

The copyright © of this thesis belongs to its rightful author and/or other copyright owner. Copies can be accessed and downloaded for non-commercial or learning purposes without any charge and permission. The thesis cannot be reproduced or quoted as a whole without the permission from its rightful owner. No alteration or changes in format is allowed without permission from its rightful owner.



**ASSESSING THE PERFORMANCE
OF TAKAFUL COMPANIES IN MALAYSIA**



**Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
In Partial Fulfillment of the Requirement for the Master of Islamic
Finance and Banking**



Pusat Pengajian Perniagaan Islam
ISLAMIC BUSINESS SCHOOL
كلية إدارة الأعمال الإسلامية
Universiti Utara Malaysia

PERAKUAN KERJA KERTAS PENYELIDIKAN
(*Certification of Research Paper*)

Saya, mengaku bertandatangan, memperakukan bahawa
(*I, the undersigned, certified that*)

NUR'AFIFAH BINTI ABDUL HALIM (823793)

Calon untuk Ijazah Sarjana
(*Candidate for the degree of*)

MASTER IN ISLAMIC FINANCE AND BANKING (MIFB)

telah mengemukakan kertas penyelidikan yang bertajuk
(*has presented his/her research paper of the following title*)

Assessing The Performance of Takaful Companies in Malaysia

Seperti yang tercatat di muka surat tajuk dan kulit kertas penyelidikan
(*as it appears on the title page and front cover of the research paper*)

Bahawa kertas penyelidikan tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan.

(*that the research paper acceptable in the form and content and that a satisfactory knowledge of the field is covered by the research paper.*)

Nama Penyelia : **DR. NORAZIAH BINTI CHE ARSHAD**

Tandatangan : 
(*Signature*)

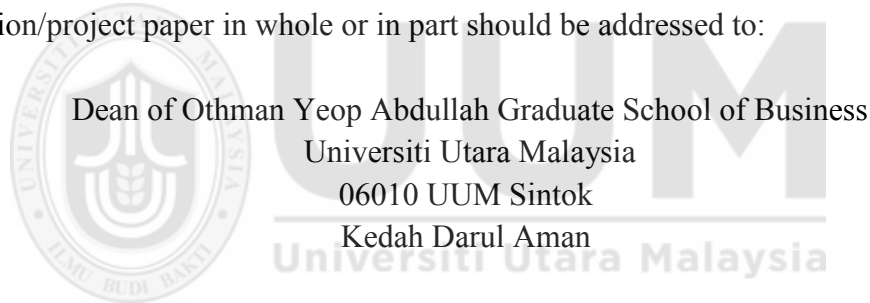
Tarikh : **15 OGOS 2019**
(*Date*)

PERMISSION TO USE
(For DBA/Master By Coursework Candidate)

In presenting this dissertation/project paper in partial fulfillment of the requirements for a Post Graduate degree from the Universiti Utara Malaysia (UUM), I agree that the Library of this university may make it freely available for inspection. I further agree that permission for copying this dissertation/project paper in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor(s) or in their absence, by the Dean of Othman Yeop Abdullah Graduate School of Business where I did my dissertation/project paper. It is understood that any copying or publication or use of this dissertation/project paper parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to the UUM in any scholarly use which may be made of any material in my dissertation/project paper.

Request for permission to copy or to make other use of materials in this dissertation/project paper in whole or in part should be addressed to:

Dean of Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman



ABSTRACT

This research was conducted to assessing the performance of takaful companies in Malaysia. The study attempts to examine the internal factors which are liquidity, equity return, leverage, size of firm, underwriting risk, and external factors; gross domestic product and inflation on performance of takaful company which refer to return on assets. There are reported which are 8 local takaful and 3 foreign takaful were included in the research. Secondary data that was collected in this research comes from the annual financial report (balance sheet and income statements) of takaful companies; and from World Bank Indicator for gross domestic product per capita and consumer price index. The methods employed in this study are Pearson's Correlation and Multiple Regression. This research found that the performance of takaful companies was determined by leverage, equity return, underwriting risk and size of firm. However, this research found the external factors does not have significant effect on the performance of takaful companies in Malaysia. This research finding provides financial implications for takaful companies in Malaysia like managing the assets, equity, liability, expenses and etc.

Keywords : takaful performance, takaful companies, internal factors, external factors

ABSTRAK

Kajian ini dijalankan untuk menilai prestasi syarikat-syarikat takaful di Malaysia. Kajian ini untuk mengkaji faktor-faktor dalaman iaitu kecairan, pulangan ekuiti, leveraj, saiz firma, risiko pengunderaitan, dan faktor-faktor luaran; keluaran dalam negara kasar dan inflasi terhadap prestasi syarikat-syarikat takaful (pulangan ke atas aset). Penyelidikan ini terdiri daripada 8 syarikat tempatan dan 3 syarikat asing. Data sekunder yang dikumpulkan dalam kajian ini adalah daripada laporan kewangan tahunan (kunci kira-kira dan penyata pendapatan) oleh syarikat-syarikat takaful; dan data dari Indikator Bank Dunia untuk keluaran dalam negara kasar per kapita dan indeks harga pengguna. Analisis yang digunakan dalam kajian ini adalah „Pearson’s Correlation“ dan „Multiple Regression“. Kajian ini mendapati bahawa prestasi syarikat takaful ditentukan oleh leveraj, pulangan ekuiti, saiz firma dan risiko pengunderaitan. Walaubagaimanapun, kajian ini mendapati bahawa factor - faktor luaran tidak memberi kesan terhadap prestasi syarikat takaful di Malaysia. Penemuan kajian ini menyediakan implikasi kewangan kepada syarikat-syarikat takaful di Malaysia, contohnya menguruskan aset, ekuiti, liabiliti, perbelanjaan dan sebagainya.

Kata Kunci : prestasi takaful, syarikat-syarikat takaful, faktor dalaman, faktor luaran

ACKNOWLEDGEMENT

I would like to express my deepest gratitude to Allah (SWT) for giving me His blessings, good terms of health, strength, knowledge, patience and perseverance throughout the period of completing this research paper. Without His permission and blessing I would not be able to complete my study.

My sincerest gratitude goes to my supervisor, Dr. Noraziah Binti Che Arshad for her relentless guidance, coaches, valuable suggestions and positive comments which were very helpful for the research progression. Also, not forget to my program coordinator, Dr. Hydzulkifli Bin Haji Hashim for his guidance in all the way of completing my research paper.

My deepest gratitude and highest appreciation goes to my father Abdul Halim Bin Jelani and my mother Farina Binti Abd Wahab who have prayed for my success, cared, loved and always encourage me to go for my dreams. My deepest appreciation also goes to my siblings Muhammad Hafizzahin, Muhammad Faris Hakim and Fairuz Izzati for always supporting, praying and looking up to me in everything that I do in my life. Not to forget, all family members that always have confidence in me, supporting and praying for my success since day one.

Nevertheless, I will not forget my friends and lecturers who have helped, shared opinions and thoughts throughout our Master journey. Finally, thanks to all whose names might have been left out without my intention. May Allah (SWT) bless and reward all of these people mentioned above in this world and hereafter.

Nur Afifah Binti Abdul Halim
Master Islamic Finance and Banking
2019

TABLE OF CONTENTS

CERTIFICATION OF RESEARCH PAPER.....	i
PERMISSION TO USE.....	ii
ABSTRACT.....	iii
ABSTRAK.....	iv
ACKNOWLEDGEMENT.....	v
TABLE OF CONTENTS.....	vi
LIST OF TABLES.....	ix
LIST OF FIGURES.....	x
LIST OF ABBREVIATION.....	xii
CHAPTER ONE	1
1.0 Introduction	1
1.1 Overview of Research Area.....	1
1.2 Problem Statements	4
1.3 Research Questions.....	6
1.4 Research Objectives	6
1.5 Significance of Study.....	6
1.6 Conclusion.....	7
CHAPTER TWO	8
2.0 Introduction	8
2.1 Takaful Performance	8
2.2 Internal Factors	9
2.2.1 Liquidity	10
2.2.2 Equity Return.....	11
2.2.3 Leverage	11
2.2.4 Size of Firm	12
2.2.5 Underwriting Risk	12
2.3 External Factors.....	13

2.3.1 Gross Domestic Product (GDP)	13
2.3.2 Inflation	14
2.4 Theory to be Employed	14
2.4.1 Agency Theory	14
2.5 Conclusion	15
CHAPTER THREE	16
3.0 Introduction	16
3.1 Research Design	16
3.2 Data Collection	17
3.3 Theoretical Framework.....	19
3.4 Hypotheses Statement.....	20
3.6 Data Analysis Technique.....	21
3.6.1 Descriptive Statistic	21
3.6.2 Pearson Correlation	22
3.6.3 Multiple Regression Model	22
3.7 Conclusion	24
CHAPTER FOUR.....	25
4.0 Introduction	25
4.1 Descriptive Statistic for Overall	25
4.2 Pearson's Correlation for Overall.....	27
4.3 Regression for Performance of Takaful Companies.....	30
4.4 Performance of Local and Foreign Takaful Companies.....	34
4.5 Performance for Takaful Companies by Internal Factors and Return on Assets	37
4.5.1 Return on Assets.....	37
4.5.2 Liquidity	38
4.5.3 Equity Return.....	39
4.5.4 Leverage	40
4.5.5 Size of Firm	41
4.5.6 Underwriting Risk	42

4.6 Conclusion.....	44
CHAPTER FIVE	45
5.0 Introduction	45
5.1 Discussion.....	45
5.2 Research Implications and Recommendations	47
5.3 Limitations of the Study and Future Research	47
5.4 Conclusion.....	48
REFERENCES.....	50



LIST OF TABLES

Table 3.0	List of the Takaful companies.....	17
Table 3.1	Proxy for Performance of Takaful.....	18
Table 3.2	Summary of Expected Result.....	23
Table 4.1	Descriptive Statistics for Overall.....	26
Table 4.2	Pearson’s Correlation for Overall.....	28
Table 4.3	Coefficients of Regression.....	30
Table 4.4	Summary of Regression.....	30
Table 4.5	Summary of Actual Result.....	32



LIST OF FIGURES

Figure 1.0	Takaful Contributions.....	3
Figure 3.0	Theoretical Framework.....	19
Figure 4.1	Performance of Local Takaful Companies.....	34
Figure 4.2	Performance of Foreign Takaful Companies.....	35
Figure 4.3	Performance of Takaful by Return on Assets.....	37
Figure 4.4	Liquidity.....	38
Figure 4.5	Equity Return.....	39
Figure 4.6	Leverage.....	41
Figure 4.7	Size of Firm.....	42
Figure 4.8	Underwriting Risk.....	43



LIST OF ABBREVIATION

AAOIFI	Accounting, Auditing and Governance Standard for Islamic Financial Institutions
BNM	Bank Negara Malaysia
GDP	Gross Domestic Product
INF	Inflation
InSIZE	Size of Firm
LQ	Liquidity
LV	Leverage
PEF	Performance of Takaful
ROA	Return on Assets
ROE	Equity Return
STMK	Syarikat Takaful Malaysia Keluarga
UWR	Underwriting Risk

CHAPTER ONE

INTRODUCTION

1.0 Introduction

On this chapter offers section 1.1 overview of research area, which give some view on takaful background. For section 1.2 problem statements, identify the issues that related with Takaful performance. In section 1.3 research questions and section 1.4 research objectives, state the questions arise and objectives to achieve in this research. Section 1.5 significance of the study, which explain the important of this research and section 1.6 conclusion.

1.1 Overview of Research Area

Takaful originates from *kafala* word. Its means joint guarantee. Takaful is also generally known as Islamic insurance, it is because takaful is a promise between members whereby the members which agree to establish a mutual fund and make donation into common pool, then it will provide among themselves a joint guarantee to against damage or loss (Matsawali, M. S., et al., 2012). For example, the member who agrees to jointly compensate the loss or damage would receive the compensation in the form of benefits or money drawn from the mutual fund.

The system of takaful is based on the two principles, firstly *Ta'wun* (mutual co-operation) means, mutual help in the good based on the principle of mutual co-operation, guarantee and profit-making is the not being primary purpose of doing

REFERENCES

- Abduh, M., & Zein Isma, S. N. (2017). Economic and market predictors of solvency of family takaful in Malaysia. *Journal of Islamic Accounting and Business Research*, 8(3), 334 - 344.
- Abdullah, N. I. (2012). Analysis of demand for family Takaful and life insurance: A comparative study in Malaysia. *Journal of Islamic Economics, Banking and Finance*, 113(470), 1 - 20.
- Adams, M & Buckle, M (2003). „The determinants of corporate financial performance in the Bermuda insurance market“, *Applied Financial Economics*, 13, 133 - 143.
- Afza, T., & Asghar, M. J. E. K. A. (2012). Financial reforms and efficiency in the insurance companies of Pakistan. *African Journal of Business Management*, 6(30), 8957 - 8963.
- Almajali, A. Y., Alamro, S. A., & Al-Soub, Y. Z. (2012). Factors affecting the financial performance of Jordanian insurance companies listed at Amman Stock Exchange. *Journal of Management research*, 4(2), 266.

Arshad, Z., Gondal, M. Y., & Hussain, T. (2016). Factor affecting the Financial Performance of Takaful Companies in Pakistan. *Asian Journal of Research in Banking and Finance*, 6(1), 14 - 21.

Bilal, S., Khan, J., Tufail, S., & Ul-Sehar, N. (2013). Determinants of profitability panel data: Evidence from insurance sector of Pakistan. *Management and Administrative Sciences Review*, 2(1), 10 - 22.

Browne, MJ, Carson, JM & Hoyt, RE (1999). „Economic and market predictors of insolvencies in the life-health insurance industry“, *The Journal of Risk and Insurance*, 66(4), 643 - 659.

Chang, D. H. (1995). Economic analysis of the development of universal life insurance in the 1980's. *Journal of Financial Service Professionals*, 49(1), 82.

Chen, R & Wong, KA (2004). „The determinants of financial health of Asian insurance companies“, *The Journal of Risk and Insurance*, 71(3), 469 - 499.

Daud, W. N. W., Remli, N., & Muhammad, H. (2013). Market orientation and performance: A study of takaful performance in Malaysia. *Asian Social Science*, 9(4), 240.

Doorasamy, M. (2016). Using DuPont analysis to assess the financial performance of the top 3 JSE listed companies in the food industry. *Investment Management & Financial Innovations*, 13(2), 29.

Faruk, O., & Rahaman, A. (2015). Measuring efficiency of conventional life insurance companies in Bangladesh and takaful life insurance companies in Malaysia: A non-parametric approach. *Management Studies and Economic Systems*, 54(2648), 1 - 16.

Fauzi, P. N. F. N. M., Abd Rashid, K., Sharkawi, A. A., Hasan, S. F., Aripin, S., & Arifin, M. A. (2016). Takaful: A review on performance, issues and challenges in Malaysia. *Journal of Scientific Research and Development* 3(4), 71 - 76.

Fridson, M. S., & Alvarez, F. (2011). *Financial statement analysis: a practitioner's guide* (Vol. 597). John Wiley & Sons.

Guendouz, A. A., & Ouassaf, S. (2018). Determinants of Saudi Takaful Insurance Companies Profitability. *Academy of Accounting and Financial Studies Journal*, 22(5), 1 - 24.

Hafiza and Zeeshan (2014). Comparative performance of Islamic and conventional insurance companies in Pakistan. *IOSR Journal of Business and Management*, 16(6), 33 - 45.

Hamid, M. A., & Rahman, N.M.N.A. (2011). Commitment and performance: a case of Takaful (Islamic Insurance) representatives in Malaysia. *Australian Journal of Basic and Applied Sciences*, 5(10), 777

Hidayat, S. E., & Abdulla, A. M. (2015). A comparative analysis on the Financial performance between takaful and conventional insurance companies in Bahrain during 2006-2011. *Journal of Islamic Economics, Banking and Finance*, 113(3170), 1 15

Hussain, I. (2015). Macro economy and profitability of insurance companies: a post crisis scenario in Pakistan. *Pakistan business review*, 17(2), 243 - 263.

Ibrahim, M. D., Salleh, F., & Awang, Z. (2015). The effects of financial factors on Takaful demand in Malaysia. *Journal of Entrepreneurship and Business*, 3(1), 17 - 29.

Ismail, M. (2013). Determinants of financial performance: The case of general Takaful and insurance companies in Malaysia. *International Review of Business Research Papers*, 9(6), 111 - 130.

Jensen, M., & Meckling, W. (1976). Theory of the firm: managerial behaviour, agency costs and ownership structure. *Harvard University Press*, 3(4), 1 - 78.

Kader, H. A., Adams, M., & Hardwick, P. (2010). The cost efficiency of takaful insurance companies. *The Geneva Papers on Risk and Insurance-Issues and Practice*, 35(1), 161 - 181.

Li, D., Moshirian, F., Nguyen, P., & Wee, T. (2007). The demand for life insurance in OECD countries. *Journal of Risk and Insurance*, 74(3), 637 - 652.

Malik, H. (2011). Determinants of Insurance Companies Profitability: An Analysis of Insurance Sector Of Pakistan. *Academic Research International* 1(3), 314 - 320.

Matsawali, M. S., Abdullah, M. F., Yeo, C. P., Abidin, S. Y., Zaini, M. M., Ali, H. M., & Yaacob, H. (2012). A study on takaful and conventional insurance preferences: The case of Brunei. *International Journal of Business and Social Science*, 3(22), 163 - 171.

- Moghadam, K.H., Atefi, Z., Barati, P., Omid, M., and Zoghi, A. (2012). Performance comparison of Insurance Companies. *Interdisciplinary Journal of Contemporary Research in Business*, 4(7), 318.
- Outreville, J. F. (1996), "Life Insurance Markets in Developing Countries", *Journal of Risk & Insurance*, 63 (2), 263.
- Pottier, SW (1998). Life insurer financial distress, Best's ratings and financial ratios, *The Journal of Risk and Insurance*, 68(2), 275 - 288.
- Redzuan, H., Rahman, Z. A., & Aidid, S. S. S. H. (2009). Economic determinants of family takaful consumption: Evidence from Malaysia. *International Review of Business Research Papers*, 5(5), 193 - 211.
- Saad, N. M., Idris, N. E. H., & Edzalina, N. (2011). Efficiency of life insurance companies in Malaysia and Brunei: a comparative analysis. *International Journal of Humanities and Social Science*, 1(3), 111 - 122.
- Saad, N. M. (2012). An analysis on the efficiency of Takaful and insurance companies in Malaysia: a non-parametric approach. *Review of Integrative Business and Economics Research*, 1(1), 33.

Sekaran, U. and R. Bougie (2003). *Research Methods for Business: A Skill Building Approach*. New York: John Willey and Sons.

Shahid, I. (2018). Macroeconomic essence of Takaful: Exploring the significance and impact of Takaful in macroeconomic context. *Journal of Emerging Economies & Islamic Research*, 6(1), 26 - 31.

Tahira, H., & Arshad, Z. (2014). Comparative performance of Islamic and conventional insurance companies in Pakistan. *IOSR Journal of Business and Management*, 16(6), 33 - 45.

