

# *Takāful* demand: a review of selected literature

*Takāful*  
demand

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## Abstract

**Purpose** – This paper aims to provide a systematic review of literature on the demand for *takāful* (Islamic insurance) from articles published from January 2009 to June 2019. The review aims to synthesise and segment previously published research to identify the gaps and provide future research direction.

**Design/methodology/approach** – A systematic review of the literature was conducted. Past research was analysed, and content comparisons based on research focus, context and methodology were evaluated.

**Findings** – It was found that not much has been written and published on *takāful* demand in quality journals. The first two articles were published in 2009, but it was only in 2017 that coverage of the topic rapidly expanded. Although no article was found to have been published in 2018 on *takāful* demand, there was one published article on the topic in 2019. This paper also found that not much attention has been given to *takāful* demand from the corporate sector.

**Research limitations/implications** – The defined rule for document searching and selection excluded out-of-scope documents that might be relevant. Furthermore, as this paper concentrates exclusively on articles published in English journals, the possibility that other relevant works do appear elsewhere in a different language is not denied.

**Practical implications** – Factors determining *takāful* demand are provided, and general directions are discussed, which managers can use to develop market share further.

**Originality/value** – Such an extensive review of literature on *takāful* demand has not been done before. Other than revealing ambiguities, gaps and contradictions in the literature, this paper sketches an avenue for further research. It also provides information and guidance for other researchers wishing to embark on research on *takāful* demand.

**Keywords** Demand, Islamic insurance, *Takāful*

**Paper type** Literature review

## Introduction

Research on *takāful* (Islamic insurance) has received much attention in recent years in tandem with the significant progress and development of the *takāful* industry. According to [Research and Markets \(2018\)](#), the world's *takāful* market is projected to exceed US\$40bn by 2023 at a compounded annual growth rate of 13% over the period 2017–2023. Various



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factors are contributing to the growth of *takāful* markets, including a sophisticated business environment (EY, 2013), robust regulatory and supervisory framework (Berkem, 2014; EY, 2015) and an increasing population (Al-Amri, 2015). Saudi Arabia is dominating the *takāful* market in the Gulf Cooperation Council, while Malaysia is dominating the *takāful* market in Southeast Asia. In some countries such as Australia, the UK and Malaysia, *takāful* operators and conventional insurance companies are in intense competition to gain market share. In Malaysia, for example, as of June 2020, there are 15 *takāful* operators and 22 conventional insurance companies operating in the market (BNM, 2020).

The *takāful* industry worldwide has documented a total direct premium of 2%, while its conventional counterpart has only recorded 1.5%. In addition, for the six-year period 2012–2017, the *takāful* industry's contributions grew at a compound average growth rate of almost 6.9% (Islamic Financial Services Board, 2019). While *takāful* has recorded strong growth as compared to its conventional counterpart, *takāful* demand has only recently received research attention, especially regarding issues of low penetration (Ibrahim *et al.*, 2015; EFG, 2016; Milliman, 2017) and huge market potential (Islamic Financial Services Board, 2017).

According to Best (2013), the development and demand for *takāful* are on the rise since 2012 because of increased awareness of the products. This leads to the following questions:

- Q1. Is research on *takāful* demand increasing in tandem with the popularity of *takāful* products worldwide?
- Q2. What are the relevant factors affecting demand?
- Q3. In which countries has relevant research been concentrated?

This paper revisits research conducted in the area of *takāful* and provides a systematic literature review on factors affecting *takāful* demand from articles published from January 2009 to June 2019. The review aims to synthesise previously published research to explore and identify what actually drives *takāful* demand. Gaps and directions for future research will be identified and discussed.

The paper is structured as follows. It starts by providing an overview of the *takāful* industry, which is followed by a deliberation of the methodology and approach adopted in this review paper. Next, the content analysis and segmentation of past literature on *takāful* demand are presented and discussed. Finally, the limitations of the research methodology, gaps in previous research and future research areas are discussed in the conclusion section.

### **A brief overview of *takāful***

*Takāful*, a Sharī'ah-compliant alternative to conventional insurance, began in 1979 (Aziz *et al.*, 2019). *Takāful* is divided into two types, namely, general and family *takāful*. General *takāful*, known as general insurance in the mainstream market, provides financial protection to participants (known as “policyholders” or the “insured” in conventional insurance) from general losses such as burglary, flood and fire. Family *takāful*, known as life insurance in the conventional insurance industry, provides financial protection to participants against perils associated with death, critical illness and disability.

Several characteristics differentiate *takāful* from conventional insurance.

- Firstly, an insurance contract is based on a sale and purchase relationship whereby the insured pays a certain amount of money (also known as a premium payment) to the insurer in exchange for financial protection against potential risk. As the insurer and insured do not know whether the trigger event will or will not occur, an

insurance contract is characterised by a high level of uncertainty. This situation leads to the existence of an excessive degree of *gharar* (uncertainty), which must be avoided in an exchange contract according to the Sharī'ah (Islamic law). *Takāful*, on the other hand, is based on a *tabarru'* (mutual cooperation) contract, which is not subject to the same rules (EY, 2013).

- Secondly, the process of compensation distribution in conventional insurance is not according to Sharī'ah principles. For example, if the insured dies earlier than the maturity period stated in the insurance policy, beneficiaries will receive the compensation accordingly. However, in the operation of *takāful*, only heirs of the participants will receive compensation according to the law of *farā'id* (inheritance).
- Thirdly, in the operation of *takāful*, profit made from Sharī'ah-approved investment activities will be distributed to participants and shareholders in accordance with the profit-sharing ratio or any other model approved prior to *takāful* participation. On the other hand, in the operation of conventional insurance, profits belong solely to the insurance company's shareholders.
- Fourthly, elements of *maysir* (gambling) exist in the operation of conventional insurance because the premium paid by policy holders and the indemnity provided by the insurer upon a claim are both uncertain. In *takāful*, on the other hand, the principle of *tabarru'* (donation) exists whereby *takāful* participants mutually agree to help each other against a defined loss. Under the principle of *tabarru'*, the uncertainty in the payout to policy holders does not lead to the issue of *maysir* – given *tabarru'* does not fall within the category of exchange contracts where the element of *maysir* is not tolerated.
- Fifthly, compared to *takāful* operators who can only invest the money in selected investments, which are approved by the Sharī'ah, conventional insurance has no investment limitation, which generates the element of *ribā* (interest) (Husin and Rahman, 2016).

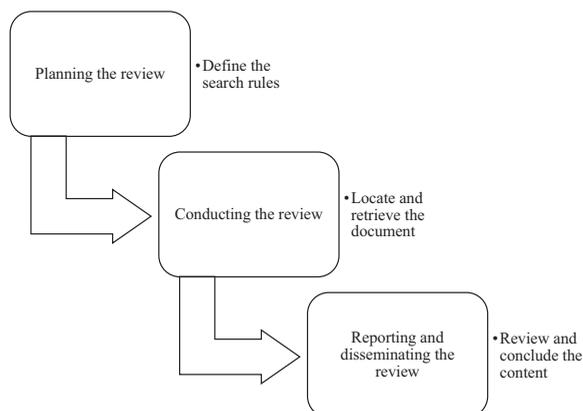
## Method

Following Tranfield *et al.* (2003), a three-step process of a systematic literature review is conducted as shown in Figure 1.

The review process starts with an identification of keywords. The first keyword is “demand” while the second set of keywords comprises “Islamic insurance” and *takāful*. For the articles to be selected, the articles' title, keywords or abstract must include a combination of the two chosen keywords. All relevant and identified articles published in English within the period January 2009 to June 2019 were included only if these two inclusion criteria were fulfilled.

Firstly, in the selection process, only articles in the Impact Factor and Scopus indexed journals were selected, to ensure the high quality of the articles. An initial search in the Web of Science using “Islamic insurance” and “demand” as keywords resulted in 12 articles, while keywords *takāful* and “demand” resulted in 9 articles. On the other hand, an initial search in Scopus-indexed journals using keywords “Islamic insurance” and “demand” resulted in 22 articles, while keywords *takāful* and “demand” resulted in 22 articles. The search results were further examined to check for redundancy, thus leaving 13 articles for further analysis.

Secondly, following Tranfield *et al.* (2003), articles were skimmed further to ensure their relevancy. Subsequently, 48 articles were omitted from further analysis due to the fact that



Source: Tranfield *et al.* (2003)

**Figure 1.**  
The process of  
systematic literature  
review

the articles primarily focussed on Islamic banks and made no reference to *takāful*. Moreover, some articles were found to be concerned with conventional insurance research only, and two articles turned out to be proceedings papers. As such, only the remaining 13 articles were used for analysis. In this paper, the content of the articles was compared based on the following:

- Research focus: this refers to the publications' brief coverage in terms of content and applicability.
- Research context: this looks at the environment in which the literature was conducted.
- Methodology evaluation: this observes the analysis section of the articles.

Other than distinguishing content, this paper also presents the characteristics of the articles under investigation, which include publication name, author(s) name, year of publication and journal of publication and indexing, as shown in [Table 1](#). In addition, [Table 2](#) shows the inclusion and exclusion criteria used in this paper.

### Content analysis

In this section, the segmentation framework ([Figure 2](#)) is presented and a summary of the literature content is briefly discussed. Four main segments – notably research area, research data, research method and factors affecting demand – were generated in an attempt to identify the essence of the *takāful*-demand research.

#### *Research area*

This paper classifies the research areas into two according to the type of *takāful*, namely, general and family. From the 12 articles, three focussed on *takāful* demand in general, four concentrated on family *takāful* demand, while the remaining five focussed on both. For instance, [Sherif and Shaairi \(2013\)](#) discussed the factors influencing family *takāful* demand by identifying economic and socio-demographic variables in the Malaysian context. Other articles that also focussed on family *takāful* demand are [Zerria and Noubbigh \(2016\)](#), [Hassan \*et al.\* \(2017\)](#) and [Sherif and Ahmed \(2017\)](#).

No.	1	2	3	4	5
Title	Determinants of corporate demand for Islamic insurance in Malaysia	<i>Takāful</i> : Potential demand and growth	Islamic insurance ( <i>takāful</i> ): Demand and supply in the UK	Determinants of demand on family <i>takāful</i> in Malaysia	Microinsurance demand after a rare flood event: evidence from a field experiment in Pakistan
Author(s)/ year of publication	Hamid <i>et al.</i> (2009)	Rahman (2009)	Coolen-Maturi (2013)	Sherif and Shaari (2013)	Turner <i>et al.</i> (2014)
Published in	<i>International Journal of Economics and Management</i>	<i>Journal of King Abdul Aziz University: Islamic Economics</i>	<i>International Journal of Islamic and Middle Eastern Finance and Management</i>	<i>Journal of Islamic Accounting and Business Research</i>	The Geneva papers on risk and insurance – issues and practice
Indexed by	Scopus	Scopus	SSCI	Scopus	Scopus
Objective	The paper empirically investigated the determinants of corporate demand for Islamic insurance ( <i>takāful</i> ) using data from the main board of public listed companies at Bursa Malaysia	The paper discussed the potential demand and growth of the <i>takāful</i> market and products	The paper examined whether there is a real demand for <i>takāful</i> products and assessed the awareness about <i>takāful</i> insurance and its main principles	The paper examined empirically whether there is a real demand for <i>takāful</i> products and assessed the awareness about <i>takāful</i> insurance and its main principles	The paper examined behavioural characteristics that determine the demand for micro-insurance
Context	Malaysia	–	The UK	Malaysia	Pakistan
Methodology	Five-year data from the years 2002 to 2006 were collected from 68 firms listed on the main board of Bursa Malaysia. Data were analysed using the Generalised Least Squares (GLS) estimation	–	Online questionnaires were distributed	Questionnaires were distributed and analysed using SPSS	384 datasheets were collected from individuals (192 in flood-affected areas and 192 from non-affected villages matched using pre-flood propensity data)

(continued)

**Table 1.**  
An overview of previous literature on *takāful* demand

No.	Title	6	7	8	9
	Determinants of life insurance demand in the MENA region	Family <i>takaful</i> in developing countries: The case of Middle East and North Africa (MENA)	A comparison of Islamic and conventional insurance demand: Worldwide evidence during the global financial crisis	Uptake of health insurance amongst Muslims in Nairobi county, Kenya	
Author(s)/ Year of publication	Zerriaa and Noubbigh (2016)	Sherif and Ahmed (2017)	Akhter <i>et al.</i> (2017)	Hassan <i>et al.</i> (2017)	
Published in	The Geneva papers on risk and insurance – Issues and practice	<i>International Journal of Islamic and Middle Eastern Finance and Management</i>	<i>Research in International Business and Finance</i>	<i>Pan African Medical Journal</i>	
Indexed by	Scopus	SSCI	Scopus	Scopus	
Objective	The paper investigated the determinants of life insurance consumption	The paper investigated the driving forces (economics and socio-demographic) that influence family <i>takaful</i> demand in the MENA region	The paper compared the Islamic insurance industry ( <i>takaful</i> ) to conventional insurance	The paper determined the level of uptake of health insurance amongst Muslims and examined the role of religion in health insurance uptake amongst Muslims	
Context	Middle East and North Africa region	Middle East and North Africa region	14 countries in South Asia, ASEAN and the Middle East	Kenya	
Methodology	Data were analysed using Ordinary Least Squares	The paper used multivariate analysis, bootstrapping and the Generalised Method of Moments (GMM) techniques to examine the research model	Data from 14 countries were collected for the years ranging from 2005 to 2014 and analysed using panel data	Questionnaires were collected from 389 respondents. Data were analysed using SPSS	

(continued)

No.	10	11	12	13
Title	Corporate demand for general <i>takāful</i> in Malaysia	Religiosity and demand for <i>takāful</i> (Islamic insurance): A preliminary investigation	Determinants of <i>takāful</i> and conventional insurance demand: A regional analysis	An empirical study of relationships between Islamic insurance and economic growth
Author(s)/ year of publication	Ahmad Mokhtar <i>et al.</i> (2017)	Al Mahi <i>et al.</i> (2017)	Akhter and Khan (2017)	Safitri (2019)
Published in	<i>ISRA International Journal of Islamic Finance</i>	<i>International Journal of Applied Business and Economic Research</i>	Cogent Economics and Finance	<i>International Journal of Recent Technology and Engineering</i>
Indexed by	Scopus	Scopus	SSCI	Scopus
Objective	The paper studied corporate demand for general <i>takāful</i> (Islamic insurance) and identified the potential growth areas and areas for improvement in the Malaysian <i>takāful</i> business	The paper explored the importance of religiosity in influencing the demand for <i>takāful</i> products	The paper analysed and differentiated the determinants of conventional insurance and <i>takāful</i> demand	The paper examined simultaneous relationships between Islamic insurance demand and economic growth
Context	Malaysia	–	ASEAN and Middle East regions	Indonesia
Methodology	246 questionnaires were distributed	–	Panel data econometrics was used on data obtained for the period of 2005–2014. Fixed and random effect regression models were used to examine the data	Simultaneous equation model and the two-stage least squares technique were used

Source: Authors' own

Table 1.

*Research data*

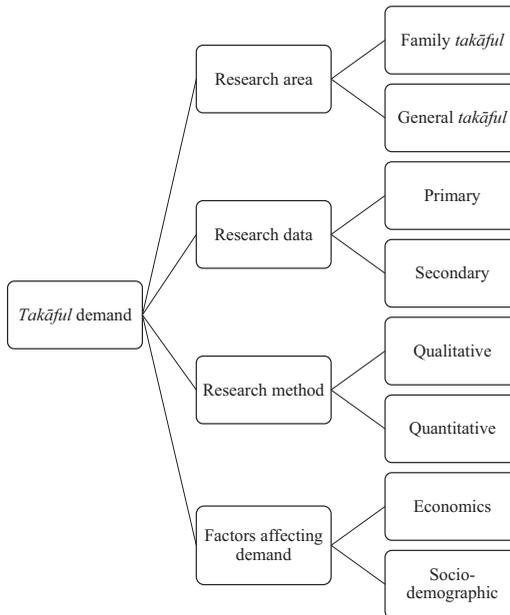
This paper classified the research data into two, namely, primary and secondary data. Six articles' discussions on *takāful* demand were based on primary data, while the remaining six used secondary data. Interestingly, this review found that only two articles, one using primary data (Hamid *et al.*, 2009) and the other using secondary data (Ahmad Mokhtar *et al.*, 2017) focussed on corporate demand on *takāful*. Table 3 shows the research data classifications.

*Research methods*

There is a mixture of subjects covered under this research area, and a variety of research methodologies are used in the articles. Most of the research used quantitative methodology. For instance, Sherif and Shaairi (2013) collected Malaysian annual data on socioeconomic factors, which explained family *takāful* demand. Others who used quantitative methodology in their papers were Akhter and Khan (2017), who conducted a regional analysis;

**Table 2.**  
Inclusion and  
exclusion criteria

Inclusion criteria	Relevant based on the keywords, title and abstract Articles published between January 2009 and June 2019 Focus on <i>takāful</i> demand
Exclusion criteria	Written in non-English Did not answer the research questions Duplicate articles on the same study Articles that did not match inclusion criteria



**Figure 2.**  
Content segmentation  
framework

Source: Authors' own

Ahmad Mokhtar *et al.* (2017), who examined corporate demand; and Akhter *et al.* (2017), who focussed on a comparison of Islamic and conventional insurance demand. An alternative to the quantitative method of analysis is qualitative methods, which allow data collection via surveys and focus groups. For example, Turner *et al.* (2014) used the survey methodology to assess respondents' examination on flood risk, while Hassan *et al.* (2017) used the survey methodology to conduct screening sessions on health insurance demand.

### Factors affecting demand

Many factors have been found to affect family *takāful* demand; they can be divided into two main categories, namely, economics (micro and macroeconomics) and socio-demography. Amongst the macroeconomic and microeconomic variables that have impacted *takāful* demand are the development of the financial sector and Islamic banking (Sherif and Shaairi, 2013; Akhter and Khan, 2017), company leverage and size, as well as managerial ownership (Hamid *et al.*, 2009).

In measuring socio-demographic factors, Al Mahi *et al.* (2017) found a strong relationship between religiosity and *takāful* demand. In addition, other socio-demographic variables were found to have significantly affected *takāful* demand; these include income (Sherif and Shaairi, 2013; Akhter and Khan, 2017), urbanisation (Akhter and Khan, 2017), dependency ratio (Sherif and Shaairi, 2013; Safitri, 2019) and education (Sherif and Shaairi, 2013). Table 4 shows the significant demographic and economic factors influencing *takāful* demand, including the total score for each factor. From the table, education marks the highest score, followed by income and Islamic banking or financial sector deposit and development. The result implies that the factors affecting *takāful* demand are not as complex as expected. This is good news, as these *takāful* demand determinants can be addressed with a well-designed strategy, focussing on awareness-raising and information, as well as setting differentiated and affordable contribution rates.

### Conclusion

This paper provides a systematic review of literature on *takāful* demand, resulting in an overview of objectives, methodology, context and publication avenues. In addition, content analysis was performed to capsulise the essence of the *takāful*-demand research into four main segments: research area, research data, research method and factors affecting demand.

Primary data	Coolen-Maturi (2013) Sherif and Shaairi (2013) Turner <i>et al.</i> (2014) Hassan <i>et al.</i> (2017) Ahmad Mokhtar <i>et al.</i> (2017) Al Mahi <i>et al.</i> (2017)
Secondary data	Hamid <i>et al.</i> (2009) Rahman (2009) Zerriaa and Noubbigh (2016) Akhter and Khan (2017) Akhter <i>et al.</i> (2017) Sherif and Ahmed (2017) Safitri (2019)

Source: Authors' own

**Table 3.**  
Research data  
classification

**Table 4.**  
Factors affecting  
demand

Author × factor	Rahman (2009)	Hamid <i>et al.</i> (2009)	Shaairi (2013)	Sherif and Turner <i>et al.</i> (2014)	Zerriaa and Noubbigh (2016)	Sherif and Ahmed (2017)	Akhter <i>et al.</i> (2017)	Akhter Khan (2017)	Hassan <i>et al.</i> (2017)	Safitri (2019)	Total
<i>Economic</i>											
Leverage	/										1
Interest rate				/							1
Urbanisation							/				1
Expected bankruptcy		/									1
Inflation				/						/	2
Islamic banking/ financial sector deposit and development			/			/					3
Company size		/									1
Managerial ownership		/									1
Tax considerations		/									1
Income				/							1
<i>Demographic</i>											
Population size	/					/					2
Religious belief								/			1
Life expectancy					/						2
Social structure	/										1
Dependency ratio			/			/				/	3
Prior experience				/							1
Risk aversion		/	/			/					1
Education	/		/			/					4
Income	/		/			/	/				3

**Source:** Authors' own

This paper found that the number of publications in the area of *takāful* demand has increased significantly over time from two articles in 2009 to six articles in 2017. Although there was no publication on the topic in 2018, one article was published in 2019 in Indonesia. By synthesising and reviewing the literature, the pattern of publication and gaps in previous research has been identified. In addition, this study contributes to the literature by revealing significant demographic and economic factors influencing *takāful* demand (Table 3).

The review of the articles published in 11 journals as specified in Table 1 reveals that only a limited number of articles have been published in the area of *takāful* demand. The research articles have identified various factors that influence *takāful* demand, which can be divided into two broad categories, namely, demographic and economic factors. This paper also confirms that across these 11 journals, research has been conducted using a variety of methodologies, ranging from quantitative to qualitative data.

Practitioners might find the results of this paper useful as it provides a rich overview and outlines various studies conducted in a variety of countries. Furthermore, the paper highlights, which economic and demographic factors were found to have impacted *takāful* demand and as such, offers practical guidance.

According to Hamid *et al.* (2009), the corporate sector contributes to the general *takāful* and conventional insurance total premiums at a rate of more than 50% of the total premiums. While *takāful* contribution from the corporate sector is important for the economic development of the institutions and the country, this review paper found that little research has been done on *takāful* demand from the corporate sector, leaving many possibilities for future research directions in this area.

### Limitations

This review paper has its limitations. Firstly, even though rigorous data searching, locating and collecting were conducted, the limited number of articles reviewed might have excluded out-of-scope articles that may be relevant. However, given the fact that the articles chosen for review were published in the Impact Factor and Scopus indexed journals, the articles were, thus, deemed of adequate quality for analysis. Secondly, this review paper only concentrated exclusively on articles published in English journals, and thus, omitted non-English articles and other types of literature such as conference proceedings, published and unpublished books and book chapters, theses and grey literature. Therefore, the possibility is not denied that other relevant works do appear elsewhere in other languages and publication media not covered in this paper.

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