micro | 5 | 5 |
| Small | 24 | 22 |
| Medium | 1 | 1 |
| <i>Business sector</i> | | |
| Non-manufacturing | 81 | 73 |
| Micro | 42 | 38 |
| Small | 32 | 29 |
| Medium | 7 | 6 |

Conclusion

Summary of findings

Key observations from the survey are as follows:

- (1) Awareness on availability of *takāful* or insurance

The respondents were found to have a high level of awareness on the availability of *takāful* and insurance coverage. Greater awareness was noted on insurance compared to *takāful* among the respondents.

The majority of respondents indicated their willingness to obtain *takāful* or insurance coverage to protect their risks. However, only a minority of them had already obtained the coverage.

- (2) Protection needs and current subscription to *takāful* or insurance coverage

The top three significant incidents chosen by the respondents as having the potential to affect their institutions and operations (business activities, business premise, staff welfare, etc.) were:

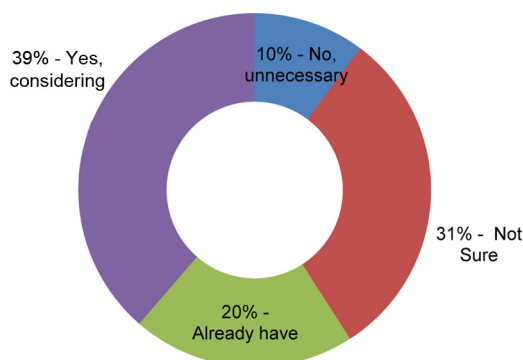


Figure 19.
SMEs' level of
willingness to obtain
takāful or insurance
coverage

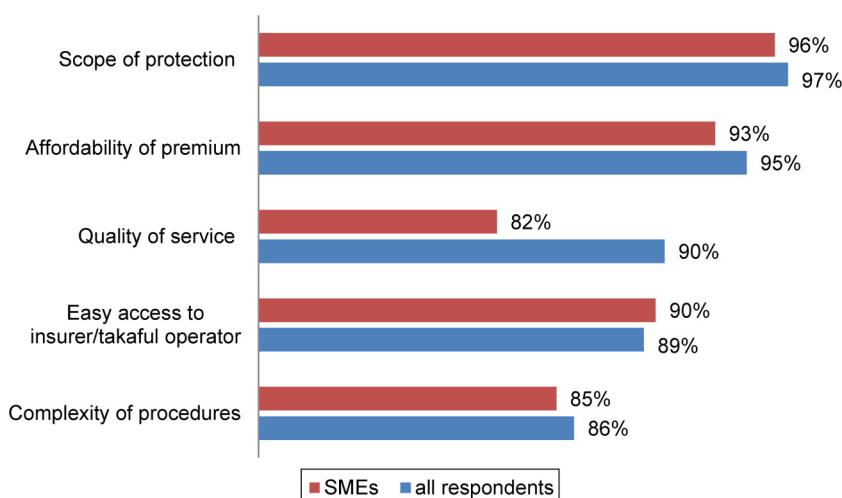


Figure 20.
Factors considered by
SMEs for
subscription to
takāful or insurance
coverage

- physical damage to business properties;
- monetary loss caused by business interruption; and
- default on payment by clients.

The survey recorded a high subscription rate to *takāful* liability-related coverage, with protection being concentrated on medical and employee-related coverage. Subscription to *takāful* coverage was also relatively high on coverage related to fire products.

Higher subscription to insurance than *takāful* coverage was noted across all named risk exposures, consistent with the higher level of awareness of insurance among the respondents. A strong positive correlation was found between the size and age of the respondents and their tendency to obtain *takāful* or insurance coverage across all types of risk exposures.

(3) Factors considered when obtaining *takāful* or insurance coverage

Respondents were generally indifferent to the Sharī'ah-compliance feature of protection coverage. In deciding whether to take up *takāful* or insurance coverage, respondents were highly influenced by scope of protection and affordability of contributions/premiums of *takāful* or insurance products. Among the subgroup of respondents who value the Sharī'ah-compliance feature of protection coverage, the majority still obtain insurance as their protection coverage across all risk exposures. This observation may signal less competitive terms and conditions of *takāful* products as well as limitations in the products offered by *takāful* operators that eventually led this subgroup of respondents to take up insurance instead.

The main factors that respondents identified for preferring insurance to *takāful* were insurers' better reputation, more effective claim procedures and respondents' familiarity with insurance compared to *takāful*.

The most significant factors cited as stopping respondents from getting any *takāful* or insurance coverage were the perception that protection coverage is not important for an institution as well as the high costs and complex procedures for obtaining coverage.

(4) Experience in securing *takāful* or insurance coverage

The study found that there is heavy reliance on intermediaries in accessing *takāful* or insurance coverage. Agents and brokers were the main channels used by the respondents to obtain coverage.

The survey findings also noted the potential of SMEs as a target market. The study revealed that this market segment presents favourable business opportunities for *takāful* operators to tap into, premised on their willingness to spend for *takāful* or insurance coverage despite having a relatively lower level of awareness on the availability of *takāful*.

Recommendations

To conclude, the findings from the survey indicate the criticality of initiating improvement measures at the *takāful* operators' end to have more efficient business practices. There is also a need to elevate *takāful* operators' market presence, which forms an integral element of remaining relevant and competitive in the general *takāful* and insurance market.

There is potential for *takāful* operators to reach out more to corporate clients and in particular to SMEs. Awareness and appreciation of the economic and social benefits provided through *takāful* protection can become key elements for *takāful* operators to attract

more corporates and organizations to subscribe to *takāful*. Information asymmetry among potential *takāful* participants could be minimized with enhanced educational and informative disclosure on *takāful* concept and application.

Takāful operators must be willing to invest and to align their marketing strategies as well as the types and scope of their products and services to suit the market segment they want to venture into. It is especially important for *takāful* operators not to solely rely on products' compliance with Shari'ah as their main selling point in their attempts to appeal to their targeted market segment. Rather, market competition shall be premised and based on features and scopes of products as well as quality of services offered, on top of affordable prices and easy access for customers. With comprehensive coverage, attractive product features as well as appropriate marketing, *takāful* operators can improve their market penetration and tap into underserved market segments such as those that emphasize having Shari'ah-compliant coverage for their institutions. Optimized collaboration with agents and brokers is key to widening market outreach and building stronger market presence. Last but not least, this also warrants the need to improve the intermediaries' and the *takāful* operators' professionalism in servicing clients and securing long-term relationships with them.

This study is limited in that it focused on Malaysia's experience. The findings are indicative (though they may not be conclusive) of the target segment as well as *takāful* industry as a whole. For future work relevant to the corporations' and organizations' sentiments towards general *takāful*, study of a similar focus group could be conducted to evaluate new trends and gather new insights for a more comprehensive study. The study can also be extended to other countries where general *takāful* products are offered.

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About the authors

Hamim Syahrum Ahmad Mokhtar, PhD is currently Deputy Director in the Islamic Banking and Takaful Department, Bank Negara Malaysia. His role includes leading and guiding strategic development policies of the Islamic financial sector. Dr Hamim holds a degree in Accounting (Honors), master's degree in Business Administration and a PhD in Islamic Banking and Finance. He is also a Chartered Accountant of the Malaysian Institute of Accountants.

Izwayu Abdul Aziz is currently a Manager in the Islamic Banking and Takaful Department, Bank Negara Malaysia. Her role includes formulating and coordinating strategies and policies for development of the *takāful* sector. She holds a bachelor's degree in Actuarial Science from Heriot-Watt University, Edinburgh, Scotland.

Noraziyah Md Hilal received her Bachelor of Business Administration from Universiti Islam Antarabangsa Malaysia. She currently works as an Analyst in the Islamic Banking and Takaful Department, Bank Negara Malaysia. Noraziyah Md Hilal is the corresponding author and can be contacted at: noraziyah@bnm.gov.my