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Determinants of demand on family Takaful in Malaysia

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Purpose

The purpose of this paper is to identify the driving forces that influence family Takaful demand in Malaysia. The paper examines various identified and available economics and socio-demographic variables.

Design/methodology/approach

Using ordinary least square (OLS) and generalised method of moments (GMM) techniques, the paper investigates the significance of the identified economic and socio-demographic factors in determining the consumption of family Takaful. The paper first examines a full model that combines all variables; second, a model that controls for product market factors; and finally, a model that controls for socio-demographic factors. Following Anderson and Nevin, Haberman, Lenten and Rulli and Josa the paper further separates all models into linear and log-linear demand functions.

Findings

The paper demonstrates that income, Islamic banking development, education, dependency ratio and Muslim population factors are positively related to Takaful demand. On the other hand, inflation, real interest rate, financial development and life expectancy appear to be the significant factors that adversely influence the total family Takaful consumption.

Research limitations/implications

The major limitation of this paper is the small sample size. Therefore, future studies may expand the variables omitted in this study due to unavailability of data, which may be influential in explaining the family Takaful demand in Malaysia. Possible influential variables may include government social security expenditure, price of Takaful and level of competition within the Takaful and insurance industry. Research should also be conducted on the impact of the legal system and government policies on the demand for family Takaful in the country. Finally, the

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Originality/value

It is obvious that there are very few studies that focus on the Malaysian market and indeed, none of them gives attention to the factors that influence demand for family Takaful. In this regard, this study contributes in filling the gaps in the scope and coverage of studies in similar area. While this study is expected to provide more understanding and awareness on the concept of Takaful and the factors that influence its demand, the authors hope that it would encourage more studies on various issues on the Takaful industry so as to help researchers to understand more aspects of this new emerging business.

Keywords: <u>Islamic finance</u>, <u>Islamic insurance</u>, <u>Family Takaful</u>, <u>Islam</u>, <u>Malaysia</u>, <u>Finance</u>

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