

## FAMILY TAKAFUL DEMAND IN MALAYSIA: PROPOSED THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENTS

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### ABSTRACT

*This paper discusses the proposed theoretical framework and hypotheses development of a study on Family Takaful demand in Malaysia. It will elaborate on the theoretical framework, hypotheses and research design of the study. Relevant literatures reviewed for the theoretical framework i.e., the empirical studies of how one theorizes or logically plausible relationship between several factors or matters that have been identified as important for the study area. It rationalises the important of theoretical framework where it enables the researcher to hypothesize as well as to test the relationship between the variables involved in order to expand the understanding of the related research area of study. The dependent variable is Family Takaful demand, while the independent variables which will be studied are disposable income, saving rate, education level, efficiency, profitability and sizes of companies. This study is a hypothesis testing study which normally explains the nature of certain relationship among groups or the independence of two or more factors in a situation. The hypotheses development begins with the selection of macroeconomic factors followed by the managerial factors. Then, analysis for correlation and regression will be conducted statistically.*

Keywords: Family Takaful, demand, factors.

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### Introduction

Traditional conventional Demand Theory asserted that people purchase insurance in return for paying a small premium to compensate a large claim amount. Thus, the market presentation of the services provided is immensely important. In regard of that, Earnst and Young (2014) highlighted that top six Global Takaful Business risk to be looked into, namely competition, evolving regulation, business transformation, inability to achieve underwriting profit, ineffective enterprise risk management and misaligned cost base. Malaysian Takaful Association (2014) highlighted that the top three business risks for Malaysian-based Takaful operators are evolving regulations, addressing competition and business transformation. Also, enforcement of the Islamic Financial Services Act 2013 on 30 June 2013 was intended to pave the way for the development of an end-to-end Sharia compliant regulatory framework for the conduct of Islamic financial operation in Malaysia (Miskam, 2013). The IFSA will prohibit insurers to operate both General and Family Takaful operations simultaneously. Due to latest financial crisis, the risk element in environment has increased and leads to greater demand for risk controlling products and opening of insurance sector for both Takaful and Conventional to raise issue to re-examine the factors that can affect the demand for these products in this region (Akhter & Khan, 2015). The increasing number of Takaful operators in the year 2009 had significantly increased the penetration rate from less than 10% in the year 2009 to 11.2% in the year 2010. In detail, Malaysia has recorded slim growth of market penetration of Family Takaful for past 10 years (2005 until 2014); 5.7%, 6.6%, 7.7%, 7.9%, 9.2%, 11.1%, 12.6%, 13.1%, 14.0% and 14.5% respectively. However, the growth is still considered slim compared to the total number of operators that are currently in the marketplace. This scenario motivates this study to be conducted. The indefinite influencing factors towards the Family Takaful demand still needs further exploration. Importantly, this paper will elaborate on the theoretical framework, hypotheses, research design of the study and ends with a discussion of the expected contribution theoretically and empirically.

### LITERATURE REVIEW

The economist defined “demand” as the willingness and ability of individuals to consume a certain product or service (Mahdzan & Peter Victorian, 2013). Yaari (1965), described demand for life insurance is attributed to a person’s desire (or a “joy of giving”) to bequeath funds to dependents and provide income for retirement, demand for life insurance has been posited as a function of wealth, expected income over a person’s lifetime, interest rates, the cost of life insurance policies (e.g. administrative costs) and the assumed subjective discount on current over future consumption

Previously, researchers (Annuar, Rosly, & Abdul Rashid, 2004; Annuar, 2004; Wan Aris, 2004; Yon Bahiah, Siti Zaleha, & Norshahida, 2009; Abdul Rahman, Mohd Yusof & Abu Bakar, 2008; Rahman, 2009) discussed to a great extent on the growth, development potential and roles of Takaful market in Malaysia, while Ahmad, Almsafir and Siron (2013) discussed the impact of Arabic word on the untapped Malay market and Che Mohd Salleh, Abdullah and Razali (2013) discussed the role of the Takaful agents in Malaysia. In contrast, this study will focus on the other side of views. The imbalance of literature coverage effectively leaves ample space for theoretical and empirical research in the specific area of environmental and financial factors influencing

Family Takaful and Life insurance demand. In this study, income per capita is to be measured to represent disposable income which is ratio of GDP to total population. Increase of income level will ultimately increases demand for insurance where the people more affordable (Browne & Kim, 1993). Aligned with Redzuan, Rahman and Abdul Aidid, (2009), they found that if there is rise in income affordability and access to insurance increases and ultimately Family Takaful demand increases. Previous studies have argued that an increase in income results in greater demand for insurance. Therefore, an increase in income may lead to higher purchasing power and living standards among the public, which results in growing demand for economic security like saving insurance and annuity (C.-C. Lee, Lee, & Chiu, 2013). In terms of employment function, Abdul Rahman, Mohd Yusof and Abu Bakar, (2008) found positive employment increment and contribute to the economic growth in Malaysia. Later, S.-J. Lee, Kwon and Chung, (2010) examined the relationship between various types of employment in Korea and also found a positive relationship with the economic growth.

Contributed to the literature, the study conducted by Redzuan, (2014) indicated that in the short-run, savings rate influenced Family Takaful demand. In relation to the role of education, a study on the housewives' education level towards insurance purchasing behaviour (demand), Goldsmith, (1983) confirmed a positive relationship exists. The result indicated that, the higher the education of the housewives the lower the purchasing of insurance to be. Truett and Truett, (1990) also presented a positive relationship between education and demand for life insurance in their study. Also, Browne and Kim, (1993) and Gandolfi and Miners, (1996) concluded the same.

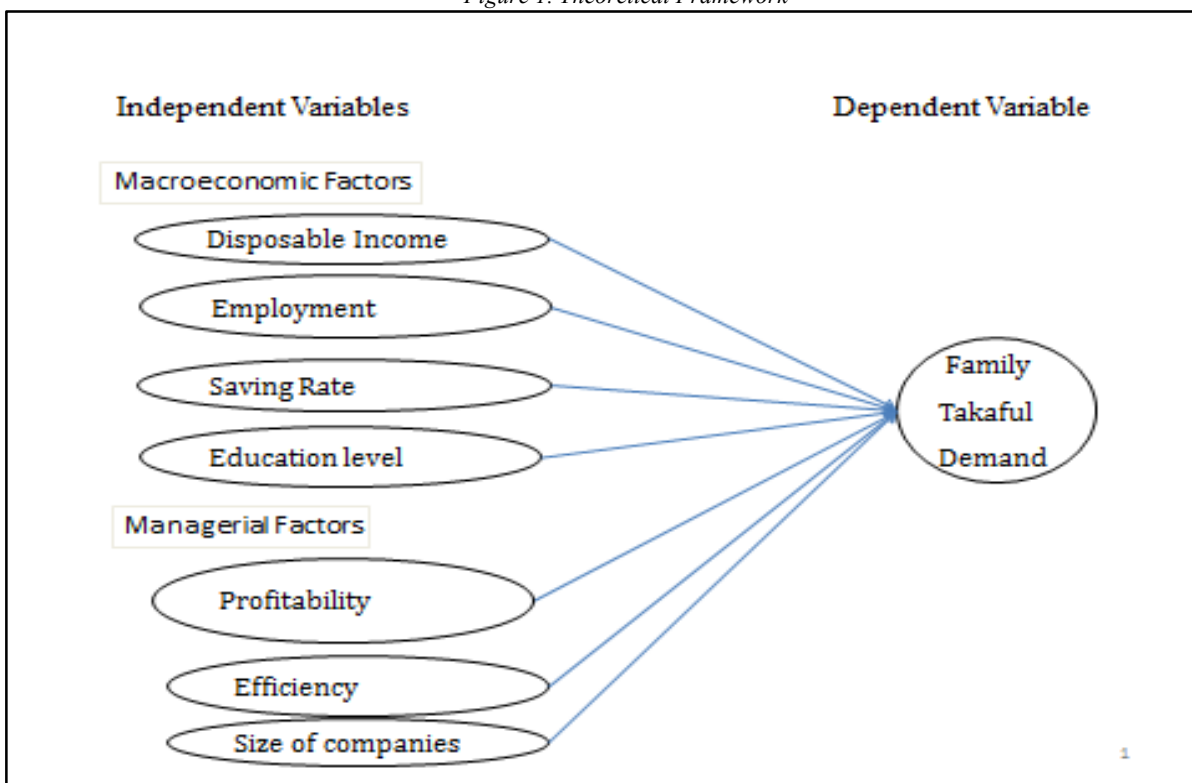
Apart from that Penalva Zuasti, (2008) has determined a set of conditions to optimally purchase full coverage of insurance and demonstrate satisfaction in efficient insurance market equilibrium. In order to survive all companies must be effective. Aimed to examine the efficiency of general insurance and Takaful industry in Malaysia, Keong, (2013) has selected 31 of general insurance and eight General Takaful and found that there is a significant difference in efficiency between Takaful industry and insurance industry. Takaful has higher efficiency than conventional insurance throughout the year 2009 to 2013.

Observed the first two Takaful operators in Malaysia, Abdul Rahman et al., (2008) asserted that, profits (before and after taxes and zakat) has not established significant relationship with the demand. On the contrary, Ismail, (2013) revealed that General Takaful and Insurance Companies in Malaysia had not significantly related. Logically, the soundness of institutional environments effects the financial development on the growth of the economy (C.-C. Lee, Chang, Arouri, & Lee, 2016). According to Li, Moshirian, Nguyen and Wee, (2007) size of the financial sector positively related to the insurance demand.

**PROPOSED THEORETICAL FRAMEWORK**

The theoretical framework is the conceptual model of how one theorizes or logically plausible relationship between several factors or matters that have been identified as important for the study area (Sekaran, 2013). A theoretical framework enables the researcher to hypothesize or purposes as well as to test the relationship between the variables involved in order to expand the understanding of the related research area of study. This study is about Family Takaful demand in Malaysia and the researcher proposes a framework as known in Figure 1 below:

Figure 1. Theoretical Framework



The theoretical framework is required in order to know the affiliation of one variable to other variables namely dependent variable (DV) and independent variable (IV). Variables are anything that can take different or changing values. Meanwhile, the dependent variable is the variable of interest to researchers. The independent variable can affect the dependent variable either in a positive or negative manner (Sekaran, 2013). Therefore, it can be concluded that, when there is a positive value or an increase in independent variable, the dependent variable would also increase and give a positive value based on the result of the independent variable.

### **HYPOTHESES DEVELOPMENT**

This study is expected to have seven (7) independent variables which are disposable income, saving rate, education level, efficiency, profitability and sizes of companies. Family Takaful demand would be the dependent variable which will become the main factor throughout this study.

In this study, the macroeconomic factors that have been chosen to be investigated are disposable income, saving rate, education level. While the managerial factors are marketing expenses, age of companies, size of companies. The reason to investigate these factors with the dependent and independent variables involved is to see the differences between each of them. These hypotheses are developed in order to answer research question and research objective in this study.

### **CORRELATION BETWEEN DEPENDENT VARIABLES AND INDEPENDENT VARIABLE**

In this study, all the independent variables involved, namely disposable income, saving rate, education level, marketing expenses, age of companies, sizes of companies will be analysed to see their correlation with the Family Takaful demand in Malaysia. The following hypotheses are developed in order to answer the research question and research objective in this study.

#### **i) Macroeconomic factors**

Ho 1: There is no significant correlation between disposable income, saving rate, education level and family Takaful demand.

Ha 1: There is a significant correlation between disposable income, saving rate, education level and Family Takaful demand.

#### **ii) Managerial factors**

Ho 2: There is no significant correlation between efficiency, profitability and sizes of companies and Family Takaful demand.

Ha 2: There is a significant correlation between efficiency, profitability and sizes of companies and Family Takaful demand.

### **THE INFLUENCE OF INDEPENDENT VARIABLES ON DEPENDENT VARIABLE**

In this study, the independent variables namely, disposable income, saving rate, education level, efficiency, profitability and sizes of companies will be analysed to identify how much variance of these IVs influence the Family Takaful demand in Malaysia. The test that will be used to determine the variance is multiple regressions. The following hypotheses are developed.

Ho 3: Disposable income, saving rate, education level, efficiency, profitability and sizes of companies will not significantly explain the variance of Family Takaful demand in Malaysia.

Ha 3: Disposable income, saving rate, education level, efficiency, profitability and sizes of companies will significantly explain the variance Family Takaful demand in Malaysia.

### **RESEARCH DESIGN AND EXPECTED OUTCOME**

This study will be using secondary data. Secondary research is a common research method whereby it involves using information that others have gathered through primary research. Among of the advantages are the information already exists and is readily available thus quick and low cost, also internal secondary data uses categories and breakdowns that reflect a corporation's preferred way of structuring the industry. Given that secondary data analysis research is defined as a further analysis of an existing datasets presenting interpretation, conclusions or knowledge additional to, or different from, those produced in the first report on the inquiry as a whole and its main results (Smith, 2008,pg4).

Secondary analysis of numeric data is potentially huge where among suited empirical data are population census, government and other large-scale surveys, cohort and other longitudinal studies, regular or continuous surveys and also administrative records (Smith, 2008).

The total population for this study will consist of the Takaful operators in Malaysia, whereby the sampling frame will be Family Takaful operators and Composite Takaful operators as licensed by the Bank Negara Malaysia. Annual data of Family Takaful business covering the period 2006-2015 are to be collected. The variables will be collected from published balance sheets and income statements in annual reports of each Takaful operator individually. In order to analyse the data, there will be two stages

of analysis to be conducted in this study. The first analysis is to employ SPSS for descriptive analysis and secondly is to employ Stata software for the estimation and hypotheses testing analysis.

This study expected to achieve all the research objectives where the macroeconomic and managerial factors influence the demand of Family Takaful in Malaysia. Specifically, it is expected that disposable income, saving rate, education level, efficiency, profitability and sizes of companies will significantly explain the variance Family Takaful demand in Malaysia.

## CONCLUSION

The research framework and methodology are crucial to address the research problem as well as research questions. A few initial steps for any quantitative research have been discussed especially on the theoretical framework, hypotheses development and research design. This paper aims to extend body of knowledge based by investigating the correlation and relationship between the selected macroeconomic and managerial factors on Family Takaful demand in Malaysia.

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