Corporate demand for general *takāful* in Malaysia

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**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 Sharīʿah compliance status is needed to attract corporates, as respondents were found to be indifferent on Sharīʿah 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

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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 *takaful* 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 *takaful* 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;
- composition of respondents based on number of employees.
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
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 proprietors 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
reflects these findings. The observation on the willingness of the respondents to obtain takaful or insurance coverage is definitely indicative of good business prospects for the takaful and insurance sectors.

Protection needs for operations of the corporations and organizations
It is ideal that the demand for specific types of takaful 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).
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...
definitely face higher risks than others. For example, the presence of various highly flammable 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 takāfūl operators is not limited to the provision of takāfūl protection custom-made to suit potential clients’ business needs. Takāfūl 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 takāfūl plan or purchase of insurance, the respondents were asked to indicate which of the risk exposures as listed in the questionnaire they have takāfūl or insurance coverage for. The questionnaire provides for separate identification of takāfūl and insurance coverage for the respondents to choose from.

Based on the results of the survey, there is a relatively high subscription for takāfūl 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 takāfūl. Subscription to takāfūl 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 takāfūl business (20 per cent of total general takāfūl business) among other product lines.

When the results of respondents’ subscription to takāfūl 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 takāfūl 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

![Figure 10. Ranking of significance for incidents and risk exposure which affect respondents and their operations](image-url)
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.
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 Sharī’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

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

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
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
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.

![Figure 14. Ranking of factors considered by respondents whether to obtain *takāful* or insurance coverage](image)

![Table III. Take-up rate of *takāful* coverage for the respondents who rated “Sharī‘ah compliance status” as important (i.e. sample respondents) vis-à-vis all respondents](table)

<table>
<thead>
<tr>
<th>List of risks exposure</th>
<th>Sample respondents (%)</th>
<th>All respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Damages to business properties and premises because of fire, lightning, explosion, etc.</td>
<td>29</td>
<td>17</td>
</tr>
<tr>
<td>Loss of/damages to business properties and premises because of burglary/theft</td>
<td>29</td>
<td>17</td>
</tr>
<tr>
<td>Damages to machineries/equipment because of mechanical breakdown</td>
<td>37</td>
<td>22</td>
</tr>
<tr>
<td>Protection from legal liability upon employees’ injury/disease during employment</td>
<td>35</td>
<td>22</td>
</tr>
<tr>
<td>Protection from legal liability upon 3rd parties’ injury or damage to 3rd parties’ property</td>
<td>27</td>
<td>17</td>
</tr>
<tr>
<td>Loss of money/properties because of employee fraud</td>
<td>29</td>
<td>17</td>
</tr>
<tr>
<td>Loss of money/properties while in transit or being kept on business premises</td>
<td>29</td>
<td>17</td>
</tr>
<tr>
<td>Compensation for employees’ costs of general medical treatment, hospitalisation</td>
<td>24</td>
<td>16</td>
</tr>
<tr>
<td>Others</td>
<td>29</td>
<td>13</td>
</tr>
</tbody>
</table>
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 takāfūl among the corporates. These measures include, among others, elevating consumers’ awareness on the value propositions of takāfūl (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 takāfūl 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 takāfūl operators and insurance companies). Adverse perception on the importance of takāfūl 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 takāfūl operators to improve their competitiveness and elevate market presence to tap into this customer segment.

Method of securing takāfūl or insurance coverage

Respondents were required to share the sources from which they obtained takāfūl or insurance coverage. Their experience in selecting their existing takāfūl 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 takāfūl or insurance coverage.

![Figure 15. Ranking of factors for choosing insurance over takāfūl coverage](image-url)
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 *takaful* 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 *takaful* 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 *takaful* 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 *takaful* or insurance, 50 per cent of the respondents still employed agents/brokers’ services when securing *takaful* or insurance coverage. Only a small number of respondents (32 per cent) were getting *takaful* or insurance coverage directly from the *takaful* operators or insurance companies. This suggests that the role of

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

**Figure 17.**
Channels used by respondents to obtain *takaful* 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 *takaful* 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 *takaful* operators.

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

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

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>No. of companies</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>30</td>
<td>27</td>
</tr>
<tr>
<td>Micro</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Small</td>
<td>24</td>
<td>22</td>
</tr>
<tr>
<td>Medium</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Business sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>81</td>
<td>73</td>
</tr>
<tr>
<td>Micro</td>
<td>42</td>
<td>38</td>
</tr>
<tr>
<td>Small</td>
<td>32</td>
<td>29</td>
</tr>
<tr>
<td>Medium</td>
<td>7</td>
<td>6</td>
</tr>
</tbody>
</table>

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

References
Malaysian Takaful Association & EY (2015), Malaysian Takaful Dynamics, Central Compendium 2015, Ernst & Young, Kuala Lumpur.

Further reading


About the authors
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