



ITHJ

International Tourism and Hospitality Journal
Journal Homepage: <https://rpajournals.com/ithj>

Preference toward Investment-Linked Takaful Plan: Mediating Role of Attitude

Tamiza Parveen¹

Siti Salwani Razali²

Marhanum Che Mohd Salleh³

Department of Business Administration^{1,2,3}

International Islamic University Malaysia (IIUM), Malaysia^{1,2,3}

Abstract

Investment-linked products (ILPs) are the latest innovations from the Islamic finance industry that offers investors the opportunity to get protection and investment through their family takaful plan. In this paper, we focus on exploring the preference toward investment-linked Takaful plan. Based on the propositions of the theory of interpersonal behaviour and the theory of Islamic consumer behaviour, we develop a conceptual model to investigate factors that could explain the preference toward investment-linked products (ILP). We have used a structured literature review to conduct a critical review of the literature. Attitude is positioned as mediation in the developed conceptual model. The conceptual model proposed in this study is the first of its kind and contributes to the existing literature of behavioural finance.

Keywords: Investment, Takaful, Shari'ah, Risk, Structured Literature Review, Malaysia

Corresponding author: Tamiza Parveen; E-mail: mithilaiub@gmail.com

Introduction

The lack of awareness presents one of the greatest challenges to the development and growth of the national and global Takaful industry (Ahmad, 2007). Most of the participants are not familiar with the investment options in family Takaful because they only know that it is for protection and is an alternative to conventional life insurance. Low level of knowledge and understanding of Muslims about Takaful concepts and Shari'ah terms are important factors for the low market penetration of the Takaful industry in Malaysia (Hamid & Othman, 2009). Financial knowledge is strongly related to financial behaviours (Xiao, Serido, & Shim, 2014). It can influence the attitude of a person in financial behaviours mainly to differentiate Islamic and conventional financing (Antara, Musa, & Hassan, 2016). Low level of Knowledge on financial planning among Malaysian society often discourage the higher participation of the individual in planning their financial activities in investments such as share property and also even in life insurance (Zakaria et al., 2016).

Maiyaki & Ayuba, (2015) found the attitude to be a significant predictor of the preference for Islamic insurance in Malaysia. While their study provided valuable insight regarding the impact of attitude on the preference toward Islamic insurance, these results are not generalizable, and further investigation is required to explore the association between investor attitude and preference toward investment-linked Takaful products. Islamic Finance principles are based on the notion that profit and loss should be shared by the investors. However, modern portfolio theory suggests that investors

are risk-averse. Such an attitude among investor could affect the growth of investment-linked Takaful products in Malaysia as it requires investors to share the inherent risk of investment.

There are several reasons behind the low level of global Takaful contribution. Such reasons include, but are not limited to, lack of awareness and lack of marketing effort. The distribution of Takaful products to greater demography is being affected due to the inefficiency and undiversified distribution channels. Such barriers to market access increased the coverage prices of takaful plan which has a detrimental impact on product innovation. Recently, we have witnessed a new innovation from the Takaful industry named investment-linked plan (ILP) which is available under the family takaful plan. There are significant differences between a regular family takaful plan and an investment-linked plan. Investors are offered both protection and coverage in an ILP. In addition, investors are given the choice to select investment funds based on their risk preference. However, preference toward the investment-linked product is low and limited studies have explored the reasons for such low level of preference. Therefore, we have conducted this study to identify factors that could explain preference toward investment-linked family takaful plan.

The rest of the paper is divided into three sections. In section two, we provide a critical review of the literature. Section 3 provides a brief description of the methodology used in the study. We provide a discussion on the underlying theory and conceptual model development in section 4. Finally, we wrap the paper in section 5 with a conclusion after identifying possible areas of future research in the area of investment-linked products.

Literature Review

Innovation can be defined as an idea or a process that changes the present condition for the better; bringing a positive difference to the way things are done, satisfying specific needs and improving the quality of life of people in general. Takaful is the innovation in the insurance industry because it brings revolutionary changes to whom who did not have any options other than conventional insurance. In conventional insurance, there is some religious limitations and Takaful brings innovative ideas on products and services that issues (Global Islamic Finance Report, 2012).

Takaful is not only constrained to provide protection but also the avenue of investment opportunities. Participants are taking various scheme in family Takaful especially investment-linked product for its attractive features and from which they can generate a return on their chosen investments (Noor, 2009). This is the only options for the long-term Shariah-based investment rather than any investment through Islamic banking products. According to the Malaysia International Islamic Finance (MIFC) (2015), Islamic finance such as Islamic banking, Islamic capital market is supporting economic growth across the world by providing Shariah-based structure of funding and financing. It is not only providing alternative financing for real economic development but also it has some principles that lend themselves well to catalysing and promoting economic development. Islamic finance is the service sector which was less affected in the 2008 financial crisis.

Takaful investment-linked plan is Shariah-based investment options which are more attractive for Muslim because Muslims are not allowed to invest in interest-based conventional systems. According to that, this is very important for the Muslim society and also from the economic perspective to study the preference for Takaful investment-linked plan because the long-term investment is very important for the economic stability in the future. This research investigates the preference for Takaful investment-linked plan in family Takaful rather than its core business which is the only protection.

The studies on Takaful has been explored various issues in past years. Emergence and evolution of Islamic insurance in theoretical and practical perspective was explored by Sadeghi (2010) and found a series of literatures covered with significant roles of Takaful starting from the origin of Takaful, Takaful contribution of Islamic Jurisprudence followed by the Muslim scholars, the nature of Islamic insurance and comparison between conventional and Islamic insurance. More studies after 2010 focused on the efficiency and performance analysis Takaful and conventional insurance.

The risk management concept of Takaful is well within the Maqasid al-Shariah perspective to protect life, wealth and dignity against any misfortune (Abdullah, 2012). On the other hand, the low level of observation of internal control and reporting standard of Takaful cause of lower perception and awareness about the Takaful among the public in Pakistan (Akhter & Hussain, 2012). Mukhlisin (2017) found in Indonesia that neo-liberalism is piercing through different parts of the economic and political setting of the country's infrastructural powers leading up to the influence of financial reporting standardization process. According to Khan et al. (2018), there are many problems which related to the Government, Takaful companies and the Shariah board, lack of governing guidelines for the Takaful companies in Bangladesh is causing operational problems of Family Takaful.

According to the Rahman & Daud (2010) during the buying behaviour of medical health Takaful (MHT) the tendency is lower to know to withhold information but due to the generous level of compensation and their awareness of the coverage available naturally push them to claim excessively. In addition, Yazid et al. (2012) found in their research that economic and socio-economic factor influence the family Takaful demand. Similarly, Arifin, Yazid, & Sulong (2013) explored that Agency system (al-wakalah), the reputation of takaful operators, products and services, marketing and advertising of takaful products, are found to be the main determinants for family takaful demand.

Underlying Theories

By using the Theory of Interpersonal Behavior (TIB) a study found the predictors of physicians' intention to use telemedicine in their clinical practice in Canada. The main predictors of intentions were social norms and self-identity (Gagnon et al., 2003). A similar study was done by Hanudin Amin (2016) to find the predictors for internet giving behaviour among bank customers in Malaysia. PLS results reveal that effect, social factors, facilitating conditions, relative advantage, complexity and compatibility are significantly related to the internet giving behaviour. The theory of Islamic Consumer Behavior emphasises on the religious aspect along with the established investment by individuals. It refers to a framework developed to capture thoughts, feelings, and actions of consumers towards halal services and halal commodities (Amin, Abdul-Rahman, & Razak, 2014). The behavioural finance framework captures individual account holders of Islamic banks on the intention to patronage for family Takaful. This theory captures both Muslim and Non-Muslim customers. An earlier study by Khan (1995), pinpoints the significance of developing a framework for Islamic consumer theory which contributes to the Islamic Banks wellbeing.

Methodology

We have adopted a structured literature review (SLR) procedure following Dumay, Guthrie, & Puntillo (2015). The SLR has been used in prior researches to explore multidisciplinary areas and in this current study, we have used the SLR approach to identify relevant studies on investment-linked products. Several literature review protocols are developed to identify the most relevant journals for the critical review of literature in this study. Majority of the studies are collected through the various higher ranked journals from Emerald, Elsevier and SCOPUS database. We have included studies that are published between 2010 and 2018 to ensure their relevance in explaining the preference toward ILP. Initial search for relevant paper resulted in a total number of 54 papers published on various aspects of Takaful. We have used specific criteria to select articles for the structured literature review process. Papers discussing investment-linked or family takaful plan are considered for the review process. Such selection criteria resulted in the selection of 24 papers for the review process.

The Proposed Conceptual Framework

A conceptual framework is used for the development of a model that connect the variables proposed by theory influencing the research and offers various processes of analysis that could be interpreted to conceptual conclusions (Leshem & Trafford, 2007). Figure 1 presents the proposed conceptual framework for this research. It contains seven constructs, which are religiosity, perceived risk,

awareness, social factor, affect, attitude and preference. The context of the conceptual framework introduces the willingness and intention towards the family Takaful investment-linked plan among the Muslim participants in family Takaful stream. The intention is replaced by the Preference and finally, it developed a model for the family Takaful investment-linked plan. There are six independent constructs (religiosity, perceived risk, awareness, social factor, affect and attitude), one dependent construct (preference) and one mediator (attitude).

Religiosity is the primary key factor that has a positive influence on the preference towards investment account (Ali & Hatta, 2014). Similarly, Tahir & Brimble (2011) explored that degree of religiosity influences investment behaviour. Perceived risk has a significant negative effect on online purchase shopping attitude in Malaysia (Ariff, Sylvester, Zakuan, Ismail, & Ali, 2014). Furthermore perceived risk has a negative impact on customers' emotions and purchase intention online purchase (Kim & Lennon, 2013). Awareness has a positive influence on attitude towards behavioural intention but awareness has no significant influence on intention towards participating in family Takaful (Husin & Rahman, 2016). Attitude is a significant determinant for the intention to use internet banking in Taiwan (Shih & Fang, 2004). Social factor influence the intention and preference towards participating in family Takaful schemes in Malaysia (Husin & Rahman, 2013). Social factors are so important determinant to adopt something in society. Affect influence to choose Islamic mortgage among the Malaysian consumers (Amin, Abdul-Rahman, & Abdul-Razak, 2016).

Mediation occurs when a third mediator variable intervenes between two other related constructs. Hair, J., Hollingsworth, Randolph, & Chong (2017). According to Ronald, Niedrich & Scott (2003) brand attitude mediates the relationship between the effect of experience order and brand preferences. In their research, they found the influence of pioneer status and experience order on consumer brand preference and also the mediating effect model. In their research, they found the influence of pioneer status and experience order on consumer brand preference and also the mediating effect model.

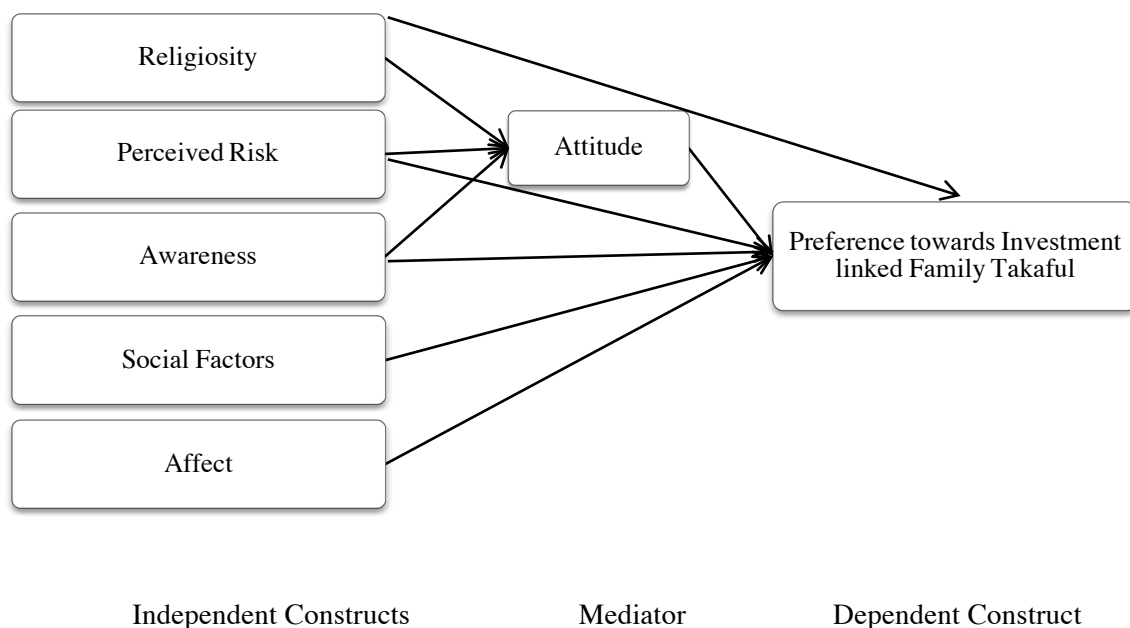


Figure 1: Proposed Conceptual Framework

The structure of the framework is based on the Theory of Interpersonal behaviour with the support of the theory of Islamic consumer behaviour. Also, it followed by a similar study 'Malaysian consumers' willingness to choose Islamic mortgage products: An extension of the theory of interpersonal behaviour'(Amin et al., 2016).

In general, the conceptual framework of this research is measuring the preference of investment-linked family Tankful plan among the Malaysian Muslims. Thus, preference is the only dependent variable which can be influenced by identified factors. As discussed earlier in chapter one that lack of awareness is one of the major problems to prefer Takaful products. Therefore, the proposed research framework includes the influential factors which may influence the preference towards the family Takaful investment-linked plan. Other than that the framework also highlighted the mediation effect of attitude.

Conclusions

Investment-linked family Takaful is a hybrid insurance plan that offers an investment component. Investors are given the opportunity to enjoy a fixed rate of return by investing in available funds based on their risk preference. Unlike a regular insurance plan, investment-linked plan (ILP) allows withdrawal of investment due to financial needs during the coverage period. ILPs offer freedom and flexibility, transparency, low insurance charges and control in investment risk. However, very limited studies have explored this innovative insurance plan and little is known on factors that could determine preference toward ILPs. Therefore, we focus on exploring the current status of ILPs and proposed a conceptual model to identify factors that could lead to ILP preference among investors. This study is conceptual in nature and empirical evidence using the developed model could provide statistical validity and generalizability. The proposed model allows regulators and Takaful operators to concentrate on areas that could lead toward greater ILP preference..

References

- Abdullah, D. S. (2012). Risk Management via Takaful from a Perspective of Maqasid of Shariah. *Procedia - Social and Behavioral Sciences*, 65, 535–541.
- Ahmad, M. S. (2007). Takaful in SouthEast Asia: The growing pains and challenges. In *Kuala Lumpur, Malaysia: ICMIF Takaful*.
- Akhter, W., & Hussain, T. (2012). Takāful standards and customer perceptions affecting takāfulpractices in Pakistan: a survey. *International Journal of Islamic and Middle Eastern Finance and Management*, 5(3), 229–240.
- Ali, I., & Hatta, Z. A. (2014). Zakat as a Poverty Reduction Mechanism Among the Muslim Community: Case Study of Bangladesh, Malaysia, and Indonesia. *Asian Social Work and Policy Review*, 8(1), 59–70.
- Amin, H., Abdul-Rahman, A.-R., & Abdul-Razak, D. (2016). Malaysian consumers' willingness to choose Islamic mortgage products: An extension of the theory of interpersonal behaviour. *International Journal of Bank Marketing*, 34(6).
- Amin, H., Abdul-Rahman, A., R., & Razak, D. A. (2014). Theory of Islamic consumer behaviour: An empirical study of consumer behaviour of Islamic mortgage in Malaysia. *Journal of Islamic Marketing*, 5(2), 273–301.
- Antara, P. M., Musa, R., & Hassan, F. (2016). Bridging Islamic Financial Literacy and Halal Literacy: The Way Forward in Halal Ecosystem. *Procedia Economics and Finance*, 37, 196–202.
- Ariff, M. S. M., Sylvester, M., Zakuan, N., Ismail, K., & Ali, K. M. (2014). Consumer Perceived Risk, Attitude and Online Shopping Behaviour; Empirical Evidence from Malaysia. In *Consumer Perceived Risk, Attitude and Online Shopping Behaviour; Empirical Evidence from Malaysia*. IOP Publishing.
- Arifin, J., Yazid, A. S., & Sulong, Z. (2013). A Conceptual Model of Literature Review for Family Takaful (Islamic Life Insurance) Demand in Malaysia. *International Business Research*, 6(3), 210–216.
- Dumay, J., Guthrie, J., & Puntillo, P. (2015). IC and public sector: a structured literature review. *Journal of Intellectual Capital*, 16(2), 267–284.
- Gagnon, M.-P., Godin, G., Gagné, C., Fortin, J.-P., Lamothe, L., Reinharz, D., & Cloutier, A. (2003). An adaptation of the theory of interpersonal behaviour to the study of telemedicine adoption by physicians. *International Journal of Medical Informatics*, 71, 103–115.

- Global Islamic Finance Report*. (2012).
- Hair, J., Hollingsworth, C. L., Randolph, A. B., & Chong, A. Y. L. (2017). An updated and expanded assessment of PLS-SEM in information systems research. *Industrial Management & Data Systems*, 117(3), 442–458.
- Hamid, M. A., & Othman, M. S. (2009). A study on the level of knowledge and understanding among Muslims towards the concepts, Arabic and Shariah terms in Islamic Insurance (Takaful). *European Journal of Social Sciences*, 10(3), 468–478.
- Hanudin Amin. (2016). Investigating drivers of the internet giving behaviour in Malaysia. *Asia Pacific Journal of Marketing and Logistics*, 28(2), 256–277.
- Husin, M. M., & Rahman, A. A. (2013). What drives consumers to participate in family takaful schemes? A literature review. *Journal of Islamic Marketing*, 4(3), 2013.
- Husin, M. M., & Rahman, A. A. (2016). Predicting intention to participate in family takaful scheme using the decomposed theory of planned behaviour. *International Journal of Social Economics*, 43(12), 1351–1366.
- Khan, I., Rahman, N. N. B. A., Yusoff, M. Y. @ Z. B. M., Roslan, M., Nor, M., & Noordin, K. Bin. (2018). A narrative on Islamic insurance in Bangladesh: problems and prospects. *International Journal of Ethics and Systems*, 34(2), 186–199.
- Khan, M. F. (1995). Essays in Islamic economics. *Islamic Foundation*, 19.
- Kim, J., & Lennon, S. J. (2013). Effects of reputation and website quality on online consumers' emotion, perceived risk and purchase intention: Based on the stimulus-organism-response model. *Journal of Research in Interactive Marketing*, 7(1), 33–56.
- MIFC. (2015). *Islamic Finance: Promoting Real Economic Development*.
- Mukhlisin, M. (2017). Unveiling IASB standardization projects and its influence on the position of Takaful Industry in Indonesia. *Journal of Islamic Accounting and Business Research*, 8(2), 229–247.
- Noor, A. M. (2009). A Shari'ah Compliance Review on Investment Linked Takaful in Malaysia. *Islamic Economic Studies*, 17(1), 1–20.
- Rahman, Z. A., & Daud, N. M. (2010). Adverse selection and its consequences on medical and health insurance and takaful in Malaysia. *Humanomics*, 26(4), 264–283.
- Ronald W. Niedrich, & Scott D. Swain. (2003). The Influence on Pioneer Status and Experience Order on Consumer Brand Preference: Immediate-Effects Model. *Journal of the Academy of Marketing Science*, 31(4), 468–480.
- Sadeghi, M. (2010). The evolution of Islamic insurance – Takaful1: a literature survey. *Insurance Markets and Companies: Analyses and Actuarial Computations*, 1(2).
- Shih, Y.-Y., & Fang, K. (2004). The use of a decomposed theory of planned behaviour to study Internet banking in Taiwan. *Internet Research*.
- Shosh Leshem, & Trafford, V. (2007). Overlooking the conceptual framework. *Innovations in Education and Teaching International*, 44(1), 93–105.
- Tahir, I., & Brimble, M. (2011). Islamic investment behaviour. *International Journal of Islamic and Middle Eastern Finance and Management*, 4(2), 116–130.
- Xiao, J. J., A., S. Y., Serido, J., & Shim, S. (2014). Earlier financial literacy and later financial behaviour of college students. *International Journal of Consumer Studies*, 38(6), 593–601.
- Yazid, A. S., Arifin, J., Hussin, M. R., & Daud, W. N. W. (2012). Determinants of Family Takaful (Islamic Life Insurance) Demand: A Conceptual Framework for a Malaysian Study. *International Journal of Business and Management*, 7(6), 115–127.
- Zakaria, Z., Nurul Marina Azmi, Hassan, N. F. H. N., Wan, Salleh, A., Tajuddi, M. T. H. M., Noor, J. M. M. (2016). The Intention to Purchase Life Insurance: A Case Study of Staff in Public Universities. *Procedia Economics and Finance*, 37(368–365).