



# The Role of Education In Awareness Enhancement of Takaful: A Literature Review

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**Abstract:** The purpose of this study is to evaluate the general level of public awareness towards Takaful concept and principles, and the role of education in enhancing public awareness on Takaful concept and principles. In addition, the study also evaluates some important issues that need to be taken into consideration by Takaful stakeholders in integrating Takaful courses into academic curriculum of higher learning institutions. Using literature/library based method, which is a kind of qualitative research approach, the study finds that the global level of public awareness on Takaful concepts and principles is relatively low. Review of literature also reveals that education plays an importance role in enhancing public awareness on Takaful concepts and principles. Therefore, integrating Takaful courses into academic curriculum of higher learning institutions is important to enhance the level of public awareness. The study also finds that there is a skill mismatch issue within Islamic finance industry in general including Takaful segment. Close and intensive collaboration between regulators, Takaful companies and universities and training institutes that are currently offering or intend to offer Takaful courses is highly recommended to overcome the skill mismatch issue. This study is expected to benefit Takaful regulators, higher learning institutions offering Takaful courses and Takaful companies in terms of providing them with the inputs to enhance public awareness on Takaful concept and principles.

**Keywords:** Education, Awareness, Takaful.

## 1. Introduction

Takaful is one of the Islamic finance segments, which has been growing significantly for the last decade. The industry grew globally at 29% CAGR during 2005-2009 (EY, 2012). This tremendous growth was mainly contributed by two regions namely the Gulf Cooperation Council (GCC) and the South East Asia, particularly Malaysia (EY, 2013). However, the above development is actually still far from reaching its maximum potential. This is because in general, the insurance penetration rate is still relatively low in most of the Muslim majority countries (Erlbeck et. al, 2011). For example, the insurance penetration rate in Muslim majority countries stood at 2% in 2007 while the global insurance penetration rate stood at 7% during the same year (Swiss re, 2007). Literature

reveals that one of the reasons that causes the low penetration rate is the low level of public awareness towards insurance in general and Takaful in particular (Ey, 2013; Hidayat, 2013).

Awareness has been empirically proven as one of the important factors that influence market preference. Literature reveals that awareness positively influences preference (5metacom, 2006). Interestingly, at one point in time, it is found that as awareness increases, market preference increases more quickly than the increase in the awareness. However, this can be achieved only after putting a lot of efforts in awareness enhancement. At the beginning, most companies have to increase awareness significantly to achieve a little gain in market preference. As awareness increases, market preference increases more quickly.



Despite the importance of public awareness, there have been only limited studies worldwide that measure the level of public awareness about Takaful. Actually, in general, previous scientific studies on Takaful are much less than the studies on Islamic banking for instance (Kader et. al, 2010). In addition, despite its significant CAGR, the segment is still the smallest segment within Islamic finance representing only 1% of the total global Islamic finance assets in 2013 (Izhar and Rehman, 2014). Therefore, this study aims to fill the gap by evaluating the available previous studies on awareness of Takaful worldwide and reviewing the role of education in Takaful concept and principles awareness enhancement. In other words, the objectives of this study are:

1. To evaluate the general level of public awareness towards Takaful concept and principles.
2. To evaluate the role of education in enhancing the public awareness on Takaful concept and principles.
3. To evaluate some important issues that need to be taken into consideration by Takaful stakeholders in integrating Takaful courses into academic curriculum of higher learning institutions.

The results of this study are expected to benefit Takaful stakeholders such as Takaful regulators for them in setting up policies to enhance market preference on Takaful and Takaful companies in setting up strategy to increase their market share. One of the important implications of this study is that there should be a close and intensive collaboration between regulators, Takaful companies and universities and training institutes that are currently offering or intend to offer Takaful courses in order to enhance awareness on Takaful. To the best knowledge of the author, this is the first study in Takaful segment that extensively review the previous studies on Takaful awareness.

## 2. Literature Review on Takaful Awareness

As it has been mentioned earlier, there are only limited studies that evaluated public awareness towards Takaful concept and principles. Norlida

et al (2004) evaluate the Muslim awareness on the existence of family Takaful in Malaysia using a survey questionnaire answered by 220 respondents. The study found that only 51.1 % respondents are aware of the existence of family Takaful. The results also indicate that the existence of awareness is significantly related to the educational level.

Al Ajmi (2005) measures public awareness of the Takaful concept in Kuwait using a survey questionnaire filled by 500 respondents. It is found that only 17% of the respondents claim that they know the differences between Takaful and conventional insurance. The study also found that the degree of awareness is significantly influenced by level of education.

Ali (2007) evaluates global Takaful demand and its growth using library based methodology. Ali (2007) reveals that Takaful is only a subset of the global insurance industry. Out of \$2.5 trillion of global insurance gross premium in 2005, the global Takaful business is approximately only \$3 billion. However, Takaful is the fastest growing areas of world insurance market. During the period, Takaful is growing at 20% to 25% per annum compared to world average growth of conventional insurance at 5% to 6% per annum. The study finds that drastic increase in Takaful demand is due to the improvement in public awareness toward Takaful concepts and principles. Therefore, the study recommended more awareness campaigns on the goodness of Takaful system to be done to increase Takaful market share in the global insurance market. For this, the Takaful Industry needs to have strong marketing and technical expertise in both insurance matters and Shariah matters. It needs to highlight goodness of the Islamic financial system and its application within Takaful practices.

Abdul Rahman (2008) conducts a cross-sectional, descriptive field study on the awareness of Takaful amongst Malaysians. It is a nationwide survey with 886 respondents used as a sample. The study found that 88.6% of the respondents are aware of the existence of Takaful in Malaysia. However, more than 50% of the respondents are unable to name any Takaful operators in Malaysia.



Akhter (2009) assesses customers' perceptions and their level of awareness about Takaful in Pakistan using a survey questionnaire filled by 150 customers. The survey reveals that 90.8% of respondents are unaware of Takaful business. It is also found that education was significantly associated with the level of Takaful awareness.

Abdul Hamid and Othman (2009) tests the understanding of the Muslims in Malaysia of Islamic law or Shariah terms that are utilized in Takaful business, the respondents level of awareness in Takaful and its products, their participation in Takaful and their awareness about the existence of Takaful. Using survey questionnaire filled by 500 respondents among Muslims in Kuala Lumpur, the study finds that 86.21% respondents are aware of the existence of Takaful. However, the weighted mean's result reveals that the respondents are not so clear about the theory of Takaful.

Bashir and Hj Mail (2011) examine the consumer perceptions (including awareness) of Takaful companies in Brunei Darussalam. A survey questionnaire answered by 100 respondents was conducted to collect relevant and recent data on consumer perceptions relating to their respective Takaful companies. The study finds that 71% of the respondents agree that a Takaful company is better than a conventional insurance company. It also indicates that 88% of respondents agreed that Bruneians should be better exposed to and educated more about Takaful products and services (low level of awareness). The study also finds that there are only a few educational programs conducted by the government as well as the Takaful companies to increase public awareness on the Takaful concepts and principles as well as its benefits.

Ismail et al. (2012) examine the awareness levels of micro Takaful and its benefits among micro enterprises in Malaysia. The awareness of respondents namely micro enterprises are observed by in depth interview which is a kind of qualitative research approach. The study found that majority of the respondents is not aware of the existence of Takaful. It is also found that two of the respondents have no idea about Takaful

products. This illustrates the Takaful products are not widely known among micro enterprises in Malaysia. The study also reveals that the low level of awareness among micro enterprises in Malaysia is due to the low level of educational background of the micro enterprises owners and their ignorance about risk protection.

Hidayat and Rafeea (2014) evaluate the level of public awareness towards the concept and principles of Takaful in Bahrain. The study also tests the importance of education in creating public awareness. Using survey questionnaire answered by 150 respondents, the study finds that the level of public awareness in Bahrain towards Takaful concept and principles is found to be moderately high especially for basic concept and principles. However, when it comes to technical terms such as surplus distribution and Takaful business model, it is found that the level of public awareness is relatively low. The study also finds the importance role of education in enhancing public awareness towards Takaful concept and principles. The study finds that those respondents with higher education level tend to have higher awareness than those with lower education level.

### 3. Methodology

This study uses literature/library based method which is a kind of qualitative research approach. In this method, available previous studies in the area of awareness on Takaful concept and principles are reviewed and the common findings from those studies are revealed in order to come out with a common conclusion. This method has been applied by Ali (2007) in analyzing the global demand for Takaful and its growth.

### 4. Discussion

In general, review of literature in the area of public awareness on Takaful concept and principles reveals that the level of public awareness on Takaful concepts and principles is low (Norlida et al 2004; Al Ajmi 2005; Ali, 2007; Abdul Rahman 2008; Akhter 2009; Abdul Hamid, 2009; Bashir and Hj Mail, 2011; Ismail et al. 2012). Only Hidayat and Rafeea (2014), who conducted their study in Bahrain, find that



the level of public awareness about Takaful concept and principles is moderately high especially with regards to the basic concept and principles. However, when it comes to technical issues such as surplus distribution and Takaful business models, Hidayat and Rafeea (2014) also found that the level of public awareness on the issues to be low.

Hidayat and Rafeea (2014) also confirms the argument that better public awareness significantly increases market preference as reflected by high CAGR and the significant increase of Takaful market share in Bahrain during 2001-2010. During the period, the CAGR of Takaful industry in Bahrain stood at the rate of 40% which was much higher than other countries. In addition, the market share of Takaful in Bahrain increased from 3% market share in 2001 to 18% in 2010 in terms of gross premium (MENA Insurance, 2013). It is also revealed that during 2001-2010, the government of Bahrain put a lot of efforts in enhancing public awareness on insurance benefits in general including Takaful by establishing insurance infrastructure institutions such as Bahrain Insurance Association (BIA) and Gulf Insurance Institute (GII)

Review of the previous studies in the area of public awareness on Takaful concept and principles also reveals that education plays significant role in influencing the level of awareness on Takaful concept and principles (Norlida et al 2004; Al Ajmi 2005; Abdul Rahman 2008; Akhter 2009; Bashir and Hj Mail, 2011; Ismail et al. 2012; Hidayat and Rafeea, 2014). Therefore, spreading the message of Takaful through educational system has been scientifically proven as an effective way to increase public awareness on Takaful concept and principles. It also implies that integrating Takaful courses into academic curriculum of universities and Training institutes across countries where Takaful is in existence is believed to be very important and effective way to enhance public awareness and thus market share of Takaful.

In addition, integrating Takaful into academic curriculum of higher learning

institutions (universities and training institutes) is also important to ensure sustainable growth of the industry. This is due to the fact that Takaful growth sustainability depends on the availability of talents to meet the industry's needs. In fact, one of the challenges in Islamic finance industry in general (including Takaful) is the lack of adequately trained human resources (Hancock, 2014). Obviously, the challenge can only be overcome by producing more qualified people through educational system.

However, in the process of integrating Takaful into academic curriculum of higher learning institutions, it is important to ensure that the learning outcomes of the Takaful courses are in line with what the industry needs. This is because there is a phenomenon where there are graduates of Islamic finance qualifications (including Takaful) who find difficulties in getting jobs within the industry due to the following reasons (Abdullah, 2013):

1. Since many Islamic finance products are still mimicking conventional products, the preference is still for the talent with conventional finance qualifications.
2. There is relatively limited collaboration between industry and Islamic finance qualifications providers.

As a result, currently there is an educational and qualification mismatch (Skill mismatch) within Islamic finance Industry. In other words, the holders of Islamic finance qualifications do not have the level of skills and specialism that their prospected employers need. Therefore, in order to move forward it is important for the Islamic finance qualification providers (universities and training institutes) to continuously revise their curricula in order to meet the industry needs and to obtain accreditation not only from academic based accreditation agency but also from industry based accreditation agency.

### **Conclusion and Recommendations**

It is important to note that despite the significant growth of Takaful segment during the last decade, the growth is still far away from its maximum potential. This is because the



insurance penetration rate in Muslim majority countries is still relatively lower than world average. One of the reasons is the low level of public awareness on insurance in general and in Takaful concepts and principles in particular. Previous empirical and qualitative studies have confirmed the argument where they found that the level of public awareness on Takaful concepts and principles is low across countries where Takaful is in existence. The previous studies also reveal the importance role of education in enhancing the level of public awareness. It is concluded that by integrating Takaful into educational system (academic curriculum) the level of public awareness on Takaful concepts and principles will improve. The improvement in level of awareness is expected to enhance market preference towards Takaful thus increasing the market share of Takaful within the total insurance industry.

However, in order to realize the above proposition, it is important for all Takaful stakeholders to collaborate in overcoming the skill mismatch issue that exists within the industry. Close and intensive collaboration between regulators, Takaful companies and universities and training institutes that are currently offering or intending to offer Takaful courses is highly recommended to overcome the skill mismatch issue. This is also to ensure that the Islamic finance qualification providers are able to produce graduates with skills and specialism that the industry needs.

The study also comes out with several recommendations to enhance public awareness on Takaful concepts and principles:

1. Takaful companies are advised to frequently send their staffs to attend courses and seminars related to Takaful to enhance their knowledge. In addition, sponsoring their staffs to take academic degrees (bachelor and master degrees) in Islamic finance or specifically Takaful is highly encouraged.
2. Takaful companies need to hold frequent workshops and free courses for the public to brief them about Takaful concepts and principles.
3. Takaful companies should provide incentives in the form of free consultancy, providing information about Takaful to the public.
4. Institutions offering Takaful courses are advised to apply for accreditation from industry based accreditation agency such the Finance Accreditation Agency (FAA). This is to ensure their curricula and learning outcomes are in line with what the industry needs.

The study also comes out with suggestion for future studies especially studies that empirically evaluate the opinions of Takaful practitioners on the importance of integrating Takaful to academic curriculum of universities and training institutes at their respected countries. This study is expected to empirically compliment the results of this study.

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