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**FACTORS INFLUENCE FINANCIAL PERFORMANCE OF THE TAKAFUL
INDUSTRY IN MALAYSIA**



By

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**Research Paper Submitted to
Othman Yeop Abdullah Graduate School of Business,
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in Partial Fulfillment of the Requirement for the Master of Sciences
(International Accounting)**



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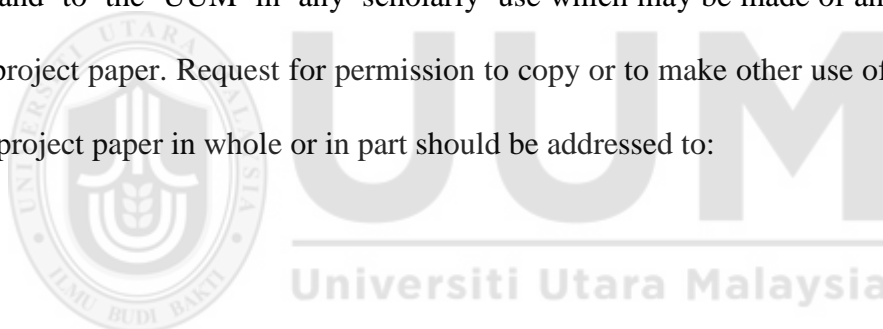
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ABSTRACT

Takaful is an Islamic insurance based on Sharia compliance. Takaful industry is an industry that contributes to the development of Malaysia. Thus the stability of the financial performance of the takaful industry is very important. This study is carried out due to the unstable financial performance of the takaful industry in Malaysia. The main objective of this study was to determine the relationship between leverage, size, equity capital and liquidity with the financial performance. This study is a quantitative research and data used are secondary data taken from the audited financial statement. This study is made up of all takaful operators in Malaysia for a period of five years from 2011 to 2015. When the study was conducted, a total of 11 takaful operators were registered with Bank Negara Malaysia (BNM). The financial performance is measured by Return on Assets (ROA). Leverage and liquidity was measured by ratio analysis whilst the size and equity capital was measured using a natural logarithm. To obtain the results of the study, the Statistical Package for the Social Sciences (SPSS) was used which consisted of descriptive statistics, normality test and multiple regressions analysis. The result of normality test was presented using histogram and p-p plot. The study found leverage and liquidity was not significant to the financial performance. Size have a significant and positive relationship with financial performance and equity capital have a significant but negative relationship with financial performance. The implications of this study can guide investors in making their investment decisions, customers in selecting favorable takaful policies and government in developing the takaful industry in Malaysia.

Keywords: financial performance, leverage, size, equity capital, liquidity

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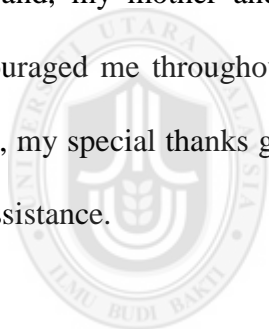
ABSTRAK

Takaful merupakan insurans berasaskan islam dan memenuhi konsep patuh syariah. Industri takaful merupakan sebuah industri yang menyumbang kepada pembangunan negara. Oleh itu kestabilan prestasi kewangan amat penting. Prestasi kewangan yang tidak stabil bagi industri takaful di Malaysia mendorong kepada kajian ini dibuat. Objektif utama kajian ini adalah untuk mengetahui hubungan antara leveraj, saiz, modal ekuiti dan kecairan dengan prestasi kewangan. Kajian ini adalah kajian kuantitatif dan data yang digunakan adalah data sekunder iaitu daripada penyata kewangan beraudit syarikat. Kajian ini dibuat ke atas semua pengendali takaful di Malaysia bagi tempoh lima tahun mulai tahun 2011 hingga 2015. Ketika kajian ini dibuat, sebanyak 11 pengendali takaful yang berdaftar dengan Bank Negara Malaysia (BNM). Prestasi kewangan diukur oleh pulangan atas aset. Leveraj dan kecairan diukur dengan menggunakan analisa nisbah. Manakala saiz dan modal ekuiti diukur menggunakan logaritma. Analisa statistik SPSS yang terdiri daripada statistik deskriptif, ujian kenormalan dan analisa regresi berganda digunakan bagi mendapatkan hasil kajian. Hasil ujian kenormalan dipersembahkan dalam graf histogram dan p-p plot. Hasil kajian mendapati leveraj dan kecairan adalah tidak signifikan dengan prestasi kewangan. Saiz mempunyai hubungan yang signifikan dan positif dengan prestasi kewangan dan modal ekuiti mempunyai hubungan yang signifikan tetapi negatif dengan prestasi kewangan. Implikasi daripada kajian ini dapat memberi panduan kepada pelabur dalam membuat pelaburan, pelanggan dalam memilih polisi yang menguntungkan dan kerajaan dalam membangunkan industri takaful di Malaysia.

Kata kunci: prestasi kewangan, leveraj, saiz, modal ekuiti, kecairan

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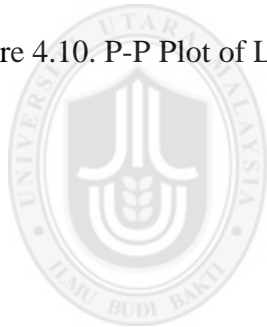


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LIST OF ABBREVIATIONS

| | |
|------|---|
| BNM | Bank Negara Malaysia |
| CAR | Capital Adequacy Ratio |
| CEO | Chief Executive Officer |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| ITA | Income Tax Act |
| MIT | Malaysia Institute of Takaful |
| PA | Participants Account |
| PSA | Participants Special Account |
| RBC | Risk Based Capital |
| ROA | Return on Assets |
| SPSS | Statistical Packages of Social Sciences |



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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The contribution of the takaful industry was RM5.94 billion in 2015 said the chairman of Malaysian Takaful Association (Arumugam, 2016). The development of this industry was constantly monitored as it involves public interest (Yusof, Wee & Osman, 2015). To ensure that the financial position is stable, strong, and able to compete takaful operators need to have adequate capital. According to the Chief Executive Officers (CEO) of Syarikat Takaful Malaysia, the capital requirements for takaful operators in ASEAN is between USD12 million to USD15 million (Yusof, 2016). Bank Negara Malaysia (BNM) has been enforcing the Act through the introduction of minimum capital requirements for takaful operators in Malaysia which began in 2014. Takaful operators are required to have at least 130% of supervisory Capital Adequacy Ratio (CAR) (Yusof et al., 2015).

In addition, the takaful industry was found to have problems in terms of development as compared to the insurance industry, causing the Malaysian Institute of Takaful (MIT) to organize the 4th Annual World Conference which was held on 19 June 2013. More than 500 agents and all the takaful operators came together to discuss strategies to develop the performance of the takaful industry in Malaysia (Zawya, 2013).

The Chief Secretary of Treasury Malaysia, Ybhg. Tan Sri Dr Mohd Irwan Siregar in his speech at the conference said the global financial crisis that occurred gave different impact where excessive leverage and the rapid development of financial activities separate from the foundation of the real economy could cause economic

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