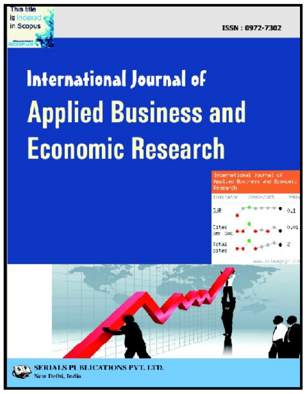


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# Religiosity and Demand for Takaful (Islamic Insurance): A Preliminary Investigation

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***Abstract:*** In a continuously changing and growing world of globalization, cultural constructions have provided insight into influence on consumer behavior and financial decision making. Religion plays a vital role in influencing individual and social attitudes, values, and behaviors, which in turn define the religiosity of any individual as a social being. Robust development in the Takaful (Islamic insurance) sector with numerous potential new market motivates the question regarding the relationship between religiosity and demand for Takaful. Therefore, this paper explores the importance of religiosity in influencing the demand for this religiously designed insurance through critical review of past studies to deepen the understanding of Muslims' need for Takaful, subsequently contribute to stakeholders' decision and policy making to promote the development of the Takaful sector.

***Keywords:*** Takaful, Islamic Insurance, Religiosity, Demand, Consumer Behavior

## I. INTRODUCTION

Every society has unique values which are commonly affected by numerous factors, such as religion, demography, and culture (Belzen, 1999). It cannot be denied that religion is one of the key influencers of national culture (Hofstede, 2001; Rice, 2003), with 84% of individuals around the world affiliating themselves with religion (Hackett & Grim, 2012). Furthermore, the population affiliated with a religion is projected to reach 86.8% in the year 2050 (Hackett, Stonawski, Potanèoková, Grim, & Skirbekk, 2015). The religious environment can impact institutional decision making and investment as well as financial decisions at the individual level. From the individual decision-making point of view, religiosity possesses greater influence and is believed to have a nexus with risk aversion. In response to human risk-averse behavior, insurance is promoted as a tool to switch or hedge the risk in the modern world. Generally, insurance plays a fundamental role in promoting economic well-being and development, which has led to the approval of conventional insurance. However, to a particular segment of consumers, i.e., Muslims, the concept underlying conventional insurance violates several Islamic financing principles. Given the growing evidence that culture impacts consumers' purchasing behavior and habits (Lehrer, 2004; Liu, Furrer, & Sudharshan, 2007; Ueltschy & Krampf, 2001), an alternative to conventional insurance, i.e., Takaful or Islamic insurance, was developed.

The demand for Takaful is growing due to Islam being the second-most-dominant faith in Africa and Asia besides Christianity and Hinduism, respectively (Hackett & Grim, 2012). With 308 Takaful operators worldwide,[2] global Takaful contribution reached US$14.7 billion in 2014 and is estimated to grow at a 10.8% compound annual growth rate (CAGR) over the next three years, generating USD 20 billion by 2017 and $25.5 billion by 2020.[3] Saudi Arabia and Malaysia are the top players in their regional markets, whose Takaful markets' growth momentum are driven by government support and socioeconomic demographics.[4] Despite the growth in the Takaful sector, the low Takaful penetration rate[5] indicates that a small percentage of Muslims has subscribed to Takaful protection (Rahman, Yusof, & Bakar, 2008; Yazid, Arifin, Hussin, & Daud, 2012). Furthermore, the Takaful market exhibits huge growth potential through the untapped Takaful markets in the large Muslim population nations such as India and China (see Ahmad, Masood, & Khan, 2010). Recently revised and enhanced regulatory frameworks in different countries such as Bahrain and Kuwait, with regard to operators' financial healthiness, is believed to strengthen the Takaful industry and is expected to facilitate a future increase in the Takaful demand without sacrificing stakeholders' interest.[6]

Research has documented that religiosity has a positive relationship with risk aversion (see for example Bartke & Schwarze, 2008; Miller & Hoffmann, 1995; Hilary & Hui, 2009). Meanwhile, few others have recognized religion and the risk-aversion nexus among religious groups. Barsky, Juster, Kimball, and Shapiro (1997) documented that the American Catholics' willingness to accept a degree of uncertainty is lower than that of the Jews but higher than the Protestants. Meanwhile, Bartke and Schwarze (2008) accepted that Muslims are less risk tolerant than Christians are. Following the methodology applied in the work by Hilary and Hui (2009), Benjamin, Choi, and Fisher (2013) claimed that Catholicism reduces risk aversion. Parallel to previous studies, the work of Noussair, Trautmann, Kuilen, and Vellekoop (2013) suggested that religiosity and the financial risk nexus has an inverse relationship. Moreover, their findings supported the study by Barsky *et al.* (1997). Overall, some studies have discussed the influence of religion on economics (Guiso, Sapienza, & Zingales, 2003; Guiso, Sapienza, & Zingales, 2008; Keister, 2003) and financial activities (Crowe, 2009; Paciotti *et al.*, 2011 ; Peifer, 2014; Georgarakos & Fürth, 2015), but most of these studies consider the Christianity or religiosity of Christian individuals. Furthermore, religiosity is employed in studies in which the authors discuss the connection of religiosity to personal trust (Altman, 2012) and the individual's degree of cooperation (Iannaccone & Berman, 2006; Ruffle & Sosis, 2007). Since Takaful contracts are developed based on the trust and cooperation of the participants, it connotes the significance of religiosity in Takaful studies, especially from a demand perspective.

Wilson and Liu (2011) argued that Muslim consumers hunt for high participation in Islamic products due to their faith and opt to sacrifice their economic satisfaction if it clashes with Islamic principles. Given this context, the emergence of the Takaful industry should be seen as a provider of an innovative risk mitigation solution for Muslims around the world that complies with their religious tenets. Hence, it is expected that the more religious an individual is, the more he or she should be driven to subscribe to Takaful products. Past studies have employed Islam as a religion or proportion of the Muslim population to indicate Muslims' participation or demand in conventional insurance studies (see for example Beck & Webb, 2003; Browne & Kim, 1993; Chui & Kwok, 2008; Outreville, 1996). Likewise, others employed the Muslim population as a part of the demographic variables or sometimes apply only Islamic beliefs to discuss the Takaful demand and participation (see for example Souiden & Jabeur, 2015; Sherif & Shaairi, 2013; Abdullah, 2012; Husin & Rahman, 2016). However, these variables do not provide insights into how an individual influenced by religion consumes Takaful products or services and consequently creates demand. As it has been postulated, religiosity is a very individual and multi-dimensional construct instead of a uni-directional one (De Jong, Faulkner, & Warland, 1976). Therefore, the study of the effect of religiosity of individuals on Takaful presents an opportunity to advance the understanding of the role of religion in such a religiously designed financial product; that information is useful for the market players like government authorities, policy makers, and Takaful operators in their decision making. Such a relationship is currently not clear and unexplained. Hence, the objective of this paper is to critically review the literature on the influence of religiosity as a more reliable and appropriate measurement for the demand of Takaful products.

Following this introduction, Section II presents the Takaful concepts theoretically and operationally as well as the principles and future growth prospect of Takaful market. In Section III, the discussion continues on the differences between religiosity and religion and their prominent and relevant field of studies. Subsequently, Section IV reviews the role of religion to extricate Islamic Insurance, i.e. Takaful, from conventional insurance. It also discusses the importance on religiosity as an appropriate and more reliable measurement of Takaful demand and participation. Finally, Section V concludes the paper by highlighting the appropriation of religiosity as a measurement in Takaful demand studies and offers some suggestions for future research in this field.

## II. TAKAFUL – CONCEPTS, PRINCIPLES, AND DEVELOPMENT

Conventionally, risk can be mitigated to another party who is willing to undertake the risk. Insurance is used as a tool to switch or hedge the risk as a consequence of human risk-averse behavior. Evading risk at the expense of others is considered acceptable and is presently being practiced throughout the world. However, if religion is fused in this scenario, specifically Islam, such risk-aversion activities are dubious. This is because Muslims believe in qada' and qadar' (fate and destiny) and that everything that happens is the will of Allah (S.W.T). Hence, the majority of Muslim scholars have believed that purchasing life insurance cover to ensure disbursement in the event of demise is a bet against Allah (S.W.T). However, Karich (2004) contended that the acceptance level for life insurance is low in Muslim countries because it is not well understood and is associated with misfortune and negative aspects of life. Moreover, Islam as a religion also encourages its followers to take precautionary actions to lessen the impact of any risk without oppressing other parties. Several ahadith suggest that Muslims should protect themselves from unfavorable incidents and leave the consequences to God. In one hadith, Anas ibn Malik (R.A.) reported the following:

> *One day Prophet Muhammad (peace be upon him) noticed a Bedouin leaving his camel without tying it. He asked the Bedouin, "Why don't you tie down your camel?' The Bedouin replies, "I put my trust in Allah." Prophet then said, "Tie your camel first, then put your trust in Allah."*[7]

In another hadith, Osama Bin Shareek (R.A.) asked the prophet,

*"When we get ill shall we go for the treatment?"Prophet replied:"Oh men of Allah! Yes, you should seek treatment, because God almighty has created the treatment and cure for all diseases except for aging".*[8]

Theoretically, Takaful is perceived as a cooperative agreement among participants, where members contribute a certain sum of money to a common pool. Takaful agreements are based on the contract of *kafala,* which has apparent similarity with the conventional insurance contract. The Arabic verb *kafala* stands for 'taking care of one's needs.' Though Takaful is treated as Islamic insurance unlike conventional counterpart, the purpose of this system is not profits but to uphold the principle of 'bear one another's burden.' This is the essence of the exercise in which participants in a group reach an agreement to protect themselves against damage or loss, which comprises the components of shared responsibility, common interest, joint indemnity, and solidarity (Wahab, Lewis, & Hassan, 2007). In other words, Takaful is a type of joint guarantee insurance mechanism; it is based on the law of large numbers through which a group of societal members pools their financial resources together against specific loss exposures whose objectives and operations do not encompass any elements which are not permitted under the Shariah principle (Wahab *et al.*, 2007). This distinguishes Takaful from conventional insurance because it does not contain uncertainty of price and delivery of the product (*gharar*), gambling (*maysir*), interest (*ribâ*), violation of Islamic law of inheritance (*mîrath*), and unlawful appropriation of others' property in the product structures perspectives (*akl-l-mâl-bil-batil*).[9]

Operationally, Takaful is based on three main concepts: Mudharabah, Wakalah, and Tabarru. Mudharabah means profit-sharing, under which participants authorize Takaful operators to act as administrators and managers of the fund. Mudharabah gives the right to both parties to share the profits, and the loss is only endured by the participants. Wakalah represents an agency contract under which the Takaful operators will be paid a service fee for the service they delivered to the participants. Tabarru means a donation, gift, or contribution to the scheme. It anchored the Takaful system free from uncertainty and gambling. The contemporary evolution Takaful model, Waqf, is based on the Tabarru and Mudharabah concepts, which are mainly used in Pakistan and South Africa. Although each model comprises different sets of rights and obligations between the insurers and the insured parties, all models must comply with the Shariah technical and regulatory concerns.

In general, insurance is treated as a luxury product and therefore, a positive nexus is expected between the Takaful penetrations (representing insurance demand) with Gross Domestic Product (GDP) per capita. Using the data obtained from World Islamic Insurance Directory 2015 and the World Bank website,[10] Figure 1 below illustrates that the Takaful market has a lower penetration rate when compared to the conventional insurance[11], with a less than 2% penetration rate. For instance, the Takaful penetration rates for Malaysia and Saudi Arabia are 0.93% and 1.09%, respectively, even when they are the main players in the Takaful market in their respective regions. Meanwhile, Sudan, the first country to introduce Takaful, has a penetration rate of just 0.41% of its GDP. On the other hand, UAE, Kuwait, and Qatar are categorized as having high potential growth markets, as they are the countries with higher GDP per capita, indicating higher purchasing power for Takaful products. The projected growth in these high potential markets is optimistic because of the existence of regulatory infrastructure and political will. For example, the Insurance Regulator in UAE recently introduced Financial Regulations on 29 January 2015 to enhance the Insurance Law by including Solvency Capital Requirement (SCR) and Minimum Guarantee Fund (MGF),[12] applicable for both conventional insurance and Takaful operators. This motive can strengthen industry asset quality and solvency and directly improve consumer trust and boost profitability. On the other hand, the Ministry of Commerce and Industry (MoCI), the chief insurance regulatory entity in Kuwait, announced that it has scheduled to push for the adoption of a new insurance law which is currently in the midst of drafting and approval.[13] This law is expected to protect Takaful holders' interests. Overall, the low Takaful penetration levels in countries with large Muslim populations and high purchasing power indicate considerable latent Takaful demand.

In addition to penetration rate, density is a popular measurement used to indicate the level of development of insurance. Density measures how much each person in a country spends on Takaful products in term of premium. Figure 2 below shows the Takaful density for several Muslim-majority countries. Within the table, Brunei is exemplified as a Muslim-majority nation where Takaful, introduced in 1993, is recorded at the highest density at US $367.50, which is greater than Saudi Arabia and Malaysia, which have longer Takaful history. At the same time, Takaful also outperforms its conventional insurance sector in its country for the past few years.[14] Meanwhile, Pakistan which is the third-largest Muslim population in the world, has Takaful density at the lowest. In fact, its conventional insurance density is at US $ 11 per capita compare to world average US $ 662 per capita[15]. The shallow insurance penetration and insurance density are due to lack of understanding about insurance amongst its people.[16] Besides, it may be caused by low income per capita and low saving rate in most rural population[17].

With a world Muslim population forecasted to achieve 2.2 billion in 2030,[18] a Takaful penetration rate of less than 2% and average Takaful density of US$18.42 as shown in Figure 1 and Figure 2, indicates that the demand and prospect of Takaful may positively attract interest across the country. However, as the low GDP per capita take into concern in Muslim majority countries, microtakaful[19] should be promoted in

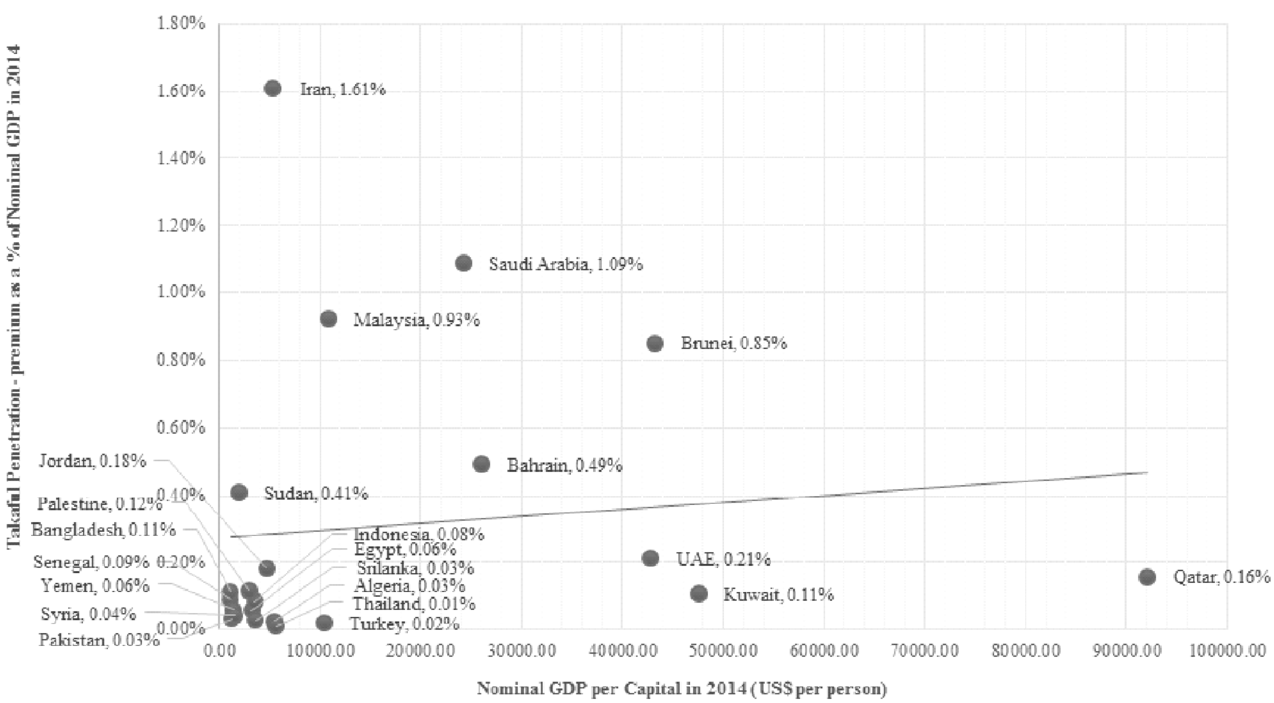


**Figure 1: Takaful Penetration and GDP per Capita for Selected Muslim Majority Countries in Year 2014**

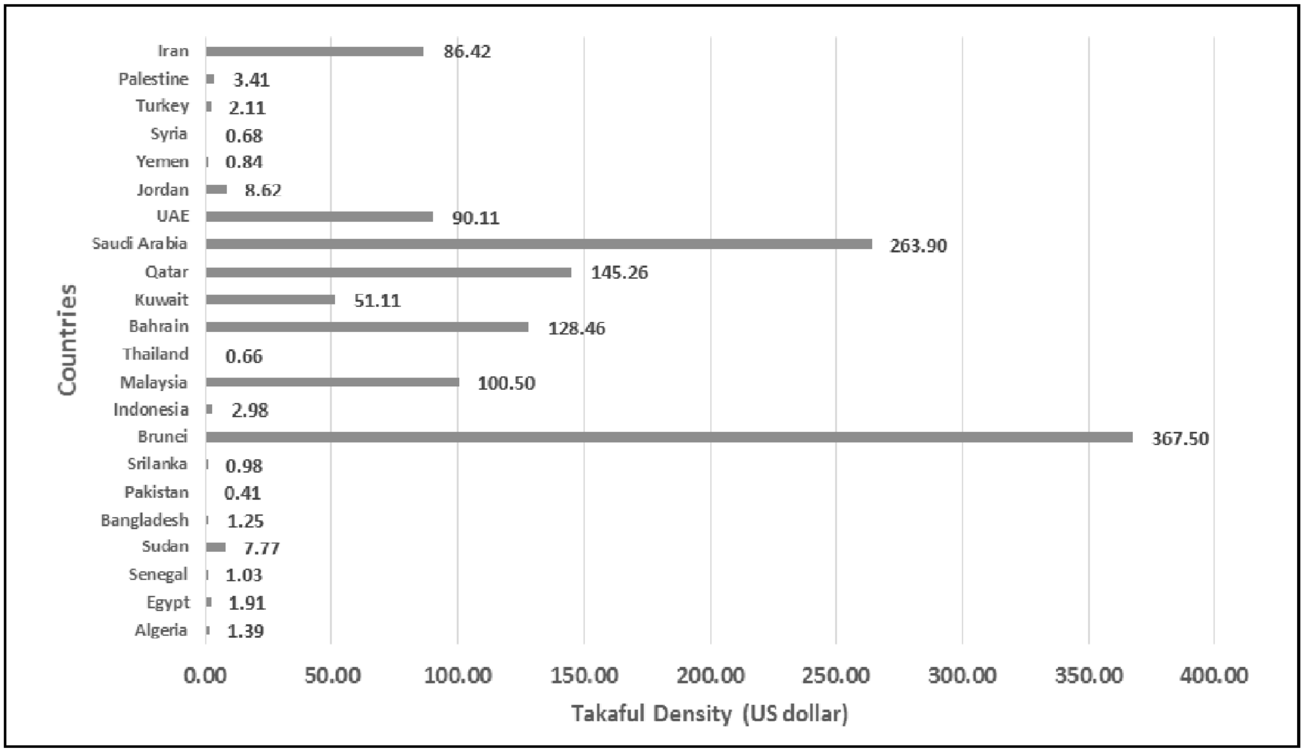


**Figure 2: Takaful Density for Selected Muslim Majority Countries in Year 2014**

these countries to fulfill the need for the low income Muslim family and support poverty alleviation. Overall, various awareness campaign should be done by Islamic scholar to increase public awareness and acceptance on Takaful.

## III. RELIGION AND RELIGIOSITY – CONCEPTS AND RESEARCH IMPLICATIONS

Before probing into the association between religiosity and Takaful demand, the term religiosity must be elucidated, as does the literal analysis of religion itself. This breakdown is necessary to provide a distinctive understanding of both terms. Although the current study investigates the unique role of religiosity in Takaful, this section also discusses the related fields of study that consider religiosity as a vital influential factor in order to illuminate its importance.

### 3.1. The Concept of Religiosity

The word 'religion' (religio) has two distinct origins. First, 'relegere,' from the term 'legere,' means to bring together, to harvest, or to gather (in). Second, 'religare,' from 'ligare,' means to tie or to bind together (Benveniste & Lallot, 1973). The first meaning suggests the religious foundations of any social group that is gathered together, while the second indicates the disciplines or morality that are essential for controlling human beings and creating a regulated mentality (Benveniste & Lallot, 1973). In the same vein, Arnould, Price, and Zinkhan (2004) define religion as a cultural subsystem that refers to a unified system of beliefs and practices relative to a sacred ultimate reality or deity. Furthermore, Rehman and Shabbir (2010) define religion as a strong faith in a supernormal power that controls human destiny or an institution to express belief in a divine power. According to Ferraro and Elizabeth (2016), these values are transmitted to future generations through the process of learning and environment interaction rather than through the genetic process. As a result, these religious commitments and beliefs influence the emotional and behavior of individuals towards their practices to act in a specific way that is considered socially acceptable within the group comprising consumption, consumer belief, and preference (Fam, Waller, & Erdogan, 2004; Rehman & Shabbir, 2010; Slowikowski & Jarratt, 1997). Hence, the needs of individuals differ from one society to another, depending on the influence of these values and ethics (Muljawan, 2002). The reasons behind these influences are the scriptures and teachings of religions, which define human relations and exchanges in everyday affairs.

On the other hand, the term religiosity can be defined as the notion of individuals' actions that may be influenced by the extent of their religious knowledge and beliefs (Holdcroft, 2006). As a note, religiosity is always found to have the same meaning as such terms as religiousness, devotion, orthodoxy, belief, faith, piousness, and holiness. Religiosity may also vary from a different point of view. Bjarnason (2007) states that religious affiliation, religious activity, and religious belief are considerably consistent with the definition of religiosity. It is possible to be religious in one way without being religious in other ways because religiosity is an individual's level of commitment to a particular religious group (Fam *et al.*, 2004). A person can always attend religious activities (i.e., in church or mosque) but not truly accept its doctrines, or one could be extremely devoted in private. A religious person might disallow some dimensions of religiosity that invade everyday life; a person may believe or know, but opt not to live accordingly. Bergan and McConatha (2001) denoted religiosity as a number of measurements correlated with religious beliefs and participation. Early studies employed religious attendance as a measure of religiosity. However, depending on religious attendance alone as a measure of religiosity could cause inaccurate and incorrect results, particularly in research with elder adults, for whom attendance might pose physical difficulties. Therefore, for this population, religious belief systems, and private devotions can function as more accurate religiosity measures. To distinguish religiosity from religion, Stolz (2009) denotes religiosity as individual preferences, beliefs, emotions, and reactions that refer to an existing religion. Religion then indicates the whole of the cultural symbol-systems that react to problems of meaning and contingency by referring to a transcendent reality which influences daily life that, however, cannot be controlled directly. Therefore, religiosity refers to an individual, while religion is a cultural phenomenon. If an individual prays, believes, sacrifices, and fears or loves his or her god, then he or she demonstrates religiosity. The present study argues for concentrating on religiosity for the better understanding of demand, which is transmitted through the behavior of an individual rather than merely concentrating religion.

### 3.2. Religiosity in Business Research

The study of religiosity has taken place in different disciplines for a long time. Though analysis of religiosity may seem novel in business research, academics' interest in the influence of religion on economics is not new. The economic significance of religion was first flagged by Adam Smith, whereas in others' opinion, Weber was the first author to establish a clear link between religion and economics (Iannaccone, 1998). The association between economics and religion stems from the study of variables, and that attracts the interest of economists in this field. Religion has come out as one of the vital factors that work as stimuli of individual and institutional financial behaviors as well as investment choices in addition to other dynamics like culture, social relationships, and institutional factors. For example, religiosity places a higher emphasis on the importance of savings (Guiso *et al.*, 2003). The influence of religion on individuals' financial decision making can be a valuable area of examination, and the concept of religiosity gains more relevance in finance disciplines.

Although there is little empirical work on how the existence of a bequest motive influences savings and investments decisions, past studies in the financial industry prove that religion is correlated with a range of financial-economic outcomes. For instance, game theorists highlight that religiosity stimulates fidelity (Paciotti *et al.*, 2011), which indicates the positive impact of religiosity on investors' behavior. Peifer (2014) identifies that investors in conventional and socially responsible (SR) funds are more loyal to that SR funds than their conventional counterparts, which is stimulated by the religious adherence of the investors. The author claims that even such assets performed poorly in the past, as investors motivated by religious belief and affection tend to remain with their investment portfolios, which implies the influence of religion on investment choice. Moreover, behavioral finance theories suggest that investment selections influenced by psychology and emotion of human beings and such psychology and sensation are shaped to a large extent by religious beliefs and teachings (Musse & Echchabi, 2015; Alam *et al.*, 2012). As a result, religiosity has gained importance among researchers as it works as an impetus to the various moral qualities of individuals. Altman (2012), for example, argues that religiosity is the most significant driver of personal trust. If we stress the point of trust, further harmony of conclusions between trust and religiosity are found; economists and sociologists both settle on the issue that religiosity promotes trust among individuals (Guiso *et al.*, 2003). In other words, a higher level of trust is exhibited by religious individuals than secular or nonreligious persons. Again, religious influence on prosaically behavior has been found by some authors, which specifies that religious beliefs support cooperation and social morals (Iannaccone & Berman, 2006). Meanwhile, Ruffle and Sosis (2007) look into the effect of religious activities and conclude that involvement in religious group prayers and rituals prompt a greater degree of cooperation. If we consider a particular religion to understand the effect of religious piety, for instance, Islam (as it is more relevant to the interest of this particular study), many such guidelines relate to the treatment of money and wealth and moral conduct in commercial exchange, which results in *ribâ* and risk-taking, as well as the undertaking of charity and zakat, among others. Following this line of argument, this study reveals a distinctive set of financial needs among the Muslim community that has resulted from the Islamic principles embedded in its belief system (Al-salih & Holloway, 2014).

Additionally, religion might not have an emotional impact on individual decision making solely rather by its dimension(s) which is defined as religiosity. Several studies investigate the dimensions of individuals' religion in other business fields of study besides economics and finance. For instance, Alam, Mohd, and Hisham (2011) examined the influence of religiosity on the consumer behavior of the Muslim population and confirmed that religiosity plays a full mediating role in Muslim consumers' purchase manners. An experimental demonstration of this effect was carried out by Chintrakarn, Jiraporn, Kim, and Tong (2016), who examine the influence of religious piety on the wealth of shareholders by investigating acquirer returns and measured by the stock market responses to the acquisition announcement. The study demonstrates that firms that are located in more religious settings tend to engage in better acquisitions. The study of religiosity has also been exemplified in the work undertaken by Kanagaretnam, Lobo, and Wang (2015) in the accounting arena, where the authors attempted to illustrate the effect of religion on earning management in terms of reporting and concluded that religiosity is negatively correlated with income-increasing earnings management for loss avoidance as well as meeting-or-beating the earnings of preceding years. Moreover, their findings confirmed the negative relationship between religiosity and the income-smoothing behavior of banks, which indicates the clear effect of religiosity on bank reporting. In addition, they argued that religiosity greatly increases the information value of bank earnings, with both earnings persistence and cash flow predictability being enhanced by higher religiosity. Considering the banking industry in an international setting, Chen, Huang, Lobo, and Wang (2016) measured the effect of religiosity on the cost of debt and concluded that stronger religiosity is associated with lower loan interest spread. It was revealed that religious values play a more significant role in constraining opportunistic behavior in a weaker legal environment. They claimed that stronger religiosity is also related to other favorable terms in loan contracting as well as associated with lower loan interest spread. Benk, Budak, Yüzbaþý, and Mohdali (2016) enhanced the scope of the study of religiosity by analysing its effect on tax compliance among Turkish self-employed taxpayers, and they tried to explore the impact of religiosity on voluntary tax compliance and enforced tax compliance for self-employed taxpayers in Turkey, where Islam is the predominant religion. To do so, they considered two dimensions of religiosity – interpersonal and intrapersonal religiosity – and found a statistically positive impact on both voluntary and enforced tax compliance.

## IV. RELIGIOSITY AND TAKAFUL DEMAND

Religiosity has gained importance in different areas of business research, where the primary interest lies in studying individual decision making. As a religion, Islam is distinct, as it has complete guidelines for its followers, so the financial activities are expected to be trenchant as well. The Islamic guidelines in general are seen as a source of social morals, trust and cooperation (Altman, 2012; Iannaccone & Berman, 2006; Ruffle & Sosis, 2007). In the context of the current study, it is worthy to note that Takaful is a business model which is based on cooperation, in which trust has a significant role to play. This has become a remarkable risk management alternative in addition to conventional insurance with its Shariah appeal and is predominantly retail driven in most markets. However, the relationship between demand and religion is not well understood due to the lack of detail study concerning this association. As discussed previously, the powerful influence of religion can be deciphered if studies are conducted from the participants' stance, which connotes the study of religiosity. Moreover, according to Miller and Hoffmann (1995), religiosity has a positive relationship with risk aversion. Their study is in parallel with the findings by Bartke and Schwarze (2008) that religious individuals are less risk-tolerant than atheists. This illuminates the clear significance of in-depth studies on the subject of religiosity and Takaful.

At the same time, religion influences a variety of consumer behaviors, such as information seeking and product innovativeness (Hirschman, 1981) and hence possibly cultivates the increasing demand for Takaful. Studies have indicated that consumers communicate their religious identities to others and express the intensity of their beliefs through consumption choices (Coşgel & Minkler, 2004; Souiden & Rani, 2015). Souiden and Rani (2015) asserted a religious Muslim demonstrates the following: believes in God, obeys his laws, fears punishment, develops an interest in his/her religion, practices it, is patient and does not yield to temptation. By considering such measurements, authors inspect the impact of religion on consumers' attitudes and purchase intentions toward Islamic banks. Considering such manifold aspects to define Muslims' religiosity, they found that individuals' religiosity significantly influences their attitude toward Islamic banks. Services provided by Islamic banks are different than those of Islamic insurance; however, both theoretically follow the Shariah principle. Performing a comparative study between conventional life insurance and Islamic insurance, Souiden and Jabeur (2015) investigated the role of Islamic beliefs in moderating consumers' attitudes and purchase intentions and found that the higher (lower) the Islamic beliefs of individuals, the less (more) favorable their attitude will be toward conventional life insurance and the more (less) favorable their attitude will be toward Islamic life insurance. In Muslim countries, the demand for life insurance is weak or negatively correlated with religion, and that demand is lower than in non-Muslim countries because of individuals' Islamic beliefs and Islamic laws banning such services. In a recent study, Husin and Rahman (2016) employed the Theory of Planned Behavior (TPB) to show the inter-relationships among attitudes, subjective norms, perceived behavioral, control and purchase intentions in Takaful products participation. Their study revealed factors like awareness, knowledge, exposure, attitudes, and perceived behavioral control of the Muslims consumers regarding family Takaful participation as essential elements in defining their inclination to participate in the scheme. This knowledge and exposure are found to affect intention and attitude considerably. In that study, a model and series of propositions are developed which are stated openly for empirical verification and can devise the foundation for a research stream on Takaful participation. Similarly, the study conducted by Alam *et al.* (2012) applied the TPB in light of Islamic home finance by Malaysians, examining Klang Valley as a sample. Through the analysis, the authors denote that perceived behavior control, attitude, and religiosity has significant and positive effects which stimulate the intention to accept Islamic home financing. According to Soesilowati (2010), Muslims' religiosity determines their intention to consume Shariah-compliant products. This study argues that Muslims' religiosity influences purchase intention toward Islamic Financial Products (IFPs) directly and indirectly by influencing their attitude toward them.

In addition to intention, demand represents a more rigorous measure of the development of Takaful, as it takes into consideration the financial ability of individuals to consume products or services. A handful of studies related to Takaful consumption have used demand through a different proxy to identify influential determinants. For instance, Sherif and Shaairi (2013) discussed the determinants of demand on family Takaful in Malaysia by considering various identified and available economics and socio-demographic variables in the Malaysian context. Their study revealed that income, banking sector development, education, dependency ratio and Muslim population factors to be positively related to Takaful demand. Meanwhile, Abdullah (2012) conducts a comparative study of family Takaful demand and life insurance in Malaysia and found a significant association between the GDP per capita, savings, and religion with demand for both types of insurance.

Research on Takaful is comparatively new but the number of studies in this field is increasing. It is evident from the above that researchers have considered religion as one of the prominent factors which has substantial effects on determining demand of this financial product. However, the studies evaluated so far have not examined the distinctive role of religiosity and Takaful demand.

## V. CONCLUSION

Takaful has become an attractive alternative to conventional insurance as a mechanism to mitigate risk, but at the same time it adheres to religious principle. Although Takaful penetration and Takaful density are still low, its rapid growth and optimistic future expansion have raised concern regarding the influential factor(s) behind Takaful participation and demand worldwide. Hence, a growing number of studies have been carried out to explain the effect of different factors that could promote Takaful demand. To date, studies on Takaful have not discussed in detail the issue of religion. Researchers have not investigated religion in much detail beyond the main point that Takaful is an alternative insurance that complies with religious tenets. Such approaches, however, have failed to address the customers' individual financial decision making stance. When we are discussing demand or participation in any product or service, the customer's behavior should be taken into account. In this case, religion is one of the most influential factors on individual behavior. Now when we consider religion at the individual level, the consideration of religiosity is more pertinent. This is because religion is a collective phenomenon, while individuals show different levels of knowledge, affection, or religious activities in their life. Such dimensional segregation and measurement are expected to provide a better understanding of the issue.

This paper proposes religiosity as an influential factor on Takaful demand for two reasons. First, religiosity has been well known with primary interest to understand individual behavior, and decision making is lacking in Takaful participation and demand-related studies. Second, the important distinction between religion and religiosity emphasizes that religion is a cultural phenomenon in society, while religiosity is an individual's belief and reaction to an existing religion. Religiosity is considered a more appropriate measurement than using religion as a proxy, which looks at the personal dimensions of individuals or consumers. This finding can help researchers to understand how individuals or consumers are influenced by religion in their life as they make a decision. Our critical review reveals that this lack of attention regarding religiosity in past studies can stimulate more studies on this subject. Firstly, we suggest future studies can test the impact of religiosity on Takaful demand. To do so, Muslim religiosity should be considered primarily as comprising Muslims' values, and cultures should be seen as different from others shaped by their distinct religious faith and standard of living. Thus, only a multidimensional impact analysis of religion can fill the existing gap in the literature which so far has been largely confined to Christian religiosity and focused on western societies. Secondly, future research can be extended to the country level and be applied to cross-country analysis. Through such study, if the strength nexus between religiosity and Takaful demand is found to be high but Takaful penetration and density are low in Muslim majority countries, that would be an indication for the government to promote Takaful business by reviewing the existing legal environment.

## NOTES

1. Finance Forward (2016)
2. Ernst and Young (2015)
3. See Ernst and Young (2015) and Finance Forward (2016)
4. The Takaful penetration rate refers to the level of the development of Takaful in a particular country. This rate is measured by dividing the gross Takaful written contributions/premiums by the Gross Domestic Product (GDP).
5. See Central Bank of Bahrain (2015); Oxford Business Group (2015, 2016a).
6. *al-Tirmidhi*
7. *al-Tirmidhi*
8. see Ayub (2007), Khorshid (2004), and Saller (2013).
9. *http://data.worldbank.org/*

10. World insurance penetration is average 6.2%. See Staib, Puttaiah, and Ronke (2015).
11. UAE Insurance Authority (2014).
12. Oxford Business Group (2016b).
13. Oxford Business Group (2016b).
14. See Staib, Puttaiah, and Ronke (2015) for world insurance penetration and density in year 2014.
15. Gallup Pakistan (2016).
16. Only 16% of the population have bank account. See Gallup Pakistan (2016).
17. Pew Research Center (2011).
18. Microtakaful is designed for poor and low income households where its market awareness with insurance is low, by low and affordable contribution.

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