

## The Malaysian Fund Managers Perspective on the Viability of Takaful Operators Investment

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**Abstract:** *Takaful operators are expected by the policyholders to act beyond the role of traditional insurance companies that only offer Shariah-compliant protection services. They are expected to be commercially viable. One of the ways to be commercially viable is takaful operators must be able to invest the policyholders' funds in the profitable investment avenues. Nevertheless, the critical issue before investing the funds is to develop products that are suitable with the takaful operators' investment strategy. This study employed a questionnaire survey to gather the feedback of fund managers from 11 takaful operators in Malaysia — all were the senior staffs of takaful operators in Malaysia were surveyed. The questionnaire is developed in the form of a Likert scale ranging from 1 to 5 as the research instrument. By Delphi technique, the draft of the questionnaire was sent to a panel of experts for review, was adopted, and their feedback reflected in the final questionnaire. The experts were a shariah advisor, a corporate finance manager, and a senior executive at the central bank. Findings indicate that policyholders' expectations on their investments are met and the products so far compatible with takaful operators' investment strategies.*

**Keywords:** *Islamic insurance; Takaful; Islamic finance; Insurance; Investment; Insurance products.*

**Paper type:** *Research paper*

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**Abstrak:** Operator takaful diharapkan oleh pemegang polis untuk bertindak di luar peran perusahaan asuransi tradisional yang hanya menawarkan layanan perlindungan yang sesuai dengan Syariah. Mereka diharapkan menjadi layak secara komersial. Salah satu cara untuk menjadi layak secara komersial adalah operator takaful harus dapat menginvestasikan dana pemegang polis dalam jalan investasi yang menguntungkan. Namun demikian, masalah kritis sebelum menginvestasikan dana adalah untuk mengembangkan produk yang sesuai dengan strategi investasi operator takaful. Penelitian ini menggunakan survei kuesioner untuk mengumpulkan umpan balik dari manajer dana dari 11 operator takaful di Malaysia. Kuesioner dikembangkan dalam bentuk skala Likert mulai dari 1 hingga 5 sebagai instrumen penelitian. Dengan teknik Delphi, rancangan kuesioner dikirim ke panel ahli untuk ditinjau, diadopsi, dan umpan balik mereka tercermin dalam kuesioner akhir. Para ahli adalah penasihat syariah, manajer keuangan perusahaan, dan eksekutif senior di bank sentral. Temuan menunjukkan bahwa harapan pemegang polis atas investasi mereka terpenuhi dan produk sejauh ini kompatibel dengan strategi investasi operator takaful.

**Kata kunci:** Asuransi syariah; Takaful; Keuangan Islam; Pertanggungjawaban; Investasi; Produk asuransi.

## INTRODUCTION

Until 2018, there are three types of *takaful* have been licenced to operate in Malaysia: family *takaful*; general *takaful*; and composite *takaful* (both combined).<sup>1</sup> Importantly, licences for these *takaful* operators, issued by the central bank, differ depending on the nature of the *takaful* business. [Islamic Financial Services Act 2013 \(IFSA\), \(2013\)](#) mandated significant changes to *takaful* operations, as it requires a dedicated *takaful* operator for each type of *takaful* business. Beginning of 2018 sees the end of the five-year transition period provided under IFSA 2013 for composite *takaful* companies to implement the requirement to separate their family and general *takaful* businesses into two separate entities. To date (as of March 2018), only one composite *takaful* operator, Etiqa Takaful Berhad, has officially segregated the entity into general *takaful* and family *takaful* businesses. This operator is also evidenced in the appointment of separate chief executive officers for each of the two businesses — Etiqa General Takaful and Etiqa Family Takaful. The remaining composite *takaful* operators are expected to follow soon, since 1<sup>st</sup> July 2018 is the cut-off date for completion of the business segregation process.

A consequence of [IFSA, \(2013\)](#) is the expected change in the number of Malaysia's *takaful* operators to be more than the 11 companies that existed as of the time of its announcement.<sup>2</sup> Potential changes may result from mergers between general *takaful* businesses, shifts in ownership due to the changing of

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<sup>1</sup> The composite *takaful* operators are Syarikat Takaful Malaysia Berhad, Takaful Ikhlas Berhad, Etiqa Takaful Berhad, Sun Life Takaful Berhad, HSBC Amanah Takaful Berhad, Hong Leong MSIG Takaful Berhad and MAA Takaful Berhad. The remaining four *takaful* operators focus on family takaful business only: Prudential BSN Takaful Berhad; Great Eastern Takaful Berhad; AIA Takaful Berhad; and AmFamily Takaful Berhad.

<sup>2</sup> After 2010, there were 12 *takaful* operators. However, early in the fourth quarter of 2012, AIA AFG *Takaful* Berhad merged with ING Public *Takaful* Ehsan Berhad. This merger was a result of the parent companies' activities, whereby AIA Group Ltd bought the ING Groep NV business in Malaysia. Thus, the number of *takaful* operators was reduced to 11 companies.

stakes in these general *takaful* businesses, or the winding up of companies after transferring the remaining cases or policies to other *takaful* operators ([Singh, 2013](#)). Nevertheless, evidence from the split of Etiqa Takaful Berhad into Etiqa Family Takaful and Etiqa General Takaful, suggests that operational changes may be minimal, at least in the short term. This split reflects that most business functions are still shared, as in the previous entity. These include areas such as customer service, human resources, and the agency platform. Although the transition is still ongoing, the only noticeable operational change has been the appointment as mentioned earlier of separate CEOs for each of the two *takaful* businesses.

The introduction of Risk-Based Capital for *Takaful* operators (RBCT) is also expected to shape trends in terms of the number of operators. Under the Takaful Act 1984, the central bank had previously specified a minimum capital of MYR 100 million for *takaful* operators. However, under IFSA 2013 minimum capital requirements are subject to the central bank's discretion, there being no specification on such a threshold as per the previous Act ([Kassim & Ismail, 2014](#)). This suggests *takaful* operators might be established with smaller capital requirements, enabling new industry entrants to be driven more by the nature and complexity of the type of *takaful* business chosen ([Htay et al., 2015](#)).

As well as changing the competitive environment, an important consequence of [IFSA, \(2013\)](#) implementation is its potential impact on investment strategy (and profitability) — the focus of this paper. *Takaful* operators' investment strategies (and profits) are closely related to the products offered, each of which embeds specific investment objectives ([Mohamad et al., 2019](#)). Both the *takaful* products made available, and fund participants' demand for these products will influence *takaful* operators' investment practices ([Ali et al., 2019](#)). This article highlights the importance of *takaful* products to investment practice and presents findings derived from feedback to a questionnaire provided to each of Malaysia's 11 *takaful* operators' fund managers. This research focus is regarding the availability of *takaful* products to meet their investment needs. The findings, therefore, reflect the industry's perspective on this issue.

The rest of the paper is presented as follows. Section 2 discusses the types of *takaful* product available and the features of each. Section 3 provides a brief outline of the research method. Section 4 presents the findings from the questionnaire. Section 5 finishes the paper, providing conclusions and suggestions for future research.

### **Takaful Products**

The *takaful* industry in Malaysia is regarded as '*takaful-tijari*' or 'commercially driven', as seen in the structure and business model of every *takaful* operator in Malaysia ([Bank Negara Malaysia, 2004](#)).

This model is either in the form of a modified *wakalah* or hybrid *wakalah* ([Olorogun, 2015](#)). *Takaful* operators in Malaysia commonly derive their earnings from *wakalah* (agency) fees, the surplus from the participant special account (PSA), and fees or profit-sharing from the investment of the participant account (PA) ([Alkhan & Hassan, 2020](#)). The earnings trend for *takaful* operators evidence

that investment profit has gradually become the most important source of income, slowly surpassing the *wakalah* fee ([Kantakji et al., 2020](#)). This is a good sign for the companies as well as fund participants because it demonstrates that *takaful* operators are actively seeking investments and portfolios to maintain and improve the investment returns that support the products their businesses offer ([Muhamat et al., 2019](#)). Moreover, the type of *takaful* model adopted, such as *waqf* model or others ([Zakaria et al., 2019](#)); might influence the investment management of the firms.

In general, *takaful* products can be placed into three categories:

General *takaful* (Islamic general insurance) offers protection or coverage against risks of a general nature for companies or individuals (*takaful* contributors). General *takaful* products include motor insurance, fire and allied perils, workers' compensation, marine cargo, engineering insurance, property and transport ([Echchabi & Ayedh, 2015](#); [Hassan et al., 2018](#)). Investment returns are used to smooth the *takaful* premium (contribution) cost since general *takaful* is mostly comprised of short-term contractual policies. As such, a positive investment return will help to keep the premium cost lower.

Family *takaful* (Islamic life insurance) provides coverage for participation by individuals or corporate bodies on a long-term basis with maturity periods that generally range from 10 to 40 years. Family *takaful* products include medical and health plans, education, accident, marriage, *hajj* and *umra* plans, lump-sum investments, savings plans, retirement plans, and mortgages ([Salleh & Laksana, 2018](#); [Remli & Rosman, 2018](#)). Investment returns are the source of wealth accumulation since family *takaful* involves long-term contractual policies. *Takaful* contributors expect to build up wealth (saving) as well as receiving protection.<sup>3</sup>

*Retakaful* coverage (Islamic reinsurance) offers coverage for *takaful* companies against risks, including loss or dilution of capital and reserves resulting from high claim exposures.

From *takaful* contributors' perspectives, utilising general and family *takaful* products is of interest, *retakaful* being intended only for *takaful* operators. Furthermore, the above-listed *takaful* products can be broadly classified as savings or risk-coverage products ([Odierno, 2012](#)). In practice, many *takaful* operators' products combine both savings and coverage features, although the feature that dominates varies according to each product's primary objective.

For instance, an investment-linked policy (ILP) is usually bundled with protection. However, a large portion of the premium (contribution) is channelled to investment, and only a minor part is pooled into the risk fund.

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<sup>3</sup> As Odierno (2012) explains, the return is not guaranteed for *takaful* savings products. Nevertheless, for marketing purposes, *takaful* operators can build up contributors' expectations by constructing an implicit guarantee based on the invested assets, by holding stable rather than volatile assets.

**Table 1: Family *Takaful*: Distribution of New Business Contributions by Plan**

Year	Family <i>Takaful</i> Products (MYR million)			Investment -Linked	Total
	Ordinary Family	Temporary	Others		
2009	1,582.5	3.4	454	880.9	2,920.8
2010	1,798.9	5.9	498.3	1,179.2	3,482.2
2011	1,951.7	56.1	550.3	1,515.4	4,073.5
2012	1,827.5	128.7	533.6	2,061.3	4,551.1
2013	1,891.1	196.1	580.6	2,495.5	5,163.3
2014	1,885.7	325.9	623.8	3,087.9	5,923.3
2015	1,956.9	114.8	643.7	3,819.5	6,534.9

Source: Central Bank of Malaysia. Figures are adjusted to the nearest decimal

Note: # MYR = Malaysian Ringgit

The endowment policy has a contractual period for a specified number of years, whereby compensation will be given when death occurs, or when the policy reaches maturity. This policy acts as a saving instrument and at the same time, protects the *takaful* contributors ([Lewis & Wallace, 1997](#)). An example is an endowment policy for education with life coverage.

Temporary policy refers to a policy with a specified number of years to maturation, with a constant annual premium (contribution) being determined. At the end of the contractual period, *takaful* contributors will have the option to renew the policy. An example of a temporary policy is a mortgage or MRTT (mortgage reducing term *takaful*), where the *takaful* operator will help to settle the house financing of *takaful* contributors in the case of death and permanent disability. In Malaysia, this plan tends to involve a single paid premium (contribution) which means that the *takaful* operator will hold prepaid premium monies on behalf of the contributors for as long as 15 to 20 years ([Muhamat et al., 2017](#)). As such, proper investment of the fund is needed ([Odierno, 2012](#)).

Another *takaful* plan is the medical and health policy. This plan will assist with contributors' medical needs in the form of financial assistance for surgery and hospitalisation, which normally requires a substantial amount of money ([Wahab & Tajuddin, 2020](#)). In terms of duration, [Odierno \(2012\)](#) states that this policy can be as long as a MRTT. Nevertheless, in terms of premiums paid, the medical and health *takaful* plan is based on regular contributions compared to MRTT, which is normally in a lump-sum payment. The early paid premiums in this plan will be used to offset future risk related to the age-risk factor by building-up the fund through investment. This plan can also be sold in rider form attached to a unit-linked or traditional savings plan ([Parveen et al., 2019](#)).

A *takaful* annuity is a kind of policy intended to assist the *takaful* contributor upon retirement until death by supplying a fixed amount of income every year. Annuities were sold for a short period in the early 2000s in Malaysia ([Odierno, 2012](#)) before the demand for the product was affected by the withdrawal of the Employees Provident Fund of Malaysia (EPF) from the annuity scheme. The plan was structured in two portions, an accumulation period and a payout period. Both periods were generally of long duration. [Odierno \(2012\)](#) signifies

that the plan does not guarantee a return, but because of promotion, it is viewed as implicitly guaranteed and treated as such by the regulators.

The investment-linked policy (ILP) function as a savings instrument and at the same time provides minimum compensation to *takaful* contributors in case of death. The saving or investment portion in the Participant Account (PA) is unitised into units linked to investment portfolios similar to unit trust investments ([Adawiah et al., 2008](#)). A large portion of the premiums paid (some allocation is also made for an administration fee and protection benefits) will be used to buy investment-linked units, such as a unit trust or other form of investment determined by the *takaful* operator.

The ILP adopts a ‘drip’ basis,<sup>4</sup> Whereby some amount of funds is gradually transferred from the Participant Account (savings fund) to a Participant Special Account (risk fund) ([Odierno, 2012](#)). The premium (contribution) is paid regularly. If there is no claim from the policyholder in that particular year, the person is entitled to receive a return, which will be used to buy additional investment-linked units ([Noor, 2009](#)). The contributors’ funds are directly linked to the value of the assets in which the funds are invested. The proceeds depend upon the growth in interim performance of the underlying fund or investment pool, with the remaining units being sold at maturity, or in the case of the death of the *takaful* contributors ([Lewis, 2005](#)).

### General Takaful Products

General *takaful* products are viewed as short-term plans, excepting some long-tailed policies. Even so, general *takaful*’s long-tailed policies are periodically shorter than family *takaful* products ([Odierno, 2012](#)). Longtails on policies result from long settlement times in the case of legal procedures caused by lawsuits involving clients in third-party motor, workman's compensation, and third-party liability cases. The contribution (premium) for general *takaful* usually is based on yearly contributions and is renewable at the end of the period.

### Takaful Product’s Influence on Investment

The distinguishing feature of *takaful* operators who embrace the stock form of *takaful* model ([Naim et al., 2020](#)), is that the *takaful* contributors bear investment costs to each product; either investment-linked products or others (e.g. endowment, mortgage, medical and health). Investment costs are charged through an investment fee paid to *takaful* operators, or via a nominated cost against contributions paid by *takaful* contributors and separated between the participant special account (PSA) and the participant account (PA). For every *takaful* product, the premium (contribution) paid will be segregated into a dedicated investment account, which will be invested in a variety of investment instruments ([Soualhi & Al Shammari, 2015](#)).

It is also important to note that for investment-linked products, the central bank has specified a ceiling price as a guideline for *takaful* operators when developing and selling their investment-linked products. However, for other

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<sup>4</sup>Contributions (premiums) will be deducted for the *wakalah* (agency) fee in advance, before being invested into the PA fund. Gradually, a sum of money will be transferred to the PSA to build-up the risk fund for compensation benefits.

products, the investment fee is at the discretion of the *takaful* operator ([Bank Negara Malaysia, 2013](#)).

That the forms of insurance product offered by a firm have a significant influence on its required investment strategy is clear ([Shahid, 2020](#)). For example, where investment guarantees are offered as part of a product, policyholders cover the costs of providing these guarantees, with the insurer investing funds raised from these charges on risk management — hedging, or additional equity capital, or reinsurance (e.g., see [Huber et al., 2015](#)). Additionally, product innovation (e.g., the addition of an investment or savings vehicle to a life insurance product) will require modification of the businesses' investment strategy ([Carino et al., 1994](#)). Thus, the set of *takaful* products it offers will influence the *takaful* operator's investment needs ([Tolefat, 2009](#)), reflecting the cash flow profiles that it must manage ([Kantakji et al., 2020](#)).

For family *takaful*, the endowment policy requires the operator to manage an accumulated balance of *takaful* contributors' savings ([Alotaibi & Hariri, 2020](#)). For annuities, insurers (*takaful* operators) have to manage a de-cumulating balance of the contributors' savings ([Lewis & Wallace, 1997](#)). For the investment-linked policy, *takaful* operators have to be prudent in managing a stream of income (premium) that will be used to buy additional investment units ([Alshammari et al., 2018](#)).

These products carry with them inherent risks or forecast liabilities that are long-term. Thus, each is likely to require the need to make use of longer-dated investments and must offset risks with investment instruments that provide stable returns and less volatility.

In contrast, in general *takaful*, most risks are short-term. Additionally, the short-tailed nature of most general *takaful* products suggests lower requirements for both income and term from *takaful* investment. As such, the appropriate investment instruments would be those that earn a modest income and at the same time possess liquidity. Nevertheless, as mentioned earlier, some 'long-tailed' policies (e.g., workers' compensation claims), having medium-term risks, may require a suitable investment strategy in order to meet future requirements of the policy, such as those deriving from litigation procedures. For example, in Saudi Arabia, the general *takaful* business is more significant than family *takaful*, which differs from the situation in Malaysia and Indonesia ([Ismail et al., 2017](#)).

However, despite the lower investment profit required by general as compared to family *takaful*, positive investment performance is still needed to lower the future premium (contribution) costs for *takaful* contributors. This positive performance is essential in order to keep current *takaful* contributors with the *takaful* operator, and also as a marketing feature to attract new customers.

### **Takaful Operators' Investment Profits**

*Takaful* operators have earned significant income from their companies' investment activities over the years. Investment profit (at the gross income level) displays a definite upward trend for all *takaful* operators, including the industry "newbies", even if they are yet to record any net profit since inception.

This reflects two important points discussed in the previous section: investment earnings are tagged to the products offered (due to the products' features); and concentration or focus on selling certain types of *takaful* products will influence the trend in investment profit (Rahmanto et al., 2020). Table 2 reports the investment profits for each *takaful* operator in Malaysia, segregated into the family or general *takaful* business, as per the companies' annual reports for the last five years.

**Table 2: Investment profits for takaful operators in Malaysia (2012-2016)**

No.	Takaful Operators	General Takaful (MYR'000)					Family Takaful (MYR'000)				
		Year 2012	Year 2013	Year 2014	Year 2015	Year 2016	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016
1.	Syarikat <i>Takaful</i> Malaysia Bhd	31,031	30,877	29,164	29,031	29,604	186,381	181,023	191,950	215,276	225,346
2.	<i>Takaful</i> IkhlasSdnBhd	5,377	10,403	11,035	12,712	12,838	24,994	51,231	66,419	81,851	85,396
3.	Prudential <i>Takaful</i> Bhd	376	579	382	525	613	12,554	16,713	19,493	31,756	37,737
4.	Hong Leong <i>Takaful</i> Bhd	4,334	1,175	1,577	1,981	2,255	501	4,759	4,046	6,252	7,934
5.	HSBC Amanah <i>Takaful</i> (Malaysia) Bhd	1,234	1,099	1,575	1,844	1,983	11,387	8,994	14,807	24,319	29,404
6.	Great Eastern <i>Takaful</i> SdnBhd		Not applicable				1,010	2,248	4,972	8,597	11,692
7.	Etiqa <i>Takaful</i> Bhd	43,495	49,227	57,803	62,378	68,919	303,814	335,808	348,196	365,736	397,581
8.	Sun Life Malaysia <i>Takaful</i> Bhd	1,867	1,991	1,864	1,807	1,817	13,130	14,798	18,024	25,544	32,659





analysis, followed by the use of Mann-Whitney U tests (a non-parametric test) to assess differences between responses from general and family *takaful* businesses.

A non-parametric test is used due to the use of an ordinal scale for most of the questionnaire's items (Burns & Burns, 2008). Additionally, although the industry population (*takaful* operators) was surveyed, the study's small sample size (11 *takaful* operators) and focus on the in-house fund managers of *takaful* operators, each suggests that normality assumptions cannot be met. As such, non-parametric tests are appropriate assessment tools for the analyses, as they make fewer and less stringent assumptions compared to parametric tests (Burns & Burns, 2008; Collis & Hussey, 2009).

## RESULTS AND DISCUSSION

In the following, a descriptive presentation and a brief discussion of the survey findings are followed by the presentation and discussion of the results of non-parametric tests.

### Descriptive analysis

**Questionnaire statement: The products offered by the *takaful* operator influences our firm's investment style.**

91.3% or 21 respondents in family *takaful* agreed with the statement while only 8.7% or two respondents disagreed (Table 3). The same pattern was shown in general *takaful*, with 94.1% or 16 respondents agreeing with the statement while 5.9%, equivalent to one respondent, disagreed. The near-consensus results correspond with those of Tolefat & Asutay (2013) and In Lewis & Wallace (1997) study about the influence of *takaful* and insurance products on the institution's investment style, the investment strategies of *takaful* operators are closely related to the type of products offered by the *takaful* operators, which requires 'a mix and match approach' in terms of assets and liabilities (Khan, 2007). In the context of family *takaful*, the emphasis is placed more on long- and medium-term investment objectives, while for general *takaful* operators, their consideration is more on short-term investment requirements.

**Table 3: The products offered by *takaful* operator influences our firm's investment style**

Investment Funds	Responses	Frequency	Per cent
Family <i>Takaful</i>	Strongly Agree	4	17.4
	Agree	17	73.9
	Disagree	2	8.7
	Total	23	100.0
General <i>Takaful</i>	Strongly Agree	4	23.5
	Agree	12	70.6
	Disagree	1	5.9
<b>Total</b>		<b>17</b>	<b>100.0</b>

**Questionnaire statement: The takaful operator lacks products to serve its investment objectives.**

**Table 4: The takaful operator lack products to serve its investment objectives**

Investment Funds	Responses	Frequency	Per cent
Family <i>Takaful</i>	Agree	9	39.1
	Undecided	1	4.3
	Disagree	11	47.8
	Strongly Disagree	2	8.7
	Total	23	100.0
General <i>Takaful</i>	Agree	7	41.2
	Undecided	1	5.9
	Disagree	7	41.2
	Strongly Disagree	2	11.8
<b>Total</b>		<b>17</b>	<b>100.0</b>

A similar level of concordance to that in Table 3 is displayed in Table 4 for both kinds of *takaful* business. However, in this case, most respondents disagreed with the statement. Variation in the responses indicates that, for some fund managers, achieving the investment objectives prescribed by their companies is challenging. Despite the small difference, 39.1% respondents in family *takaful* and 41.2% respondents in general *takaful* felt that their companies lacked the set of *takaful* products to best suit their investment objectives.

More than half of the respondents in each business: 56.5% or 13 respondents in family *takaful* and 53% or nine respondents in general *takaful* rejected the questionnaire statement. This implies that a small majority of them felt that *takaful* operators have sufficient products in the market to suit their investment objectives. In both businesses, only one respondent felt neutral towards the statement.

As mentioned earlier, this statement complements the earlier ones. Responses to the statement are summarised in Table 3 and identify the potential influence of *takaful* products on the firms' investment style. Table 4 surveys opinions as to whether the *takaful* products are sufficient to support the firms' investment objectives. The top-down approach (as verified by one of the *takaful* operator's CIOs) of developing the investment objectives before designing the *takaful* products signifies that *takaful* operators should have sufficient products to cater to their investment needs and clients' demands because each investment objective is tagged with a range of products. This concurs with the findings of (Khan, 2007).

Nevertheless, a requirement to continuously be innovative is deemed necessary since products are currently too focused on selected market segments. This suggests that there are untapped business opportunities to be explored. For example, green *takaful* products are yet to be explored by *takaful* operators globally.

**Questionnaire statement: There are sufficient capital market instruments to match the investment objectives related to takaful products.**

The results for this statement indicate mixed of respondents' opinions in both businesses; yet, the pattern is similar, as shown in Table 5. For family *takaful*, 47.8% or 11 respondents supported the statement while 34.8% or eight respondents opposed it, and four respondents or 17.4% remained neutral. General *takaful* operators were more evenly split in their opinions since 41.2% or seven respondents supported and rejected the statement, while 17.6% or three respondents remained neutral.

**Table 5: There are sufficient capital market instruments to match the investment objectives related to takaful products**

Investment Funds	Responses	Frequency	Per cent
Family <i>Takaful</i>	Strongly Agree	2	8.7
	Agree	9	39.1
	Undecided	4	17.4
	Disagree	8	34.8
	Total	23	100.0
General <i>Takaful</i>	Strongly Agree	2	11.8
	Agree	5	29.4
	Undecided	3	17.6
	Disagree	7	41.2
<b>Total</b>		<b>17</b>	<b>100.0</b>

The availability of capital market instruments to accommodate the demands of financial institutions, including *takaful* operators, is imperative due to the scarcity of such instruments for the niche Islamic finance sector. Nevertheless, Malaysia has a comprehensive Islamic financial system, supported by four main components: an Islamic banking sector, the *takaful* sector, an Islamic money market, and an Islamic capital market. These four components complement each other in such a way that the financial products of each sector are utilised to meet the financial needs of the institutions.

For instance, a *takaful* operator may manage its long- – and medium-term investment horizons by investing in *Sukuk* or Islamic bonds, and sometimes on properties in the form of either physical real estate or Islamic real estate investment trusts, i-REITs (Khan, 2007; Tolefat & Asutay, 2013). On the other hand, for short-term investment requirements, funds will be heavily invested in the Islamic money market via funds deposited in the Islamic banks in the form of special investment accounts (Khan, 2007).

The Islamic financial instruments in Malaysia may be considered as adequate. However, competition from other Islamic financial institutions, combined with the demands from conventional financial institutions for the same instruments, may cause some disruptions to the *takaful* operator when it comes to the 'mix and match' process for the investment portfolio. Accordingly, some may perceive the capital market instruments as inadequate to cater for the *takaful* operators' needs.

**Questionnaire statement: At present, takaful products are directed to selected market segments.**

Table 6 depicts that in family *takaful*, a majority of the respondents concurred with the statement, 60.9% or 13 respondents, whereas 30.4% or seven respondents objected to it. Also, two respondents (8.7%) remained undecided. In general *takaful*, a similar trend is evident as a majority of the respondents supported the statement, 64.7% or 11 respondents, while 29.4% rejected it, and one respondent (5.9%) chose to be neutral.

**Table 6: At present, takaful products are directed to selected market segments**

Investment Funds	Responses	Frequency	Per cent
Family <i>Takaful</i>	Strongly Agree	1	4.3
	Agree	13	56.5
	Undecided	2	8.7
	Disagree	7	30.4
	Total	23	100.0
General <i>Takaful</i>	Strongly Agree	1	5.9
	Agree	10	58.8
	Undecided	1	5.9
	Disagree	5	29.4
<b>Total</b>		<b>17</b>	<b>100.0</b>

A majority of the respondents in both business areas were of the view that, to some extent, *takaful* operators are selective in selling their *takaful* products. This is due to the higher income being generated from such products in the form of *wakalah*(agency) fees. In family *takaful*, product concentration can be seen in personal *takaful* coverage, whereas in general *takaful* it would be on vehicle *takaful* coverage. For family *takaful*, this situation is not a deliberate plan of the *takaful* operators. Instead, it may be caused by the heavy use of agents in family *takaful* businesses. The agents would be remunerated in the form of commissions from *takaful* operators for every successful case.

On the other hand, road traffic regulations require automobile owners to buy car insurance, at least third-party coverage. This has successfully contributed to the high numbers of policies or *takaful* certificates sold for automobile *takaful* policy – a general *takaful* product.

**Questionnaire statement: The company always meets takaful contributors' expectations on investment returns as promoted by the investment-linked takaful products.**

The statement for Table 7 is only valid for family *takaful* businesses, as it deals with the investment-linked products offered by every family *takaful* operator in Malaysia. A majority of the respondents, 78.3% or 18 respondents, supported the statement while 21.7% or five respondents remained neutral, and none rejected it. As discussed in Section 2, investment-linked *takaful* products are the most significant income source for the *takaful* operators. These serve as protection and savings vehicles at the same time. As a result, it is essential to determine the

*takaful* operators' capacity to meet the investment returns promoted by their agents and stated in their marketing pamphlets.

On the other hand, *takaful* operators are more than capable of managing the other function of protection coverage. The responses received show that most feel their companies have fulfilled their assurances by delivering investment returns as marketed.<sup>7</sup>

**Table 7: The company always meets *takaful* contributors' expectations on investment returns as promoted by the investment-linked *takaful* products**

Investment Funds	Responses	Frequency	Percent
Family <i>Takaful</i>	Strongly Agree	1	4.3
	Agree	17	73.9
	Undecided	5	21.7
	<b>Total</b>	<b>23</b>	<b>100.0</b>

### Non-parametric test (Mann-Whitney U Test)

The Mann-Whitney (MW) test is used to establish the difference between two independent samples. It bears a resemblance to the t-test in the parametric analysis. *Takaful* funds are characterised by their business objective: either family or general *takaful*. Therefore, these types of funds were tested with other items in the questionnaire in order to determine if there are significant differences between the sector's two types of *takaful* funds.

The results indicate that both groups of respondents (funds managers of family and general *takaful*) gave similar and comparable answers to each question. This signifies that investment practices in general *takaful* and family *takaful* are similar. This can be traced to the companies' structures, as presented earlier; some *takaful* operators are composite *takaful* operators, which mean that they manage both products. This situation might be different in the future when composite *takaful* operators have separated into two separate business entities.

Fund managers' feedback to the questionnaire that forms the basis for this study signifies that the set of *takaful* products offered is suited to be matched by their companies' investment strategies, as well as fulfilling expectations of policyholders.

**Table 9: Mann-Whitney U Test: Line of Business or Takaful Products (between family and general *takaful* funds)**

Items	Line of Business (excl. item on investment-linked)
Mann-Whitney U	185.00
Asymp. Sig (2 tailed)	.771
Note	No significant difference

<sup>7</sup>To verify this, a survey of *takaful* contributors on their investment returns would be required. However, that is not this study's aim, suggesting consideration as a project for future study. Nevertheless, this statement can also be verified with published secondary data in the form of *takaful* operators' fact sheets.

## CONCLUSION

In a nutshell, this study informs that the *takaful* products' return requirements will influence the *investment strategy for takaful* operators' investment funds. Therefore, *takaful* operators need to develop new products that can meet the customers' demands, as well as being capable of matching the expected return marketed in the *takaful* policy. At the present moment, the policyholders (participants) are satisfied with the current products and the returns that they received. However, continuous improvements must become the agenda of *takaful* operators to ensure the relevancy of the products and sustainability of the returns.

This study has been constrained by a lack of data re actual *takaful* policies (products) sold by the *takaful* operators (due to commercial sensitivity of the data). Such data would enable readers to decipher critical information, especially on the concentration of products focused on or emphasised by *takaful* operators. Nevertheless, this issue is mitigated through the use of the respondents' questionnaire feedback on the *takaful* policies sold by their companies.

For future research, a replication of this study may be executed in other country or region, to determine whether similar traits exist amongst *takaful* operators, and also to account for differences between different populations' needs and demands. This will contribute to further understanding of *takaful* operators' investment practices and their relationship to the set of investment products offered.

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