

Awareness and Knowledge of Takaful in Malaysia: A Survey of Malaysian Consumers

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Abstract

Insurance, nowadays, is no longer a luxury rather a necessity. Government regulations and employment are two very important factors that contribute to the huge overall growth of the insurance industry because they force general public to buy it. The concept behind conventional insurance is contrary to the principles of Islam and socio-ethical perspective. The purpose of Shari'ah is to create and maintain a harmonious social environment by moulding our conducts in all aspects of our ritual and daily life. Takaful industry remains to be relevant even after three decades of its introduction due to the continuous demands from the multiracial and multi-ethnic participants from various backgrounds. The said industry celebrates the contributions of their stakeholders, namely the Takaful operators, Shari'ah advisors and the participants or customers. Additional credit for the progressive development of Takaful industry goes to the consistent guidelines from the regulators. However, one factor that hinders further development of Takaful industry is the lack of awareness of its presence and purpose in Malaysian market. Therefore, this paper was designed to examine the knowledge and awareness of Takaful among Malaysian consumers in Malaysia by collecting primary data through survey questionnaires. Out of the 600 questionnaires that were sent to consumers in greater Malaysia i.e. Kuala Lumpur and Selangor, we received 503 questionnaires. Random selection was used to select the sample from the known population. The findings show that out of the 503 respondents, 124 have no knowledge of Takaful and 45% are not aware that Takaful policy holders share risks mutually. Also, 33.2, %, 38.8% and 37.2% do not know that Takaful is free from gambling, uncertainty, and interest. 70.2% respondents, however, think that Takaful products comply with Shari'ah.

Keywords: Takaful, Knowledge, Awareness, Consumers and Malaysia

1.0 Introduction

Whether life or general insurance, the basis of conventional insurance is purely on the element of interest (Salman, 2014; Salman & Htay, 2014; Ali et al., 2014; Kasim et al., 2015). The main objective of insurance companies is to generate income through interest by investing its funds in traditional investment instruments. The policyholders are required to pay surcharges if they fail to pay their premium on time. Moreover, the amount payable for life insurance policy when it reaches maturity or death claim is much more than the amount received by premium payments. Investing in interest-based instruments is the primary source of income for both, general and life insurance. (Qaiser, 2014).

Uncertainty is the base for conventional insurance, whether it is life or general insurance (Htay & Salman, 2014; Kasim et al., 2015), whereby the policyholders are led to believe that they will be able to claim the premium payments in case of misfortune and future loss. In this situation, it is unclear for what the policyholders are paying. Usually there is not solid information regarding future losses which creates uncertainty of the substance for which the policyholders are spending their money (El-Gamal, 2000; Kasim et al., 2015). Insurance involves gambling because it is a game of gain or loss. If the policyholders file for claims, it will be a loss for the insurance companies, and if there are no claims, then the insurance companies make a profit and the policyholders will get nothing and lose their premium (Salman & Htay, 2014). The premium and underwriting process are determined by first estimating the probability of gain by statistical analysis which is done by actuaries. Hence, it is safe to say that insurance companies have an upper hand in this game (Kasim et al., 2016). The premium received by the insurance operator will either be invested in buying shares or short-term deposit to generate income. These incomes generating activities usually involve investing in interest bearing loans or liquor business which is prohibited activities. Conventional insurance operators currently have no ethical guidelines and restrictions on where they can invest. Regardless of what Shari'ah says, operators can invest anywhere they like (Salman, 2014).

In order for insurance to become a perfect tool that benefits both the company and its consumers, it should be transformed into Takaful. Takaful is the only insurance product that is free from prohibited elements and is the best alternative that was introduced to conventional insurance.

Policy holders share the risk mutually in Takaful based on the principles of *Ta'āwun* (cooperation) and *Tabarru* (mutual help) (Billah, 2002; Maysami & Williams, 2006; Usmani, 2007; Htay & Salman, 2013; Faruk & Rahaman, 2015; Htay & Salman, 2015).

Takaful and conventional insurance contracts are quite different because the former is based on risk sharing while the latter is based on the exchange of risk. The policyholders in Takaful are helping one another by mutually providing protection in the event if anyone of them has met with misfortune. With this, Takaful will be able to promote solidarity and brotherhood among the society as well as practice of mutual and cooperative concept in the community.

Moreover, Takaful is based on mutual-cooperation which can bring the society together, inject the harmonized atmosphere, consider the needs of society for the long-term success and sustainability of the insurance operators. Consequently, unfairness and unethical practices can be minimized to some extent.

Unlike surplus distribution in conventional insurance, which is usually shared among insurance operators, Takaful, shares the surplus among the participants and operators which is a good and unique practice. Takaful contributions are organized in such a way that a portion of the contributions are allocated to the risk sharing fund from which the claims are paid. Contributions are distributed under the supervision of Takaful operators to help the financial needs of the participants according to the terms and conditions of the contract which are based on the concept of mutual risk sharing. This is Takaful's unique feature because the premium that is paid by members of conventional insurance becomes revenue for the operators, and any claim by a member is recognised as expense for the operators. Thus, in the later practice, there is no concept of risk sharing.

Takaful is commercial and not a religious product. It is suitable for anyone, regardless of religion. It plays a tremendously important and significant role in the finance industry. Takaful is an ultimate solution for anyone seeking financial protection from potential misfortune because it has more value-added substance than insurance. However, the awareness of Takaful in Malaysia is not as robust as it is supposed to be. Thus, this study aims to examine the Malaysian consumers' awareness and knowledge of Takaful in Malaysia.

2.0 Literature Review

This section discusses the most relevant findings of prior researchers' inawareness and knowledge of Takaful.

Salleh & Laksana (2018), this research was conducted among 536 flood victims in the east-coast region of Malaysia and a quantitative research method was adopted via a survey of structured questionnaires. This study thus aims to investigate the level of awareness among flood victims regarding takaful based on various demographic information of the victims. Most of the victims were uncertain about Takaful, based on the descriptive and cross tabulation analysis. After studying the background differences, it was discovered that elders were less aware than the younger generation, married victims were less aware than single victims, and those with a high level of education (diploma, degree, and PhD holders) were more aware of takaful's existence and the need to have its protection.

Salman et al. (2017), the findings revealed that non-Muslim insurance policy holders are unaware that insurance practices involve uncertainty, gambling, and interest. Due to this unawareness, majority of non-Muslims do not believe that insurance practices are violating their religious teachings and should be prohibited. It is a common belief shared between majority of Muslim and non-Muslim respondents that ethics is important in insurance practice. Hence, it can be said that India has a very low awareness and knowledge of Takaful.

Mokhtar et al. (2017), a total of 246 responses were gathered from corporations and organizations of various institutional types in Malaysia. A high level of awareness was found among the respondents regarding the availability of Takaful and even greater awareness was noted regarding conventional insurance compared to Takaful.

Salleh et al. (2017), this research was conducted on 147 flood victims in Kelantan and Pahang by adopting a quantitative methodology where the data was collected via survey consisting of close-ended questionnaires. This study investigated the impact of the flood that hit the east coast area in Malaysia to the victims' lives in terms of finance, health, job, or source of income. Majority of the victims showed awareness of Takaful and knew that it is different from conventional insurance according to the data captured through this research. Unfortunately, they still uncertain whether they can rely on Takaful to reduce the losses caused by the flood and their ability to pay monthly Takaful contributions.

Md Hussain & Ab Rahman (2016), applies the theory of planned behaviour in predicting consumer intention to participate in Takaful. 384 respondents were studied using the structured equation modelling and the results indicated that awareness, knowledge and exposure have impacts on Takaful participation. It was further discovered that word of mouth and mass media have a huge influence on subjective norm and consequently, the subjective norm can influence the intentions to participate in Takaful.

Iqbal et al. (2016), examines Takaful participants in Pakistan and their awareness and preferences towards it. The sample consists of 100 respondents from three major cities, Peshawar, Lahore and Karachi. In light of the ANOVA analysis, they find that majority of customers have awareness about Takaful and agree that Takaful companies are in compliance with *Shariah* regulations. In addition, the main reason why the majority (47%) participates in Takaful is due to religious reasons and not because of profitability and savings opportunities.

Echchabi et al. (2014), examines the factors that influence the decisions of Tunisian customers and their willingness to adopt Takaful. Structured equation modelling and T-test were used to analyse the data from 66 respondents and the important factors are uncertainty, relative advantage, compatibility, social influence. The findings show that the factor that influences customers the most in adopting Takaful is compatibility and overall customers in Tunisia are willing to adopt Islamic insurance services.

Htay & Salman (2013), Questionnaires were distributed among Muslims and non-Muslims to determine their awareness, acceptability, prospects and challenges of Takaful products. Ten insurance operators, fifteen *Shari'ah* advisors and five consultants were interviewed in this study to examine their opinions regarding the challenges and prospects of introducing Takaful in India. The results based on the 333 respondents show a minimum level of awareness of Takaful. However, there seems to be a willingness to participate in Takaful if it is offered in India. Also, interview findings indicate that Takaful has good potential in India.

Coolen-Maturi (2013), focused his study on UK Muslims to ascertain the awareness of Takaful and real demand of Takaful products. Non-probability sampling method was used to collect data from 178 respondents through self-administered questionnaires.

The study found that there is quite a lack of awareness among the Muslims regarding Takaful and around half of the Muslim respondents are uncertain whether it is even in line with Shari'ah. Nevertheless, real demand for Takaful exists in United Kingdom. Also, the findings show that the respondents prefer Takaful offered by banks rather than it being approached by Takaful operators; and preference was also given to the usage of Arabic words in Takaful products in order to differentiate between Islamic and conventional insurance and to attract more Muslims in the UK.

Another study was conducted by Ayinde& Echchabi (2012), to examine the customers' willingness to adopt Takaful and to decide the variables that might influence the customers in Malaysia. T-test, structural equation modelling, and random sampling methods were used for this research. A total of 200 questionnaires were distributed and the results show that awareness and compatibility are the two main influencing factors and that the respondents are willing to adopt Takaful.

Matsawaliet al. (2012), focuses his research on public awareness regarding the difference between Takaful and conventional insurance and their preference between both. Their study is based in Brunei. An online questionnaire with a random sample of 131 respondents was used for this analysis. The findings reflected a preference for Takaful compared to conventional insurance, however, majority of the public do not understand what Takaful is. Respondents made suggestions that Takaful operators should educate the public to increase awareness and a better understanding of Takaful.

According to Ahmad et al. (2010), limited experience and competent human resource are the weakness of current Takaful operators and it becomes more problematic due to the absence of a framework for corporate governance, Shari'ah compliance, legal and regulatory, taxation and international accounting standards which complement the Takaful industry. Although there is some awareness of Takaful, its level of awareness is still very low in some countries, and hence it is necessary to focus on marketing to create an awareness among people to inform them of the differences between Takaful and insurance. Takaful industry is less competitive compared to conventional insurance due to limited availability of Shari'ah compliant investments.

Maysami& Williams (2006), hypothesise "Awareness of the Takaful contract is associated with fundamental perceptions of Islamic principles". The above hypothesis was supported by 84 Muslim respondents in Singapore who filled out a questionnaire that used Chi-square test. This indicates that Muslim respondents who are cautious about Shari'ah compliance of financial products are aware of the existence of Takaful.

According to Maysami & Kwon (1999), the growth in awareness of educated Muslims and Muslim demand in Western countries have attracted the attention of industrial players to offer Takaful products. Additionally, they mention that low level of penetrations in the density of conventional insurance offers opportunities for the Takaful business to produce more. It is safe to conclude that Takaful industry should expand their business to international markets rather than just focusing on local market.

3.0 Research Methodology

Primary and secondary data have been used for this study. Primary data was collected by survey questionnaires from consumers in Malaysia and secondary data that was used in this research includes articles, books and internet resources. The samples used for this study are Malaysian consumers. There are two kinds of samples, namely, probability (random) sample and non-probability. A probability sample is for the data for which the population is identified. The sample is randomly selected from the known population and all the items in the population have an equivalent chance to be selected. Overall 600 questionnaires were sent to consumers in greater Malaysia i.e. Kuala Lumpur and Selangor and we received 503 questionnaires. According to Sekaran & Bougie (2016), a rule of thumb for the sample size is 384 defendants. Descriptive statistics is used to define the profile of consumers. This is a mutual method of describing the profiles of respondents and their other characteristics (Redzuan et al., 2009).

4.0 Findings and Discussion

4.1 Profile of the Respondents

Table 1 discusses the profile of the respondents. The study has been conducted based on 503 respondents which consist of 224 males (44.5%) and 279 females (55.5%).

Majority of the respondents fall under the age range of 20 to 30 years (35.8%), followed by the age range of 31-40 (29.2%), 41-50 (25.6%), 51 to 60 (8.5%) and above 61 is (0.8%). Majority of the respondents hold a bachelor's degree (35.0%), followed by master's degree (32.0%), Ph.D. (14.9%), diploma (11.1 %), certificate holders (4.0%) and secondary school level (2.0%). In case of religion, out of 503 respondents, 421 are Muslim respondents (83.7%) and 82 are non-Muslims (16.3%).

Regarding occupation, private sector employees (28.8%), students (27.4%), government sector employees (26.6%), self-employed (10.7%), housewives (4.4%), retired and other respondents are (1%).

57.7% of the respondents are married, 36.4% are single, 4.6% are divorced/separated and 1.4% are widowed. Their total household income is 31.0% (Below RM 3,000). It is followed by 24.7% (RM 3,001 to RM 5,000), 23.9% (RM 5,001 to RM 10,000), 12.9% (more than RM 10,001, to RM 15, 000), 4.2% (RM 15,001 to RM 20,000) and 3.4% are more than (RM 20,001).

Health is the most serious threat according to majority of the respondents (39.15%) and out of which 29.89% fall under accidents, 17.66% for fire hazards and 13.30% due to flood. 48.16% of the respondents have conventional insurance while 46.78% have Takaful and 5.06% do not have any coverage. 28.52% of the respondents have family Takaful, 20.80% have general Takaful whereas 27.02% have life insurance and 23.54% have general insurance.

Among the respondents who bought Takaful, the main reason for Takaful company is due to the enforcement of Shari'ah laws (20.82%), followed by better customer service (19.82%), reliability (19.04%), ease of access (15.26%), low premium (13.81%), employer requirement (6.79%) and others 4.45%. Regarding monthly contribution/premium payments, 69.4% of the respondents pay below RM 500 range, 23.3% are between RM 501 to 1,000 and 6.2% are above RM 1001.

Table 1: Profile of the Respondents

| Item | Category | Frequency | Percent (%) |
|----------------------|----------------------------|-----------|-------------|
| Gender | Male | 224 | 44.5 |
| | Female | 279 | 55.5 |
| | Total | 503 | 100 |
| Age | 20 to 30 | 180 | 35.8 |
| | 31 to 40 | 147 | 29.2 |
| | 41 to 50 | 129 | 25.6 |
| | 51 to 60 | 43 | 8.5 |
| | 61 and above | 4 | .8 |
| | Total | 503 | 100. |
| Education Background | Secondary School | 10 | 2.0 |
| | Certificate | 20 | 4.0 |
| | Diploma | 56 | 11.1 |
| | Bachelor's degree | 176 | 35.0 |
| | Master's degree | 161 | 32.0 |
| | PhD | 75 | 14.9 |
| | Others | 5 | 1.0 |
| Total | 503 | 100 | |
| Religion | Muslim | 421 | 83.7 |
| | Non-Muslim | 82 | 16.3 |
| | Total | 503 | 100. |
| Occupation | Student | 138 | 27.4 |
| | Self-employed | 54 | 10.7 |
| | Private sector employee | 145 | 28.8 |
| | Government sector employee | 134 | 26.6 |
| | Housewife | 22 | 4.4 |
| | Retired | 5 | 1.0 |
| | Others | 5 | 1.0 |

| | | | |
|---|-----------------------------|------------|-------------|
| | Total | 503 | 100. |
| Marital Status | Single | 183 | 36.4 |
| | Married | 290 | 57.7 |
| | Divorced/Separated | 23 | 4.6 |
| | Widowed | 7 | 1.4 |
| | Total | 503 | 100. |
| Total Household Income | Below RM 3000 | 156 | 31.0 |
| | RM 3001 to 5000 | 124 | 24.7 |
| | RM 5001 to 10,000 | 120 | 23.9 |
| | RM 10,001 to 15,000 | 65 | 12.9 |
| | RM 15,001 to 20,000 | 21 | 4.2 |
| | More than RM 20,001 | 17 | 3.4 |
| | Total | 503 | 100. |
| What are the most serious problems that you are afraid of? (You may tick more than one). | Health | 368 | 39.15 |
| | Flood | 125 | 13.30 |
| | Fire | 166 | 17.66 |
| | Accident | 281 | 29.89 |
| | Total | 940 | 100 |
| What type of insurance do you have? (You may tick more than one). | Takaful (Islamic insurance) | 305 | 46.78 |
| | Conventional Insurance | 314 | 48.16 |
| | I don't have any | 33 | 5.06 |
| | Total | 652 | 100 |
| Which type of Takaful or insurance policy do you have? (You may tick more than one). | Family Takaful | 229 | 28.52 |
| | General Takaful | 167 | 20.80 |
| | Life insurance | 217 | 27.02 |
| | General insurance | 189 | 23.54 |
| | Other | 1 | .12 |
| | Total | 803 | 100 |
| Please state the reasons why you chose Takaful/Insurance. (You may tick more than one). | More Reliable | 171 | 19.04 |
| | Lower premium | 124 | 13.81 |
| | Easier to assess | 137 | 15.26 |
| | Better customer service | 178 | 19.82 |
| | Shari'ah Compliant | 187 | 20.82 |
| | Requirement by the employer | 61 | 6.79 |
| | Other | 40 | 4.45 |
| | Total | 898 | 100 |
| How much contribution or premium are you currently paying? | Below RM500 | 349 | 69.4 |
| | RM 501 to RM1000 | 117 | 23.3 |
| | Above RM1001 | 31 | 6.2 |
| | Not Paying | 6 | 1.2 |
| | Total | 503 | 100 |

4.2 Knowledge of Takaful

Surprisingly out of 503 respondents, 378 (75.1%) of them are aware of Takaful and 125 respondents (24.9%) do not know about Takaful. Most of the respondents are aware of Takaful and 70.2% know that Takaful is a Shari’ah compliant product and it is free from prohibited elements.

Table 2 highlights the respondents’ awareness and knowledge of Takaful. Out of 503 respondents, 378 (75.1%) are aware of Takaful and 125 (24.9%) do not know about Takaful. Therefore, the explanation in this part will be based on the findings from 378 respondents. Surprisingly, 70.2% respondents know that Takaful complies with Shari’ah and 29.8% do not know about it. 67.2% of them know that Takaful is ethical whereas 32.8% do not know that Takaful is an ethical insurance. 68.8% agree that it is suitable for anyone regardless of religion and 31.2% think its unsuitable. 66.8% know that Takaful is free from interest and 33.2% do not know about it. Whereas 61.2% know that Takaful does not involve the element of uncertainty and 38.8% do not know. Also, 62.8% know that Takaful does not involve the element of gambling and 61.2% know that Takaful does not involve in any prohibited business activities. 62% agree that Takaful can provide the coverage and benefits similar to conventional insurance and 55.3% know that policyholders share the risks mutually in Takaful.

Table 2: Knowledge of Takaful

| Item | Category | Frequency | Percent (%) |
|---|----------|-----------|-------------|
| Do you know about Takaful? If your answer is NO, please proceed to Section C. | Yes | 378 | 75.1 |
| | No | 125 | 24.9 |
| | Total | 503 | 100 |
| Do you know that Takaful products comply with Shari’ah? | Yes | 353 | 70.2 |
| | No | 150 | 29.8 |
| | Total | 503 | 100 |
| Do you know that Takaful practice is ethical? | Yes | 338 | 67.2 |
| | No | 165 | 32.8 |
| | Total | 503 | 100 |
| Do you know that Takaful is suitable for anyone regardless of religion? | Yes | 346 | 68.8 |
| | No | 157 | 31.2 |
| | Total | 503 | 100 |
| Do you know that Takaful is free from interest (Riba)? | Yes | 336 | 66.8 |
| | No | 167 | 33.2 |
| | Total | 503 | 100 |
| Do you know that Takaful is free from uncertainty (Gharar)? | Yes | 308 | 61.2 |
| | No | 195 | 38.8 |
| | Total | 503 | 100 |
| Do you know that Takaful is free from gambling (Maysir) | Yes | 316 | 62.8 |
| | No | 187 | 37.2 |
| | Total | 503 | 100 |
| Do you know that Takaful does not involve in any prohibited business activities? | Yes | 308 | 61.2 |
| | No | 195 | 38.8 |
| | Total | 503 | 100 |
| Do you know that Takaful can provide the coverage and benefits similar to conventional insurance? | Yes | 312 | 62 |
| | No | 191 | 38 |
| | Total | 503 | 100 |
| Do you know that Takaful policy holders mutually share the risk? | Yes | 278 | 55.3 |
| | No | 225 | 44.7 |
| | Total | 503 | 100 |

Amazingly, around 68.8% know that Takaful is acceptable in every religion. On the other hand, conventional insurance is unacceptable especially in Islam due to the presence of unfair elements. One of the most important features of Takaful is its suitability for all religions. Offering Takaful is not only beneficial for the Muslim community but also for the general public because its Shari’ah compliant products are ethical and socially responsible. Takaful shares a common ground with the major religions like Christianity, Judaism, Buddhism, Sikhism and Islam, in that it prohibits the use of interest as do the distinguished faiths mentioned above.

Regarding household earnings below RM3000, 46 percent have conventional insurance, 34 percent have Takaful policy, 12.62 percent have both i.e. conventional insurance and Takaful, and 11.21 percent do not have any kind of coverage. Concerning households earning RM3001-5000, 41.21 percent have conventional insurance, 37.19 percent have Takaful policy, 19.10 percent have both i.e. conventional insurance and Takaful, and 2.51 percent do not have any kind of coverage. With respect to households earning RM5001-10,000, 40.91 percent have conventional insurance, 36.36 percent have Takaful policy, 19.70 percent have both i.e. conventional insurance and Takaful, and 13.03 percent do not have any kind of coverage. Regarding households earning RM10,001 to 15,000, 32.48 percent have conventional insurance, 45.30 percent have Takaful policy, 22.22 percent have both i.e. conventional insurance and Takaful. Vis-à-vis households earning RM15,001 to 20,000, 32.56 percent have conventional insurance, 54.86 percent have Takaful policy, 25.58 percent have both i.e. conventional insurance and Takaful. About households earning more than 20,001, 30.30 percent have conventional insurance, 45.45 percent have Takaful policy, 24.24 percent have both i.e. conventional insurance and Takaful. It should be noted that households that are earning RM 10,000 or more are taking coverage either from conventional insurance or Takaful.

5.0 Conclusion and Suggestions

The findings show that out of the 503 respondents, only 378 of them are aware of Takaful and 125 respondents do not know about Takaful. 29.8% do not know that Takaful is a Shari'ah compliant product. Also, 33.2%, 38.8%, and 37.2% do not know that Takaful is free from interest, uncertainty, and gambling respectively. Although, Takaful is being offered in Malaysia since 1984, its awareness seems to be low. Takaful operators should enhance their marketing strategy and simplify the product features to capture the untouched market.

In addition to this, religion is the most important factor that changes the mind of the consumer. Takaful operators should create an awareness among Malaysian consumers regarding Takaful products to penetrate the market.

Apart from the awareness and knowledge of Takaful, the education level can play a significant role in influencing the decisions of the potential participants. If Takaful operators plan to offer Takaful products, they should focus on the ethicality of the products as well as the education background of the potential participants. Education is one of the ways to uplift the society and to disseminate the knowledge to decide what is right or wrong and what is suitable or not. It is not in the country's better interests if the public is lacking education. In order to help people, understand the purpose and benefits of Takaful, education should be the first step. Thus, the government must seriously consider the education of the young generation. Education makes people think rationally and decide logically. If we were to compare two products, they would go for the products which are ethical, provided that all the benefits and costs are similar. Education changes the mindset of people and encourages them to think outside the box. Most educated people realize the importance of ethicality, justice, corporate and social responsibility which are some of the important reasons why they demand Takaful. This indicates that the potential demand for Takaful will be high at least on the foundation of ethics.

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