CONSUMER’S PREFERENCE OF LIFE INSURANCE PRODUCT IN SHAH ALAM

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Abstract

Insurance is designed to provide protection to individuals or business against specified contingencies. Life insurance policy is designed for the purpose to give a protection to the human life especially to the insured. These policies provide a wide defence for the policyholders including several benefits such as hospitalization and other medical benefits. It also covers death, disability and disease suffered by policyholder. In today’s insurance industry that comprises of namely Takaful, reinsurance, life and general, aside from conventional insurance, there is an alternative of insurance coverage for Muslim customers, which is called Takaful. The basic idea of Takaful is similar to conventional insurance, which is, to provide protection to individuals and corporate bodies from occurrence of loss and hazards. It is important that the consumers have a better understanding of the life insurance products so that it could fit their needs and wants. Henceforth, this study aims (i) to identify customers’ preference between Takaful and conventional insurance amongst residents in Shah Alam, Selangor, and (ii) to examine the most significant aspect in selecting life insurance product among residents in Shah Alam, Selangor. The instrument used is questionnaires that were distributed to 117 respondents based on the systematic sampling. The findings indicate that most of the respondents, purchased Takaful life insurance policy instead of conventional life insurance policy. Majority of the respondents also know the differences between both products. This research shows that consumer’s commitment towards the insurance product is a must in order to get the best for their lives and their beneficiaries as well.

Keywords: Insurance, life insurance, takaful insurance, conventional insurance

1.0 Introduction

Insurance is designed to provide protection to individuals or business against specified contingencies. Through insurance, risk is transferred from individuals to pool of policyholder. In today’s insurance industry, there is an alternative for insurance coverage for Muslim customers, which is called Takaful. Another name of Takaful is Islamic insurance due to the fact that, the basis of its operational is in accordance with Islamic Shariah. Basically, the basic idea of Takaful is similar to conventional insurance, which is, to provide protection to individuals and corporate bodies from occurrence of loss and hazards. (Siti Suhada, 2008). Life insurance policy is designed for the purpose to give protection to the human life especially to the insured. These policies provide a wide defence for the policyholders including several benefits such as hospitalization and other medical benefits. It also covers death, disability and critical illness. In order to produce and publish the life assurance policy, there are two types of insurance market which are Conventional insurance and Takaful insurance. Generally, these two types of insurance were produced with the same concept of life insurance policy but with different concepts of operative business. Conventional life insurance product is a contract between the policyholder and the insurance company, where the insurer agrees to pay a sum of money upon the occurrence of the insured injury, illness or death. In return, the policyholder or policy payer agrees to pay a specific amount called premium at regular interval or in lump sums. Example of conventional insurance are Prudential Assurance SdnBhd, MAA Sdn Bhd. and Kurnia Insurance.Takaful
means ‘guaranteeing each other’. In the Islamic interpretation, Takaful is a pact among a group of members or participants that agree to always give mutual assistance to one another. It works more like a joint guarantee in which all participants contribute their own shares of premiums into a pool and mutually agree to compensate those participants who suffer from an insured peril. Muslim jurists generally agree that Takaful insurance is accordant with the Shari‘ah, as halal concepts of tabarru’ (donation or contribution) and Takaful (joint venture or shared responsibility) are deeply embedded in it. Example of Takaful insurance is Takaful Malaysia SdnBhd, Takaful Ikhlas SdnBhd and EtiqaSdn Bhd. Therefore the main objectives of this study are to identify customers preference between Takaful and conventional insurance and also to analyze the factor that influence in selection of life insurance product among Apartment TTDI Jaya residence in Shah Alam, Selangor.

2.0 Literature Review

Takaful is the Islamic alternative to conventional insurance which is based on the idea of social solidarity, cooperation and joint indemnification of losses of the members (Mher&Tisman, 2011). It is an agreement among a group of persons who agree to jointly indemnify the loss or damage that may inflict upon any of them out of the fund they donate collectively (Maysami et al., 1997). The main purpose of takaful under the Islamic system, is to bring equity to all parties involved, and the objective of the contract is to help the policy holder through bad times. Profit earnings is not the main goal, while sharing any profits generated incidentally is acceptable (Maysami and Kwon, 1999). To consider insurance as Islamic mode of risk sharing efforts were made in late 1970s. The first Islamic insurance company, known simply as the Islamic Insurance Co. Ltd, was established in Sudan in 1979. Following the success of the insurance company in Sudan, other Islamic insurance (takaful) companies were established in Islamic and in non-Islamic countries. Takaful is still facing some fundamental question in terms of its performance and future (MohdShrilMatsawali, et al., 2012). There is a lack of information and study about Takaful in the country. There is also perception among many Muslims in the country on whether insurance is permissible under Islam with regards to the key issues of Shariah compliance and purification. The concept of Takaful is still relatively new to some perhaps all of them even though it has been existence for more ten years, it can be said that the concept of Takaful is still hazy to many people because they are not educated to see the advantage. Nowadays people especially in Malaysian lack awareness on differences between Takaful and conventional insurance (Zuraidah ,2012). This is because they have no time to explore what is Takaful and usually, they are insurance policy holders, yet looking for more and better coverage. Besides that, Malaysians were not aware of Takaful coverage, as they often had the misconceptions on the differences between the Islamic and the conventional insurance.

This study will help to increase the awareness of public especially those who have not own any insurance protection regarding how important it is to have an insurance coverage and aware of the differences between conventional and Takaful insurance. The constraints that can be assumed are time, research cost and commitment. Swartz and Coetzter (2010) prioritized the Takaful insurance company on the conventional insurance company. According to them conventional insurance company is based on interest, gambling and uncertainty while Takaful insurance runs their operations on the principles of Supervisory Syariah board. They consider Takaful insurance as an Islamic way of mutual assistance to deal with uncertainties of life. The objective of the research was to provide the awareness about Takaful insurance that was very low, and to remove the misconception that the Takaful insurance is just for Muslims. The structure of the Takaful insurance was not based on profit models but it totally differences. Company
is just managing the funds; there is separation between the participants and shareholders' funds. In terms of awareness and knowledge of Takaful, Malaysians are willing to adopt Islamic insurance services depending on significant factors including compatibility and awareness (Ayinde, 2012). A similar study by Swartz and Coetzter (2010) also concluded that Takaful products have attracted even non-Muslim communities. Nonetheless, the interest shown by non-Muslims and the support of Muslims is insufficient to promote the knowledge and awareness to lead the growth of Takaful. These contentions made by the researches seem to suggest the lack of knowledge and awareness are among the greatest challenges to the development and growth of the national and global Takaful industry.

3.0 Methodology

The researchers have designed questionnaires distributed to 117 respondents who are residents of Apartment TTDI Jaya, Shah Alam. The research technique used was systematic sampling. Researchers have designed the questionnaires based on the research questions and objectives. A five-point Likert from the scale of (1) Strongly Disagree to the scale of (5) Strongly Agree was used in this study. Data were obtained and analyzed in percentage and mean. Richard and David (2000), states that for the purposes of analysis, a five-point Likert scale, ranging from a mean difference was divided into three. Mean score between 3.68 to 5 is categorize as High, mean score between 3.67 to 2.34 is categorize as Moderate and mean scores between 2.33 and 1, is categorize as Low. SPSS (Statistical Package for Social Sciences) was used to analyze the data distributed randomly to 117 residents of Apartment TTDI Jaya, Shah Alam. The statistical analyzes were gathered from SPSS to reduce errors and time from manual calculation. As to clarify the information in depth, a serial of tables were used in explaining the results. The researchers have done a pilot test before distributing the questionnaires to the respondents. The reliability test magnitude that is needed for a valid research should be more than 0.7 (Andy Field, 2005) The result is intended to create a set of questionnaires which has high reliability and easily understood by respondents. The results of Cronbach's Alpha is 0.907. Pilot study is conducted to test the question before carry out the actual questionnaire. The reliability of the questionnaire can be measured based on the result of pilot study. The researcher has conducted a pilot test on 30 respondent in Apartment TTDI Jaya residences. According to Muhamad Hashim Ahmad et. Al (2015), the most common method in measuring reliability of a research is Cronbach’s alpha. In statistic, Cronbach’s alpha is a coefficient of internal efficiency. It is measuring coefficient between variables that indicates how well the items in a set are positively correlated between the item in variables is reliable or not. Alpha score than 0.60 are considered to be poor, score in the range of 0.70 to 0.80 are acceptable and those over 0.80 are considered good and closer to one better it is (Sekaran 2003). The population in this research refers to the residence at Apartment TTDI Jaya, Selangor. There are 500 populations that is local resident in Apartment TTDI Jaya, Shah Alam not including the tenant and the immigrant. According to Sekaran and Boungie (2009), sampling is the method of selecting a sufficient number of the right elements from the population, so that a study of the sample and an understanding of its properties or characteristics make it the potential to generalize such characteristics to the population elements. The quantitative aspects are cover by survey and questionnaire that comprises closed ended questions. The closed ended questions on the other hand are asked to verify and confirm, usually eliciting only simple and specific answers. The sample of respondents are selected from Apartment TTDI Jaya, Shah Alam which consists of 2 categories of Muslim and Non-Muslim. The questionnaires were distributed to find out about the respondents preferences and the factors influencing the selection of insurance product among TTDI Jaya residences, Shah Alam.
4.0 Findings

The findings are based on the research objectives. For the first objective which is to identify the preference life insurance product between Takaful Insurance and Conventional Insurance among the TTDI Jaya, Shah Alam residence, majority of the respondents in Apartment TTDI Jaya, Shah Alam, have life insurance policy, with almost reach 100%. The highest rate of the overall time respondents having life insurance policy is between 11-15 years with the total number of 42 and 35.9% percentage. While the lowest rate is 16 years and above which is 20.5% from 24 respondents. The findings also conclude that respondent’s age of 20-30 years old have purchased life insurance policy within 1-5 years, meanwhile 31-40 years old, of whom have purchased it for more than 5 years. There is a slight difference in purchasing an insurance policy between takaful and conventional insurance policy. There are 60 out of 117 respondents in Apartment TTDI Jaya, Shah Alam who have purchased Takaful instead of conventional life insurance policy. Most Muslim respondents purchased family Takaful life insurance, meanwhile Non-Muslim respondents purchased conventional based life insurance policy. Both Muslim and Non-Muslim respondents are more familiar with conventional insurance based instead of Takaful insurance based. There are 61 out of 117 respondents who have the knowledge on the differences between Takaful and conventional insurance, while 56 of them do not have any idea on the differences between both insurance. Relationship between respondent’s education and their knowledge towards differences about life insurance product indicates that professional qualification respondents are likely exposed to the differences between Takaful and conventional based, with the amount of 24 out of 42 respondents. Meanwhile, the diploma respondents are less likely exposed to the differences between both insurance based with the amount of 5 out of 12 respondents. Most of the respondents in Apartment TTDI Jaya, Shah Alam prefer to purchase conventional insurance with 51.3% from 60 respondents rather than takaful insurance with only 48.7%.

For the second objective which is to analyze the factors influencing the selection of insurance product among TTDI Jaya Residents, Shah Alam, respondents understanding towards insurance products shows that conventional life insurance is more likely to influence the selection of insurance product. 72 respondents with 61.5% percentage are familiar to conventional insurance instead of Takaful. For purpose of purchasing life insurance policy, most of the respondents purchased life insurance product due to the medical expenses with the total number of 38 out of 117 respondents with 32.5% percentage. However, retirement benefit is the least number of 22 respondents. For relationship between respondent’s current job and their purpose of purchasing life insurance policies, the table indicates that government employees due to the protection provided by the life insurance company with the total number of 13 out of 34 respondents. Retired respondents usually purchased life insurance policy because of the medical expenses and retirement benefit with the total number of 8 out of 11 respondents. Most students purchased life insurance policy due to the medical expenses with the total number of 13 out of 15 respondents. However, protection provided by the life insurance company is one of the reason why private sector purchased the life insurance policy with the total number of 11 out of 27 respondents. Lastly, the self-employed respondents usually purchased life insurance policy because they desire to have the savings or investments and retirement benefits with the total amount of 18 out of 30 respondents. For factors influencing the respondents in choosing life insurance product, age is the reason why most of the respondents purchased life insurance product with the total number of 36 and 30.8%. However, gender is the least influential factor in taking on account of life insurance product with the total number of 14 and 12% percentage. Overall objective of preference life insurance product between Takaful Insurance and Conventional Insurance, the findings indicate that most of the respondent in Apartment TTDI Jaya, Shah Alam purchased Takaful life insurance.
policy instead of conventional life insurance policy. However, 74 respondents are familiar with the conventional insurance product contrary to Takaful insurance product. Meanwhile, there is a slight number of respondents have the knowledge on the difference between Takaful and conventional insurance. Lastly, there are 60 respondents preferred conventional insurance rather than Takaful insurance product. The findings from the data analysis have answered all the researcher questions. From the 117 questionnaires that have been distributed to the residences in Apartment TTDI Jaya, Shah Alam, the researcher found the responses of the respondents preferences of life insurance product between Takaful insurance and Conventional insurance is positive and have a big different between both products.

5.0 Conclusion

From the 117 questionnaires that have been distributed to the respondents in Apartment TTDI Jaya, Shah Alam, the researcher found the responses of the residences preferences of life insurance product between Takaful insurance and conventional insurance is positive and have a big different between both products. Majority of the residents in Apartment TTDI Jaya have life insurance policy. This indicates that most of the residents in Apartment TTDI Jaya, nowadays, realize and aware that having insurance as a protection for their lifetimes is very important. Among the respondents in Apartment TTDI Jaya, Shah Alam, most of them purchased family Takaful insurance as most of them are Muslims. Meanwhile, conventional insurance policy was mostly purchased by non-Muslim respondents. This has been proven that conventional insurance and its benefits are more well-informed than takaful insurance. Both Muslim and non-Muslim respondents are more familiar with conventional insurance instead of takaful insurance based. However, the entire respondents agreed and know that Takaful insurance product is based on Islamic Syariah. As we know, life insurance policy provides many benefits to the customers. Whether it is takaful based or non-takaful based, both products are very useful and offer protection to the customers and their family members or beneficiaries. Most of the respondents take life insurance policies for their medical expenses. As a consumer, their commitment towards the insurance product is a must in order to get the best for their lives and their beneficiaries as well. They must verify their needs and demands in order to get the most suitable product for themselves. This will help in their searching for the suitable products. A consumer or clients opinions towards insurance products also play an important role for the improvements of the insurance products in the future. An important thing that many people will seek in insurance policies is the protection or benefits provided. The researchers recommend to insurance companies to offer variety of benefits for the insurance policies to make the customers have more choices and add more values in the eyes of the clients. Insurance companies need to improve their capacities and their company performance in the insurance market in order to get the clients trust and commitment. Besides that, they must not forget about the lower-income group as they need protections and benefits of the insurance products as well. Insurance companies should create an affordable policy for the lower-income group as it should be giving protection to everyone in needs. They should do more promotion activities to introduce their products to every group of peoples in the market. In order to gain achievements, rather than only focusing on giving the best products to their clients, insurance companies must not forget to improve their management’s qualities especially in claims department, customer services and their abilities in helping customers during the claimant process. Claims department will involve many procedures during the claim process. Therefore, insurance companies must make the claim in less time as soon as possible and provides more employees in order to settle the claim in no time. Customer services also playing an important role in order to satisfying the customer or clients such like delivering good information relating to the products with good – manners and
attitude. The researchers hope that every recommendation will be considered by both
parties in case it will be useful in the future.

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