

SOUTH EASTERN UNIVERSITY COMMUNITY'S PERCEPTION ON TAKAFUL: AN EMPIRICAL STUDY BASED ON OLUVIL CAMPUS

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Takaful, which can be called as Islamic insurance, has been introduced as an alternative to the conventional insurance. It is based on the principle of Tabarru and is free from the interest and uncertainties which are prohibited in the Shari'ah for Muslims. As such, the objective of this paper is to examine the perception on Takaful among the people in the South Eastern University that is located in Oluvil, Sri Lanka. Further, the study attempts to identify reasons and factors that the South Eastern University Community has a negative perception on Takaful. For this purpose, a quantitative method is adopted. The samples were randomly selected and questionnaires were distributed for collecting data. Based on primary and secondary data, the study finds that the majority of the respondents do not understand as to what Takaful is. Despite that, they prefer Takaful to conventional insurance. The study concludes with suggestions and recommendations which are expected to be fruitful to the Takaful companies in Sri Lanka for their future endeavours.

INTRODUCTION

Every human being is facing risks in his or her daily life at various circumstances. These risks may occur in one's personal life, family life, and social life and even in business ventures. The real meaning

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of the term risk is the gap between the expected outcome and real outcome and risk may be expected or unexpected occurrences. To overcome the risk, there is a financial remedy scheme called as insurance. Insurance is a means of protection from financial losses. It is a form of risk management primarily use to hedge against the risk of a contingent and uncertain loss. Insurance contributes considerably to the general economic growth of the society by providing stability to the functioning process. The insurance industry develops financial institutions and mitigates uncertainties by improving financial resources and it provides safety and security against particular event. Similarly, when an insurance contract is concluded, there are two parties involved. They are insurer and the insured. The entity which provides insurance that is known as an insurer, or insurance company or insurance carrier. An entity who buys insurance is known as an insured or a policy holder.

Insurance scheme is not a new concept in Sri Lanka. Before 20th century, a number of insurance companies such as Royal Assurance, New India Assurance Co. Ltd, Ocean Accident and Guarantee Corporation Ltd were in operation. At present too, there are well-known insurance companies such as the AIA Insurance Lanka PLC, Allianz Insurance Lanka LTD, Arpico Insurance PLC, Ceylinco General Insurance, Janashakthi Insurance, etc.

On the other hand, Islam promotes an alternative insurance called as *Takaful* which means to correct un-Islamic aspects of conventional insurance. Islamic scholars came out with an excellent system of insurance based on Islamic law of contract. *Takaful* is sometime translated as solidarity or mutual guarantee or brotherhood is a cooperative system of reimbursement or repayment in case of loss, organised as an Islamic or *Shari'ah* compliant alternative to conventional insurance, which *Takaful* proponents believe contains forbidden *riba* (usury), *gharaar* (excessive uncertainty) and *mysir* (gambling).

In the Quran, it is clearly described how Prophet Yusuf (peace be upon him) filled the grain silos from the surplus of seven years of good harvest as a protection to ensure the availability of

continued food supply during the seven years of drought. This is a clear indication that one has to strive hard to avoid from being inflicted by any ill luck and at the same time be fully prepared. As such, there is a *hadith* which encourages the acceptance of *Takaful*: "Tie your camel first and then put your trust in Allah" (Sunan Al-Tirmithi, Hadith No.2517). As such, in Sri Lanka, there are some Islamic insurance companies such as Amana Takaful, Al-Falah Takaful, HNB Assurance PLC, etc.

The current research as mentioned earlier examines the perception of South Eastern Community on *Takaful* through an empirical study based on Oluvil campus. The South Eastern University of Sri Lanka is a State university located in Oluvil in Ampara district in Sri Lanka. It was established in 1995 as a university college and later it became a fully-fledged university in 1996. It has also a faculty in Sammanthurai. Hence, the university currently has six faculties such as Applied Science, Arts and Culture, Islamic Studies and Arabic language, Management and Commerce, Engineering and Technology. The university has 4591 students and nearly 553 employees. It is notable that the South Eastern University consists of various ethnic groups and this could be an important platform to promote Islamic insurance.

COMPARISON BETWEEN *TAKAFUL* AND INSURANCE

Many researchers and authors have presented a comparative study to differentiate *Takaful* from insurance which is illustrated in the table below and the differences discussed here might help readers develop a better understanding of the issue (Engku Ali, 2010; Zaatri, 2010; Razeeq, 2011).

Table 1: Comparison between *Takaful* and Conventional Insurance

| Compared factors | Insurance | <i>Takaful</i> |
|---|---|--|
| Contract | Exchange contract which sales and purchase will be conducted between the insurers and insured. | <i>Tabarru'</i> contract is the basic, beside <i>wakalah</i> or and <i>mudarabah</i> contracts. |
| Responsibility of Policy holder/ Participant. | The responsibility of policy holder to pay the premium to the insurer to be covered. | The responsibility of the participant to contribute to the <i>Takaful</i> fund which will mutually guarantee each other. |
| Responsibility of insurer/operator | Insurer is responsible and is liable to cover the policy holder from any risk that he will face. | <i>Takaful</i> operator plays the role of an administrator to manage and invest the <i>Takaful</i> fund. Not only that but also, it concerns to lend the <i>Takaful</i> fund (<i>Qard Hassan</i>) in case of deficiency. |
| Investment | Insurer can choose any investment that he thinks is profitable. It means that insurer is not restricted to strict conditions. | <i>Takaful</i> fund must be invested in <i>Shari'ah</i> approved investment instruments. |
| Surplus | Any surplus will belong to the shareholders | Surplus is owned by participants and the operator might share with them. |
| Goal of insurance/ <i>Takaful</i> company | The goal of the insurance is to provide the protection for policyholder and gain profit. | The goal of the <i>Takaful</i> company is to achieve the cooperation among the participants to protect each other. It also distributes a fair share of risk among the members. |

As outlined by Chua, the characteristics of *Shari'ah* compliant insurance are that both parties be sincere and the policy is for the sake of the hereafter and that there is nothing illegal in its aim and operations. It must be a commercial, profit-sharing, *mudharabah*-based contract between the insured or participant, who is the provider of funds, and the insurer or *Takaful* operator (custodian and manager of the funds). It has to be stressed that the creation of the *Takaful* contract itself is very much in line with Islamic values. These are providing financial helps against unexpected

future loss, contributing to the reduction of poverty, as well as encouraging the development of mutual cooperation and the spirit of brotherhood. It ultimately cultivates solidarity, establishing a self-reliant society, and lastly, encouraging trade and commercial activity to flourish. *Takaful* is a mechanism to help the *ummah* solve some of the social economic problems faced by many nations in this world. As narrated by Abu Hurayrah, the Prophet Muhammad (*s.a.w.*) said: "Whoever removes a worldly grief from a Muslim, Allah will take away one of his grieves in the hereafter whoever alleviates the needy Allah will alleviate from him in both the world and Hereafter".

Yusof cites a number of reasons influencing the design and offerings of *Takaful* business. First, Muslims felt the need to practice Islam and apply its rules and regulations in total. Second, Muslims desire a financial system that is able to create a truly Islamic economy for the sake of the *ummah*. Third, with the establishment of the Islamic banking system an inherent need arose for *Takaful* to complement its services and offerings. It was the historical evidence that Muslim jurists to acknowledge that the basis of shared responsibility in the system of "*aqilah*", laid the foundation for mutual insurance and in general conclude that insurance in Islam must be based on the principles of mutuality and cooperation. Muslim jurists' acceptance of insurance is outlined as follows:

- (1) That the spirit of cooperation will lead to a common good;
- (2) That assistance is provided to those in need through the contributions;
- (3) That the donation of a small sum is intended to divide losses and spread liability according to the community pooling system;
- (4) That all elements of uncertainty, *gharar* and *maysir* will be eliminated through the contribution and compensation offered; and
- (5) That there is no taking advantage of another at the cost of other individuals, i.e., a fair scheme for all (Yusof, 1996).

Mohd Shril Matsawali examines the public preferences and

understanding between *Takaful* and conventional insurance, and attempts to identify reasons and factors that make the conventional insurance contradicted with the *Shari'ah* principles. The samples were randomly selected consisting of residents of Brunei Darussalam and on-line questionnaires were distributed. Younes Soualhi also examines the awareness of *Takaful* among Kuwaitis and endeavors to determine any significant differences and conformities between demographic variables and the four aspects of awareness concerning general information, the features of *Takaful*, *Shari'ah* compliances and motives of *Takaful*. The research adopted a quantitative research design. Descriptive, T-test, ANOVA, and Discriminant analyses were employed to analyse the data collected via questionnaires. The research sample consisted of a total of 640 Kuwaitis from which 52% of the participants have not heard of *Takaful* despite the existence of 14 *Takaful* operators in Kuwait. More than 60% of the participants were unsure as to how their contributions would be invested (Younes, 2015).

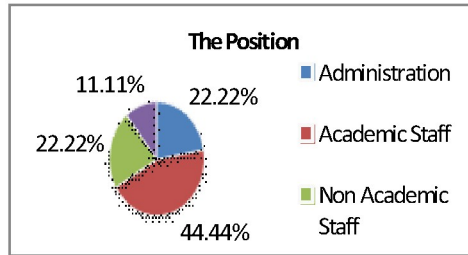
SOUTH EASTERN UNIVERSITY COMMUNITY'S PERCEPTION ON *TAKAFUL*

As far as the research area of this paper is concerned, as many Islamic insurance (*Takaful*) institutions have been established in the island. There are many people obtaining insurance policies day by day to mitigate unexpected risks. Although, the conventional and Islamic insurance institutions provide a lot of products and services, there is a gap in the interest of people in getting the services from the Islamic insurance institutions. It is the problem that the relationship between the educated community of South Eastern University and the Islamic insurance institutions. Accordingly, this paper raises the following questions. What is the perception on *Takaful* in South Eastern Community in Oluvil campus? Is the South Eastern University Community having awareness of *Takaful*? What is the percentage of the *Takaful* policy holders in South Eastern University Community people?¹

In an attempt to examine the South Eastern University

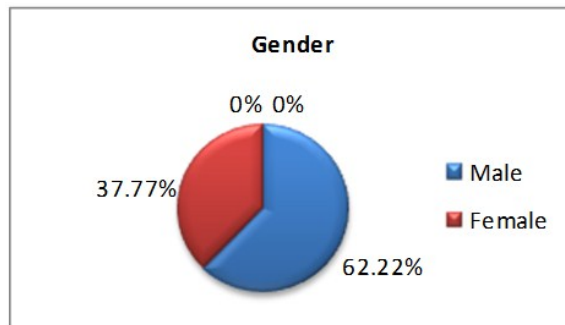
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Community's perception on *Takaful*, a survey was conducted. The method is basically quantitative. The questionnaire consists of 16 questions. Each question is designed specifically to derive relevant information from the respondents. In question (1) the questionnaire asked about the respondent's personal information. Other questions in the questionnaire asked about the respondent's preferences between *Takaful* and conventional insurance scheme. Lastly, the questionnaire asked about the respondent's understanding about *Takaful* and they are also required to give brief answers on the given questions.

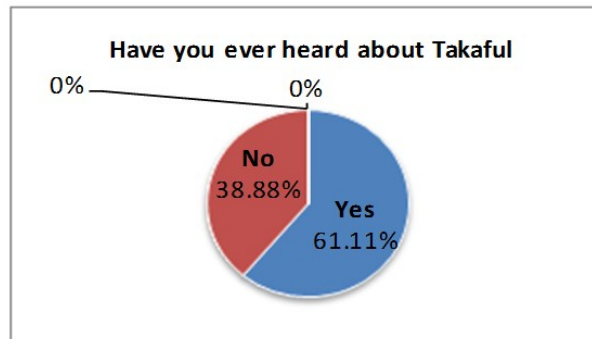


Here, this pie chart explains that the positions of respondents in South Eastern University of Sri Lanka which includes administrative, academic, non-academic staff and Students. According to the questionnaire, the academic staff contributes to 44.44% and students' contribution is 11.11%. Administrative and academic staffs contribute equally to 22.22%.

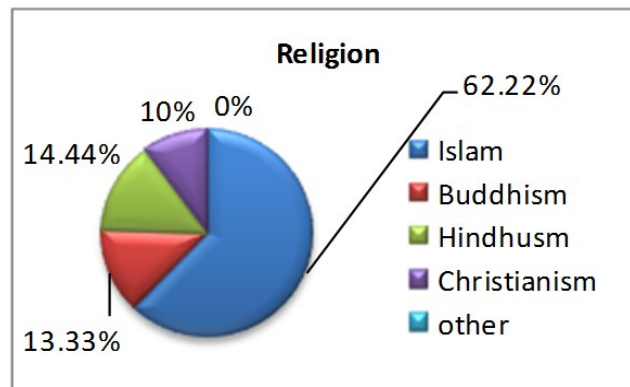
This pie chart explains about Gender based contribution. Here, 62.22% percentage of male and 37.77% female contribute.



This pie chart shows answers for their hearsay about *Takaful*. Accordingly, 61.11% percentage heard about *Takaful* and 38.88% percentage does not hear about *Takaful*.

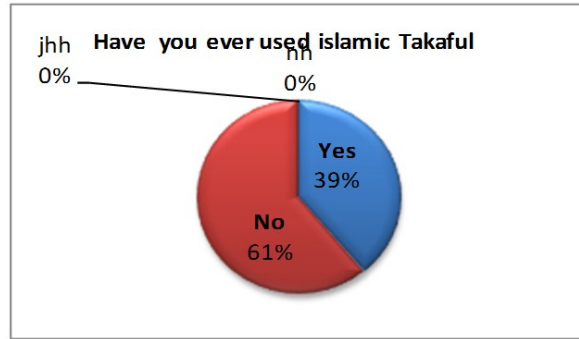


According to this pie chart, religions followed by the community of South Eastern University are elaborated. One can identify that the majority is Muslims who make 62.22% and Christianity makes 10%. So, South Eastern University includes the majority of Muslims and it is an easy to identify the perception on *Takaful* among them.



This pie chart shows the percentage of answers for the question: "Have you ever used Takaful?" according to this, 39% were using Takaful while 61% were not using Takaful. So, it is clear that most are using conventional insurance.

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Which is the most favorable insurance scheme for the current situation according to your perspective?

| | |
|------------------------|--------|
| Conventional Insurance | 17.7% |
| Islamic Insurance | 42.7% |
| I don't know | 39.44% |

According to this question, most prefers *Takaful* to conventional insurance. So, one identifies that *Takaful* is a suitable insurance scheme for the current situation.

If you chose *Takaful* what is the most important reason that attract you to use it?

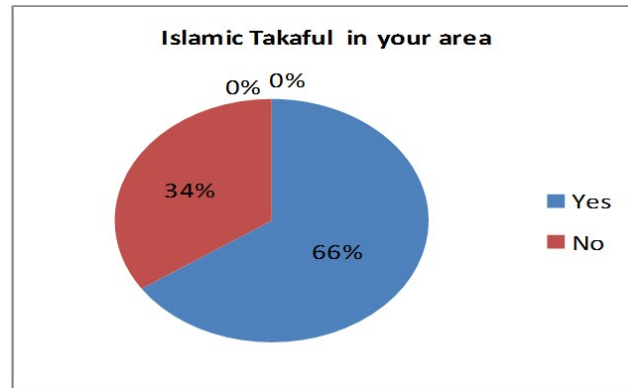
| | |
|---------------------------------|--------|
| Religion | 27.27% |
| Good for welfare of society | 2.59% |
| Religion and welfare of society | 67.53% |
| other than those reasons | 2.59% |

Here, 67.53% endorsed that they used it because of religion and welfare of the society.

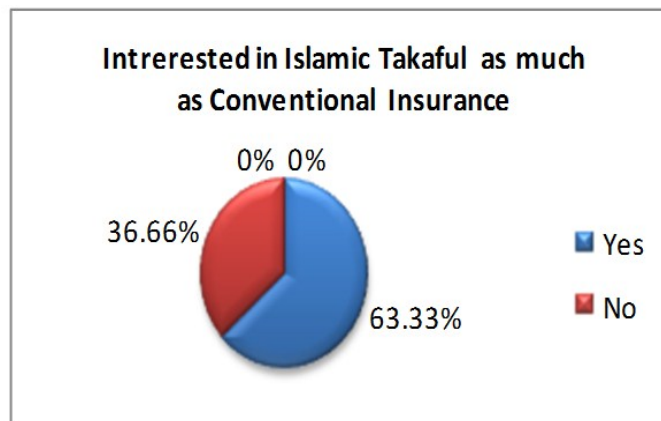
If you chose the conventional insurance what would be the most important reason that attracts you to use it?

| | |
|---|--------|
| I already well known about conventional insurance | 37.5% |
| I don't know about <i>Takaful</i> | 31.25% |
| I don't care about society | 0% |
| The procedure is simply to undertake | 31.25% |

According to this table, 37.5% uses the conventional insurance because they already know well it and 31.25% is yet to know about *Takaful*. So, that is the main reason for people are not using Islamic insurance.



This pie chart discusses about *Takaful* in respondent's area. Accordingly, in South Eastern University, most of the people are from Ampara district and others from Matale, Batticaloa, Trincomalee, Colombo, etc. So, 34% respondents answered that there was no any *Takaful* in their area and 66% respondents answered that their places have *Takaful*.



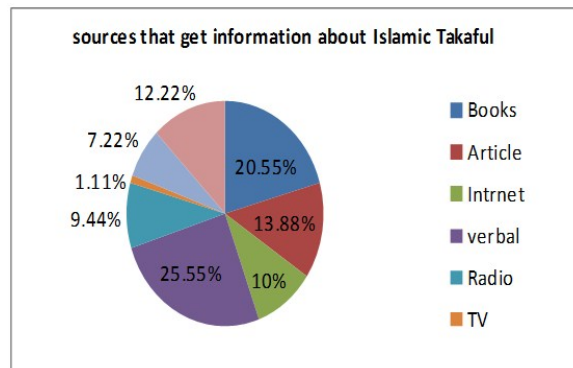
Here, respondents' answer for this question: "Are you interested in *Takaful* as much as Conventional Insurance. Accordingly, 63.33% percentage of respondents was interested in *Takaful* and 36.66% percentage of respondents was not interest in *Takaful* as much as conventional insurance.

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Do you think that *Takaful* provides its services only for Muslims?

| | |
|-----|--------|
| Yes | 63.33% |
| No | 36.66% |

According to the above table 36.66% percentage of respondents answered that *Takaful* was only for Muslims and other 63.33% percentage of respondents answered that *Takaful* was not only for Muslims.



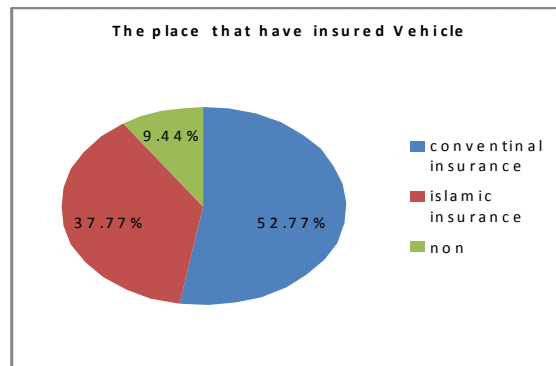
This pie chart explains about sources that get information about *Takaful*. According to that 25.55% percentage of respondent got information verbally and 20.55% of got from books. 1.11% of respondents were got information through TV.

For each description according to *Takaful* which is Deficiency to its services?

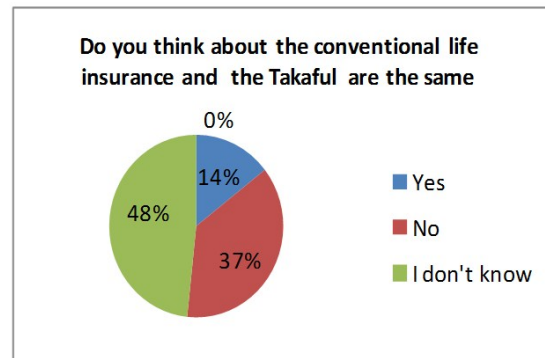
| | Strongly agree | Agree agree nor disagree | Neither | Disagree | Strongly disagree |
|--------------------------------------|----------------|--------------------------|---------|----------|-------------------|
| Insufficient resource persons | 24 | 57 | 36 | 42 | 21 |
| Lack of technology facilities | 25 | 58 | 41 | 37 | 19 |
| Lack of attractive advertisements | 33 | 59 | 40 | 28 | 20 |
| Deficiency of customer care services | 58 | 43 | 36 | 28 | 15 |
| The process takes a long time | 50 | 51 | 37 | 27 | 15 |

Here, 24 respondents strongly agreed that there were insufficient resource persons in *Takaful* and 42 were disagreeing and 21 of them were strongly disagreeing. 58 were agreeing with lack of technology facilities in *Takaful* and at the same time 59

accepted that lack of attractive advertisement. With all that 58 respondents strongly agreed with that deficiency of customer care services. And 50 were agreeing with that *Takaful* takes long time to process.



This pie chart says as to where the respondents insured their vehicles. According to that 52.77% percentage insured their vehicle at conventional insurance. At the same time, 37.77% percentage only insured their vehicle at *Takaful*. 9.44% percentage was not using any vehicle.



According to this pie chart, 14% of respondents were still thinking about that conventional life insurance and *Takaful* was same while 37% percentage of respondents answered that both were not the same. However, 48% percentage of respondents said that they don't know whether it was the same or not.

Research Findings

According to the study, most of the respondents consider that *Takaful* was a system of insurance based on the *Shari'ah*. However, the *Takaful* scheme is growing fast in Sri Lanka with a number of issues, challenges and obstacles. Further, the study found that 38.8% was not heard about *Takaful*. At the same time, it was especially noticed that 61% were not using *Takaful*. However, they are having conventional Insurance policy as they already more familiar with that. While comparing *Takaful* with the conventional insurance, it is observed that 58 respondents were strongly agreeing that on the part of *Takaful* institutions, customer care service was lacking. At the same time, 59 accepted that lack of attractive advertisement was a problem. According to the questionnaire, 63.33% percentages of respondents answered that *Takaful* was only for Muslims and other 36.66%percentage of respondents answered that *Takaful* was not only for Muslims. Moreover, it was identified that 48% percentages of the respondents were don't know whether *Takaful* and conventional insurance are the same or not.

CONCLUSION

Based on the foregoing discussion, it is concluded that the respondents agree that *Takaful* is an ideal alternative system to conventional insurance and they are ready to move towards the *Takaful* in future. With regard to the challenges and issues of *Takaful* scheme, the task to reach the objective of its establishment is challenging but promising. In order for the industry to continue to grow, undivided support and assistance from the government and regulators are essential. In the meantime, most of the problems and issues in the *Takaful* scheme in the country can be resolved through constant discussions and the exchange of ideas between regulators and the industry players. Further researches in Sri Lankan context have to be continued in order to achieve this goal. In addition, the following suggestions may also be proposed in order to enhance further the *Takaful* industry:

- (1) Making *Takaful* system accessible by everyone in the country;
- (2) Should have good awareness programs among public;
- (3) To provide the best customer care service;
- (4) *Takaful* institutes should disclose all the details of white listed company;
- (5) Employees should be well trained; and
- (6) Well trained resource persons and attractive advertisements are needed to give publicity for *Takaful* industry in the country.

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