

PARTICIPANTS' KNOWLEDGE AND EDUCATIONAL BACKGROUND ABOUT TAKAFUL PRODUCTS & SERVICES: AN EMPIRICAL STUDY ON SAUDI ARABIA

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ABSTRACT

Takaful (Islamic insurance) is one of the fastest-growing developing segments in the Islamic financial industry. The *takaful* market in Saudi Arabia remains the largest among the GCC countries with a contribution of US \$2.9 billion in 2008. Participants in the *takaful* industry are the main stakeholders and their equity consists of ownership of the underwriting activities and the investment funds. However, given the newness of the industry the information gap about the sector among the policyholders or participants who require the service and suppliers who provide it is large. One possible reason of this gap may be due to lack of information dissemination or a shortfall of disclosing the required information to participants by the *takaful* operators (TOs), which causes weak knowledge among participants of the *takaful* principles. Most of the research that has been conducted around customer knowledge and awareness focuses on Islamic banking service and products which comes from the Malaysian market. These studies have found a customer with low knowledge and awareness about the principles of the Islamic financial institutions products. No studies have been conducted to systematically document participants' knowledge and awareness about the principles of *takaful* insurance they are dealing with. Also no studies have been conducted on the Saudi Arabian *takaful* market, especially when dealing with the demand side. This paper attempts to fill the gap. The paper reports results about the knowledge and awareness of 420 participants of *takaful* companies in Saudi Arabia on seven dimensions. The research findings indicate that participants have overall low perceived information from TOs which leads to a very weak knowledge about the basic principles of *takaful* insurance. The results showed that although respondents demonstrated a high level of awareness of the existence of *takaful* insurance, the level of knowledge is deemed low, even though Saudi Arabia is considered the Islamic hub of the world. The results also indicate that there is a need for the TOs to spend more efforts to educate their participants about their rights and obligations in the *takaful* fund. The future of the *takaful* industry is dependent on proper understanding of the business and rights of participants by different industry stakeholders which includes the customers, TOs and the regulators.

Keywords: Saudi Arabia, Islamic Insurance "*Takaful*", Participants and Operators, Knowledge and awareness.

1. INTRODUCTION

Takaful offering insurance policy that complies with Islamic law is a growing and fast-developing industry. Such business is highly recommended by most Muslim scholars because it reflects the real meaning of brotherhood in protecting individual and corporate bodies against loss or hazards to themselves and their properties. Hence, *Takaful* been defined in Section 2 of the *Malysian Takaful Act 1984* as:

“A scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose.”

Takaful can be understood as an imperative upon Muslim believers only. It may be thought at first glance that *takaful* does not deviate from conventional insurance, since both types depend on the concept of pooling money from a group for the sake of helping the unfortunate of the same group in the event of encountering financial loss (Alnemer, 2013). However, unlike *takaful*, the spiritual mutual support is not a requisite of commercial insurance. Commercial insurance is based on the exchange whereby the insured pay a premium in exchange for protection in case of calamity exposure, thus it is common in conventional insurance not to compensate the insured in a case of no loss (Alnemer, 2013). Consequently, Muslim scholars differ in their views on the permissibility (*halal*) or prohibitions (*haram*) of conventional or commercial types of insurance. The majority of Muslim jurists invalidate commercial insurance since it does not closely resemble Islamic business transactions (Baltiji, 1987; Al-Qaradawi, 2003). However, Islam is not against the concept of insurance itself, rather the means and methods being used (Hassan, 1979; Al-Qaradawi, 2003). Although the *takaful* industry is well established internationally and is expanding rapidly with many new entrants, there remains confusion amongst the wider public about the difference between the *Shari'ah*-compliant insurance and conventional insurance products. There is a lack of understanding regarding how the *takaful* providers should be organized and operate and the providers themselves have not been effective in consumer education and marketing (Wilson, 2007). Hence, this paper will fill the gap. This paper been organized to find out participants awareness and education level, those who participate on the *takaful* fund of the TOs based on the Saudi insurance market. This paper is organized as follows: Section 1 explains the definition of Islamic insurance and the real meaning behind implementing such system to individuals and society. Section 2; highlight the importance of customer knowledge especially when dealing with the Islamic financial institution products. Section 3, discusses SAMA¹ efforts to educate and aware customer and insurance employee about the important of transparency and education in the insurance industry. Section 4, highlights the process of sampling framework and the empirical method. Section 5, review the actual knowledge and awareness of participants in the *takaful* fund in Saudi Arabia. Finally, section 6 draws conclusions.

2. CUSTOMER KNOWLEDGE ABOUT ISLAMIC FINANCIAL INSTITUTION PRODUCTS

Customers' lack of knowledge and awareness about the basics and technicality of the products and services they are dealing with can lead to an obvious deficiency in customer-motivated reasons to possess insurance products and services (Alnemer, 2015). The importance of customer education and knowledge was realized by the British Government, as one of the Financial Services Authority (FSA) reforms to address the communication weakness in the insurance industry after the failure of the Equitable insurance company, was to launch the Financial Capability Steering Group to examine consumer education. Accordingly, it recommended that other countries follow the FSA consumer education programme (Alnemer, 2015).

Most of the research that has been conducted around customer knowledge and awareness about the Islamic banking service and products comes from the Malaysian market. Most of the empirical studies indicate customer low knowledge and awareness about the principles of the Islamic financial institutions products. Haron *et al.* (1994) have conducted an earlier study on Malaysian commercial bank customers. The results showed that although respondents demonstrated a high level of awareness of the existence of Islamic banking, the level of knowledge is deemed low, even though Malaysia is considered as the Islamic finance hub of the world. Hamid *et al.* (2001) have also explored the awareness and knowledge of Malaysian customers towards Islamic banks; accordingly they indicated that most of the Malaysian customers did not know the difference between Islamic banks' products and

¹ SAUDI ARABIAN MONETARY AGENCY

traditional banks' products, though the majority had enough awareness about the existence of Islamic banks in Malaysia and their services. Even though half of the respondents dealt with Islamic banks, they still had a lack of understanding of the Islamic banking products. Other authors such as Amin (2007) and Haque *et al.* (2009) have conducted research in Malaysia to reflect customer awareness and knowledge of Islamic finance products. They have found similar results in that participants have a low level understanding of the technical aspects of *Shari'ah* contracts. Okumus (2005) conducted similar studies on the Turkish Islamic banks and he found that the majority of the customers are only aware of the basic Islamic banking products. Most of the respondents showed a lack of knowledge about advanced products and services as well as a lack of knowledge about the full range of Islamic banking products available. The survey also indicated that the majority of customers selected the banks for religious reasons. Similar studies were conducted in other Muslim countries such as Bahrain (Metawa *et al.*, 1998), the United Arab Emirates (Bley *et al.*, 2004), Jordan (Naser *et al.*, 1999) and Libya (Gait *et al.*, 2009a; 2009b). The results showed similar findings that most of the customers of these countries have a high level of awareness and knowledge of at least the basic Islamic banking financing schemes such as savings accounts, current accounts, and ATM services (Metawa *et al.*, 1998), with some respondents adding that they are aware of the Islamic banking products which have conventional compatible products such as letters of credit and travellers cheques (Naser *et al.*, 1999). However, these studies demonstrate that most of the respondents are not aware of the terminology used to describe products and services offered by the Islamic banks such as *mudarabah*, *musharakah*, and *murabahah* (Bley *et al.*, 2004; Gait *et al.*, 2009b; Metawa *et al.*, 1998; Naser *et al.*, 1999; Zaabi, 2007).

As mentioned earlier, there is only a limited amount of research that has been conducted on the *takaful* participants to review their awareness and knowledge of the principles of the *takaful* products and services. One recent study has been conducted by Hamid *et al.* (2009) who launched a research on a sample of 232 banking customers among Muslims in Malaysia to explore their knowledge about the concept of *takaful*. Surprisingly, the results show that 67.24 % of respondents do not understand the concept of *tabarru*, and the majority of the respondents are not aware of some of the practised *takaful* models such as *wakalah*, while 68% of the respondents do not understand the elements of *gharar* and *maysir*. The researchers found that the main reason that led respondents to differentiate *takaful* from conventional insurance, is the promotion of the Islamic finance products. It is important to mention that despite the fact that the research reflected people's knowledge about *takaful*, unfortunately, the research does not reflect the knowledge of the participants who possess *takaful* contracts, since survey was conducted on banking customers only.

3. SAMA Educational Efforts

SAMA has issued a number of laws and regulations that aimed to regulate and standardized the Saudi insurance industry. SAMA has also issued a number of specific regulations that address certain issues in the Saudi insurance industry, with the aim of strengthening transparency and accountability and to enable SAMA to enforce better business practices in the Saudi insurance market. Given the importance of education among insurance employees, SAMA identifies minimum educational requirements related to the licensing and examination of a person providing insurance and reinsurance services in Saudi Arabia. SAMA also states that it is the duty of each company to keep their employees' skills and knowledge of the insurance business up-to-date and be informed of the products and services offered by the company, or companies, they represent and the intended use of these products and services (SAMA, 2008).

In an effort to educate the financial and insurance sectors, SAMA has launched the Institute of Banking (IOB), which was established in 1965 as the Institute of Banking Training. At that time, the institute provided conventional academic education to banking sector employees, who achieved a diploma in banking and financial studies after they had successfully passed the courses. However, with the development of the banking business and the introduction of advanced technologies in the banking sector, the IOB has continued its march by offering cognitive solutions to the financial services sector, including banks, insurance and investment companies.

Within the framework of SAMA's efforts to regulate the insurance sector and motivate companies and their employees to adhere to professionalism and practice insurance activity on a scientific and methodological basis pursuant to rules, regulations and instructions in force, SAMA has prescribed the Insurance Fundamentals Certificate Exam (IFCE) as a mandatory certificate for employees at insurance and insurance-related companies. It has to be completed over three years in accordance with a timetable which determines the period during which each category of employees must pass the exam. The exams cover rules and regulations of insurance, code of conduct and the basics of insurance operations. These ensure that any employee handling and making decisions affecting customers business has a minimum level of knowledge and competence in the area of insurance.

4. SAMPLING FRAMEWORK AND EMPIRICAL METHOD

Takaful participants are considered the main source of accumulating surplus in the *takaful* fund as they are the main stakeholders and their equity consists of ownership of the underwriting activities and the investment funds. However, participants in the *takaful* industry have a very weak position in managing or controlling their fund. Such a situation may be due to the complicity structure of the *takaful* industry. The vast majority of *takaful* undertakings have a two-tier hybrid structure in which the risk funds operate on a mutual basis but are managed by (TOs) which are companies with shareholders (IFSB, 2010). This hybrid structure involves complexities and it raises the fundamentals of the true identity of the *takaful* scheme. Thus, at least as far as the regulators are concerned, the *takaful* scheme is not a mutual (Hussain, 2009). Accordingly, it was necessary to review the awareness and the education level of the *takaful* participants. Their awareness of receiving financial profits and underwriting surplus out of the *takaful* fund, also their awareness about the *Sharia'h* compliance mechanisms used by the TOs. Accordingly, Saudi Arabia was identified to be the main research population for this study. The targeted populations were clients of all TOs in Jeddah, Saudi Arabia, since a number of large TOs have their headquarters in Jeddah. The researcher, with the support of an 8-survey distributor team, has managed to distribute the questionnaires among 9 branches of 3 TOs in Jeddah. The targeted participants are those with a family *takaful* policy. Thus policyholders are expected to have a long-term contract with the TOs and expected to have periodic financial returns. The participants should not possess *takaful* contracts that belong to corporations, *i.e.* the *takaful* contracts are between the TOs and the participants' directly. Participants chosen conditions were identified to guarantee participants with satisfied knowledge about different aspects of the *takaful* fund. Therefore, questionnaire was chosen as the method by which the survey was completed. Questionnaires are a useful tool for investigating patterns and trends in data and are frequently used with success in management, marketing and consumer research (Easterby-Smith *et al.*, 1999; 2008). Most of the survey questionnaire was designed with close-ended type questions. The closed-ended or forced-choice type of question is preferable in this research because it will increase the response rate, since it is easier and faster to be answered by the prospective respondents, especially when using a phone-call approach. A drop-off of a self-administered survey questionnaire and telephone calls techniques were used to collect participants' responses. Accordingly, a total of 500 questionnaires were distributed, of which 420 completed questionnaires were received, where 120 questionnaires were rejected, leaving 300 completed and usable questionnaires for the research, yielding a usable response rate of 60 %. The responses yielding a usable rate reflected the success of using these types of questionnaires to attain the aims and objectives of the study. The survey questionnaire consists of 14 questions which are divided into 7 Knowledge and awareness dimensions². However, for the sake of this research, this paper will address the questions that address the visibility of intermediaries in conveying the right message to policyholders. Accordingly, a statistical description with frequency distributions together with the measurement of mean, standard deviations and a chi-square test has been used in this research. The purpose of the Chi-Square test is to identify whether there is difference in proportion in each category (50%/50%), *i.e.* it will find out if the discrepancy between categories (possible responses) is small, and whether that discrepancy is statistically significant or not. In short, the larger the Chi-Square test statistic, the greater the discrepancy, and the significant between categories, for example; "yes" and "no" responses (Pallant Julie, 2010). The data has been analyzed by using SPSS version 17 software.

5. PARTICIPANT'S KNOWLEDGE OF PARTICIPANTS' FUND

As one of the main challenges facing TOs is participants' awareness and knowledge of the *takaful* concepts (Malaikah, 2006) as participants' lack of knowledge can cause confusion on customer motivations and preferences. Accordingly, this section explores participants' knowledge and awareness regarding the service provided by the TOs. The knowledge questionnaires were structured according to the policies and standards on market conduct that have been imposed on corporate governance to determine whether the Saudi TOs adopted the required policies to

² The selection of the 7 knowledge dimensions and their questions were based on the researcher's readings of comprehensive topics, which address several researchers suggestions and findings and are based on the on the imposed policies and standards by the international *takaful* and insurance regulators such as AAOIFI, IFSB, IAIS, OECD, *etc.* These policies and standards have one main goal which is to provide proper protection to insurance policyholders, whether the insurance contract is Islamic or conventional. Participant protection will be achieved by satisfying customer perceptions, needs, wants and preferences which in a way enhance customer satisfaction levels.

provide the protection and satisfy the *takaful* participants. A statistical description of the seven knowledge variables are given with some variables exemplified by more than one question.

1. Knowledge of the *Takaful* Model Principles (KPM)

Table 1: Knowledge and Awareness of the *Takaful* Model Principles Used

Q1-Does the company brief you on the principles of <i>takaful</i> models					
Valid	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
	No	19	6.3	228.813	0.000
	Yes	281	93.7		
	Total	300	100.0		
Q2- What are the <i>takaful</i> models you are participating in					
Valid	<i>Wakalah</i>	11	3.7	345.167	0.000
	<i>Mudarabah</i>	130	43.3		
	<i>Waqf</i>	4	1.3		
	Don't Know	147	49.0		
	Other	8	2.7		
	Total	300	100.0		
Q3-Is there a minimum duration period to cancel the contract					
Valid	No	297	99.0	228.813	0.000
	Yes	3	1.0		
	Total	300	100.0		

There are several *takaful* operational models that have been adopted by TOs world-wide such as *mudarabah*, *wakalah*, *waqf*, hybrids of *mudarabah* and *wakalah*, *ta'awuni* and non-profit funds. However, the first two models are most dominant; *mudarabah* is widely used in Asia, while *wakalah* has become popular in the Middle East (Smith, 2007). Accordingly, to enhance the knowledge and awareness of participants, TOs should disclose a framework that includes the used *takaful* model, either *wakalah* or *mudarabah* with the investment management function, the investment profit-sharing distribution, product benefits³, termination charges in the case of early termination of a *takaful* contract with the exit options and the consequences of losing benefit payments from both the Participant Risk Fund (PRF) and/or Participant Investment Fund (PIF). The framework should also disclose the frequency of investment profit and/or underwriting surplus declaration and their estimated returns and the complaints-handling and other contractual arrangements (IFSB, 2009a). There will be separate contracts in the *wakalah* model, of which one is used for underwriting and the other is used for investment activities of *takaful* funds. Although the *wakalah* model has widely been practised by TOs in underwriting activities, it is rarely adopted for investment activities. The contract under the *mudarabah* model will involve profit-sharing between the investor (*rabb al-mal*) and the fund manager/entrepreneur (*mudarib*), according to the predetermined ratio. In the classical contract there is no fixed return for investors as profit is undetermined. The TO or the *mudarib* has full control, *i.e.* *rabb al-mal* cannot participate in the ordinary course of business conducted by the *mudarib*. This model has been practised mostly in Malaysia, especially by the two oldest *takaful* companies, Syarikat *Takaful* Malaysia and National *Takaful* Company. On Table 1, clarifies whether participants have enough knowledge of the used model principles. The results show that 281 (93.7 %) of participants replied 'yes', which indicates that *takaful* company were conveying the necessary information to participants in regards to their products, policies and principles. In this section, participant's knowledge with regards to the principles and models of the *takaful* fund has been explored by forwarding two main questions which reflect their knowledge about the fund they are participating in. The first question aims at exploring participants' awareness of the model⁴ they are participating in and only 11(3.7 %) participants knew that *wakalah* is the used operating model, while the majority of 147 (49 %) participants chose to pick 'don't know' to answer the question. Participants were also challenged to identify if they are aware of any minimum durations or initial stages, required by the TOs to cancel the contract and surprisingly 297 (99 %) participants answered 'no', *i.e.* there is no minimum duration to cancel the contract. However, *takaful* companies

³ (*Ex*, aims of product, cover, conditions).

⁴ *Wakalah* is the used practised model in Saudi Arabia.

will usually indicate a minimum cancellation or surrender period before the maturity of the contract, disobeying this period will expose participants to bear a charge.⁵ The chi-square tests reveal that the variations of responses in all three questions are statistically significant (Asymp. Sig. < 0.05).

2. Knowledge of Investment Return (KIR)

Table 2: Knowledge and Awareness of Investment Return

Q4- Do you know the difference between PIF & PRF					
Valid	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
	No	136	45.3	2.613	0.106
	Yes	164	54.7		
	Total	300	100.0		

Participants (Policyholders) in the *takaful* scheme are the main stakeholders; their equity consists of ownership of the underwriting activities and the investment funds. Participants' relationship with *Takaful* Operators (TOs) depends on the percentage of the contributions premium they pay. They have a claim on assets of these funds in case of liquidation and they are entitled to have their claim paid if there is enough underwriting funds to finance payout; they are also entitled to share in the distribution of any investment and underwriting surplus. To enhance participant's awareness and knowledge of the expected profit scenarios, a disclosure mechanism should present. TOs should also disclose information in regards to the amount of assets invested in the PIF or PRF, the lent assets, as well as the amount of assets that are dependent on the related parties such as the parent company, subsidiaries or associates. The disclosed assets information should be in line with the local supervisory authority requirements (IFSB, 2009a). Accordingly, IFSB (2009a) asserts that TOs should disclose their investment objectives and assets allocation rationale with the content of the assets instruments and their weight in the investments portfolio, and whether they are suitable to match short-term or long-term liabilities. TOs should explain the difference between PIF and PRF accounts and the expected investment return on each account, with a brief on the type of assets instruments used on each account and the expected time horizon to gain profit on their investment fund. TO should also explain how they will cover PRF claims – is it from the investments return fund of the PIF, or does the TO strategies imply that investment return of a certain PIF should cover a deficit of other business lines of the same *takaful* company for later compensations. Such information, which should be clearly disclosed to the public, will have a great effect on participants' expectations to receive investments return and profit in due time or not, and hence a proper decision can be made by participants to either do business with these *takaful* companies or not. Table 2, reflects participants' replies to distinguish between the available types of fund in the family *takaful* policy. As explained previously a family *takaful* policy can have two types of fund, either PRF and/or PIF. Surprisingly, only 164 (54.7 %) of participants are aware of the difference between risks and saving accounts, however the percentage of the knowledgeable participants is supposed to be much more, because participants' choice of policy either PIF or PRF will depend on their needs and wants behind buying the *takaful* policy. The chi-square test reveals that this question is not statistically significant (Asymp. Sig. = 0.106) with a small discrepancy between participants' replies.

3. Knowledge of Underwriting Surplus (KUS)

Table 3: Knowledge and Awareness of Underwriting Surplus

Q5 - Do you know the difference between net underwriting surplus and gross underwriting surplus ?					
Valid	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
	No	226	75.3	77.013	0.000
	Yes	74	24.7		
	Total	300	100.0		
Q6 - What options of underwriting surplus distribution were given by the TOs in association with participants claim situation?					
Valid	Without	16	5.3	748.880	0.000

⁵ http://www.sabbtakaful.com/FAQs/Family%20FAQ/family_faq_en.shtml

	Differentiation			
	To Non-claimable Participants	3	1.0	
	Amount of claims < contributions	1	.3	
	I don't know	280	93.3	
	Total	300	100.0	

As a *takaful* contract is a combination of *tabarru'* and agency or profit-sharing, the *takaful* fund is considered a *musharaka* (partnership) among participants. The relationship between the TO and participants' funds is based on either *wakala* contract to manage the underwriting activities, and/or a *mudarabah* to manage the underwriting or investment activities. Accordingly, the main difference between *takaful* operations and conventional insurance is the concept of underwriting surplus – conventional insurance underwriting surplus means profit for the insurance company, while underwriting surplus is not regarded as profit for TOs (Hassan, 2008). Therefore TOs are not entitled to share the surplus of the fund with participants. However, they can, for the sake of the best benefits and with full consent of the participants, use the surplus as reserves, reduction of the contribution, charitable donations and partial/full distribution of the surplus among the participants. AAOIFI *Shari'ah* standard No. 26 (5/5) of 2007, has stated that surplus can only be distributed back to the participants and cannot be taken by the TO; the distribution of surplus will be based on a percentage share of participant's donations. Another market conduct matter that touches surplus distribution, is the process of adding the investment profits to the whole *takaful* fund, which will make the surplus distribution process confusing, because of the difficulty to differentiate between gross surplus and net surplus. Another difficulty that may be faced by the TO on the surplus distribution process is the unknown amount of gross surplus at the beginning of the *takaful* contract, in that underwriting surplus can only be known at a given point in time. Thus great emphasis will be put on the reliability of the actuarial calculation to calculate liabilities based on the uncertainty embedded on the future expected value of underwriting liabilities, which will be much higher in value than the accounting liability approach; in other words the actuarial liabilities will impact liabilities more than the accounting ones (Hassan, 2008). Calculation of underwriting gross surplus considered a great matter to participants, hence TOs should enhance participant's awareness and knowledge in this regards. Table 3, shows participants' responses to distinction between different types of surplus from the underwriting activities as some companies distribute surplus to participants in the form of net underwriting surplus, while others distribute it as gross underwriting surplus. The used method to distribute underwriting surplus should be disclosed to participants. However, 226 (75.3%) participants replied with 'no' when asked if they can distinguish between types of underwriting surplus which reflects participants' low level of awareness of the technicality of the distribution benefits. Participants' awareness in this matter can make a great difference on their purchasing decisions. If the TOs distribute the net underwriting surplus then participants' expected benefits can be reduced as they will be charged extra percentage as incentive for the good performance of the *takaful* operators. Furthermore, participants were challenged to reveal the conditions that allowed them to share with other participants in the underwriting surplus. Some companies will not allow participants who claimed to share the underwriting surplus, while allowing others. Thus the company should reflect these policies to the participants. The results indicate that 280 (93.3 %) of participants are unaware of the company surplus distribution policies for those who made claims. The Chi -square tests reveal that the variations of responses in both questions are statistically significant (Asymp. Sig. = 0.000). This was more clearly shown in question 6 as the Chi -square value was relatively large.

4. Knowledge of *Shari'ah* Compliance (KSC)

Table 4: Knowledge and Awareness of *Shari'ah* Compliance

Q7-Do you the know difference between Re-Insurance and <i>Re-Takaful</i> ?					
Valid	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
	No	262	87.3	167.253	0.000
	Yes	38	12.7		
	Total	300	100.0		

Re-takaful is an arrangement to risk of retention limit funding *takaful*. Similarly, risk arrangements are operated by reinsurance to insurance funding. Thus, the *takaful* services, facilities of *retakaful* are very important as a vehicle for generating growth and development of *takaful* operations in overall (Yusuf, 2006, p. 115). The mechanism of *retakaful* is very different with reinsurance mechanism in terms of resources law, legal status, type of

contract, payment models, risk regulation system, and the operating system. The *takaful* operators shall participate of *retakaful* and support services that can lead to the success of the *takaful* industry in the future. In practice, participant shall agree that the company shall pay from the general *takaful* fund, compensation or indemnity to fellow participants who have suffered a defined loss upon the occurrence of a catastrophe or disaster. The fund shall also pay for other operational costs of general *takaful* business such as for re-*takaful* arrangements and the setting up of technical reserves. Table 4, reflects participants' knowledge of *Shari'ah* compliance, as one of the main reasons for participants buying Islamic insurance is to comply with the *Shari'ah*. As a result, TOs should explain the type of risk mitigation they are using (either re-*takaful* or re-insurance) so participants can be fully aware of whether the company follows *Shari'ah* in all transactions. However, 262 (87.3 %) of participants replied 'no' reflecting their weak awareness of the difference between re-*takaful* and re-insurance, which indicates a gap between the *takaful* company and participants in transmitting an important fact that deals with *Shari'ah* compliance. The Chi square test reveals that the variation of responses to this question is statistically significant (Asymp. Sig. < 0.05).

5. Knowledge of Expenses, Fees, Deficits and *Qard Hasan* (KFDQ)

Table 5: Knowledge and Awareness of Expenses, Fees, Deficits and *Qard Hasan*

Q8- Which of the following fees does the company charge the participants' fund account.					
Valid	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
	Wakalah Fee	1	.3	588.06	0.000
	Investment Management Fee	1	.3		
	I don't Know	298	99.3		
	Total	300	100.0		
Q9- Under which of the following conditions would you be required by the <i>takaful</i> company to pay additional contributions:					
	Recovering Underwriting Deficits	3	1.0	755.600	0.000
	Building-up Reserves	14	4.7		
	Paying back Shareholders' <i>Qard</i>	2	.7		
	I don't know	281	93.7		
	Total	300	100.0		
Q10-Does the Operator call before to recover participant's fund deficits					
Valid	No	272	90.7	198.453	0.000
	Yes	28	9.3		
	Total	300	100.0		

Investment strategy, objectives and the rationale behind conducting investments business is an important factor to attract customers. Some of the objectives might be to create a balance between underwriting and investments activities of the participants. In order to cover deficits of underwriting activities a back-up should be available either from the reserves built through underwriting surpluses or through participants' investments return or by relying on shareholders interest-free loans (*qard hasan*). Accordingly, IFSB (2009a) asserts that TOs should disclose their investment objectives and assets allocation rationale with the content of the assets instruments and their weight in the investments portfolio, and whether they are suitable to match short-term or long-term liabilities. TOs should explain the difference between PIF and PRF accounts and the expected investment return on each account, with a brief on the type of assets instruments used on each account and the expected time horizon to gain profit on their investment fund. Surplus can be positively correlated with investments return if the *takaful* model allows investments to be added to the *takaful* fund; the more investment returns on the participants' fund, the more net underwriting surplus will be encountered in the *takaful* fund, since participants are entitled to get investments return profit as per AAOIFI (2010) *Sharia'h* Standards, which state that the insurance account is entitled to the insurance assets and their returns on investment. However, because of the different structures of *takaful* models and because of company-specific strategy, TOs might decide not to add the investment return on the *takaful* fund due to the reason of covering deficits on other accounts, that the TO might use the investments return of PIF to cover the deficit of PRF or vice-versa. It is also a matter of ethics that the TO should be responsible for the encountered deficits if they were a result of his misconduct or negligence (IFSB, 2009a). Hence, It is very important for TOs to educate people about the different types of expenses and fees charged to the participants' funds, as their

contribution can be used to cover different types of expenses, either direct or indirect, as per AAOIFI (2010) *Shari'ah* Standards and per AAOIFI standards No. 13. On Table 5, reflects participants' knowledge of expenses, fees, and *qard hasan* since TOs should advise participants on the types of fees that they are going to charge the participant's fund, such as *wakalah* upfront fees, investment management fees, *etc.* However, the survey indicates that 298 (99.3 %) of participants are not aware of the charged fees. While, 281 (93.7 %) of participants have no idea in what circumstances they will be legally required by the company to pay additional contributions to the participants' fund, which indicates an information gap between participants and TOs. Furthermore, participants were also asked to clarify if the TOs had called them before recovering a deficit encountered in the participants' fund and 272 (90.7 %) of participants replied 'no'. This can imply three possible scenarios: (i) The financial position of the Saudi TOs are strong enough that they do not encounter a deficit in the fund. (ii) The TOs do not put the burden on participants in case of shortage encountered in the fund and they might compensate this shortage from shareholders' funds by providing *qard* loan. However, they will forward any future underwriting surplus and/or future investment return from the participants' fund to the shareholders' accounts. (iii) TOs might gradually increase participants' regular contributions, to recover the fund deficit. This fact might not be mentioned to the participants to keep the good reputation of the company among participants. On the other hand, the Chi-square tests reveal that the variations of responses in all three questions to be statistically significant (Asymp. Sig. < 0.05).

6. Knowledge of the Company's Key Personnel Power and Activities (KKP)

Table 6: Knowledge and Awareness of the Company's Key Personnel and Activities

11- Are you aware of the following key governance personnel of the <i>takaful</i> company you participate in:					
	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
Valid	BoDs	0	0	N/A	N/A
	Shareholders	0	0		
	Sen. Manag.	0	0		
	SSB	0	0		
	Appt. Act.	0	0		
	Inv. Team	0	0		
	OutSourc Inv. Team	0	0		
	Don't Know	300	100.0		
Total	300	100.0			
Q12-Do Shareholders Share the following things with participants:					
	Underwriting Surplus	0	0	N/A	N/A
	Investment Return	0	0		
	Don't Know	300	100.0		
	Total	300	100.0		

TOs might structure a framework that's can fit with the main organization structure, the corporate governance mechanism used by the Board of Directors (BoDs) to control the company, overall risk management, and with the control and update mechanisms⁶. TOs should adhere to the insurance international standards to educate people about the company's governing personnel as per IAIS (2002) and IFSB (2009b) which state that insurance and *takaful* companies should disclose information about the company board and senior management structure and their incentive structure. The framework should also include any changes to key personnel and other management infrastructure that can directly or indirectly play a vital role on the company's investments strategy (IFSB, 2009a). It also highlighted the rules, power and activities of some of the key personnel in the insurance companies such as BoDs, *Shari'ah* Supervisory Board (SSB), and actuaries, since it's believed that these key stakeholders has an effective impact on the success or failure of any insurance company. Table 6, reflects participants' knowledge of TOs key personnel, such as BoDs, shareholders, and others. Surprisingly, all 300 participants were unable to identify any organs of the company, which indicated two possible scenarios: (i) participants are not interested to know the company organs or (ii) *takaful* operators did not disclose the company organs to the public. Furthermore, participants were asked to reflect as to whether they understand the kind of financial discretion activities

⁶ It is a mechanism that works in accordance to the changes on the local market behaviour and to the political forces.

shareholders can exert on the participants' fund. Surprisingly, all 300 participants responded 'don't know' to this question. On the other hand, as participants' replies for both questions were the same (i.e. all 300 participants picked 'don't know' to both questions) the Chi -square test became inapplicable.

7. Knowledge of Dissatisfaction Channels (KDC)

Table 7: Knowledge and Awareness of Dissatisfaction & Quitting Options

Q13 - What options were given by the company in case you are dissatisfied with the company services:					
	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
Valid	Complaints to the Company	35	11.7	44.507	0.000
	Quit the Company	90	30.0		
	I don't know	112	37.3		
	The company didn't inform me of any quitting options	63	21.0		
	Total	300	100.0		
Q14 - Which of the following can you refer to in case of dispute between you and the company:					
Valid	Arbitration	8	2.7	374.053	0.000
	Court	64	21.3		
	Ombudsman	13	4.3		
	I don't know	215	71.7		
	Total	300	100.0		

The only right that participants can exert on the *takaful* scheme is to disconnect their contractual relationship with the company in case of dissatisfactions. Participants' undeserved rights might be due to management prioritizing interest towards shareholders as they are the main stewards of the *takaful* company. However, as per the international insurance regulatory bodies, proper negotiation procedures should be conducted between the insurer and the insured to resolve the issues; if disputes still stand then either litigation, arbitration or referral to the ombudsman should be resorted to in order to resolve the issues (Vaughan, 1999). In other words, one of the main challenges faced in the *takaful* industry is shareholders and management discretions, power and activities due to the unclear structure of the *takaful* operational scheme. The *Takaful* operational scheme should follow the two-tier hybrid structure (mutual and proprietorship) as it has been identified by the prominent regulatory bodies such as AAOIFI and IFSB. However, almost all regulators, of which SAMA is one, treat the TOs as a proprietorship, as it can be easily regulated and supervised which requires an identified share capital and shareholders. Table 7, reflects participants' knowledge on the proper way to quit the company in case of dissatisfaction. This is important for the participants as it would save them losing the paid contributions. However, 112 (37.3 %) participants replied 'don't know' where to go when they are dissatisfied with the TOs, while 90 (30%) participants replied 'quit the company', without knowing that quitting the company before contract maturity could incur a penalty charge for them. Furthermore, 63 (21%) participants replied the company didn't inform me of any quitting options'. They were also asked to clarify which party they were supposed to refer to in case of dissatisfaction and 215 (71.7 %) participants' replied that they didn't know. Thus, the participants' responses to the two questions indicate a lack of disclosure of participants' rights to quit the company when they are dissatisfied. The Chi -square tests reveal that the variations of responses in both questions are statistically significant (Asymp. Sig. < 0.05), which was clear by a large discrepancy in the questions.

5.1 PARTICIPANTS' OVERALL KNOWLEDGE

To reflect a useful interpretation and close insight into participants' responses, all questions that represent an individual variable were combined together, then recoded and divided into three levels to give a clear meaning of that variable, with the following scaling approach (0 - 0.33 = Weak Perceptions , 0.34 - 0.66 = Moderate Perceptions, 0.67 - 1 = High Perceptions).

Table 8, below reflects participants' overall perceptions of the seven knowledge variables (KPM, KIR, KUS, KSC, KFDQ, KKP and KDC).

Table 8: Participants' Overall Knowledge

Variables	Weak or no knowledge	Moderate knowledge	Good knowledge	Chi-square & Sig.
KPM	17 (5.7 %)	279 (93 %)	4 (1.3 %)	481.46 (0 %)
KIR	136 (45.3 %)	0 (0 %)	164 (54.7 %)	2.613 (0.106 %)
KUS	226 (75.3 %)	74 (24.7 %)	0 (0 %)	77.013 (0 %)
KSC	262 (87.3%)	0 (0 %)	38 (12.7 %)	167.253 (0 %)
KFDQ	272 (90.7 %)	28 (9.3 %)	0 (0 %)	198.453 (0 %)
KKP	300 (300 %)	0 (0 %)	0 (0 %)	N/A
KDC	237 (79 %)	63 (21 %)	0 (0 %)	100.920 (0 %)

Participants' Overall Knowledge of the principles of TOs Model (KPM)

Participants' overall knowledge of the used model principles revealed that 279 (93.0 %) of participants reported a moderate knowledge, followed by 17 (5.7 %) of participants with a weak knowledge, then only 4 (1.3 %) of participants with a good knowledge. Furthermore, the Chi-square test revealed that participants' overall knowledge of the used model principles is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Knowledge of Participants' Fund Investment Returns (KIR)

Participants' overall knowledge of the distribute investment returns revealed that 164 (54.7 %) of participants reported a good knowledge, followed by 136 (45.3 %) of participants with a weak knowledge. Furthermore, the Chi-square test revealed that participants' overall knowledge of the investment returns is statistically not significant (Asymp. Sig. > 0.05).

Participants' Overall Knowledge of Participants' Fund Underwriting Surplus (KUS)

Participants' overall knowledge of the distributed underwriting surplus revealed that 226 (75.3 %) participants reported a weak knowledge, followed by 74 (24.7 %) participants with a moderate knowledge. Furthermore, the Chi-square test revealed that participants overall knowledge of the underwriting surplus is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Knowledge of TOs' Shari'ah Compliance System (KSC)

Participants' overall knowledge of the *Shari'ah* compliance system used by the TOs revealed that 262 (87.3 %) participants reported a weak knowledge, followed by 38 (12.7 %) participants with a good knowledge. Furthermore, the Chi-square test revealed that participants overall knowledge of *Shari'ah* compliance is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Knowledge of Fees, Deficits and Qard (KFDQ)

Participants' overall knowledge of the charged fees, encountered deficits, and *qard* availability revealed that 272 (90.7 %) of participants reported a weak knowledge, followed by only 28 (9.3 %) of participants with a moderate knowledge. Furthermore, the Chi-square test revealed that participants overall knowledge of fees, deficits and *qard* is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Knowledge of TOs' Key Personnel (KKP)

Participants' overall knowledge of the company's key personnel revealed that all 300 participants have no knowledge. Furthermore; the Chi-square test revealed that this variable is constant; hence the chi-square test cannot be performed.

Participants' Overall Knowledge of Dissatisfaction Channels (KDC)

Participants' overall knowledge of the proper channels to quit the company when they are dissatisfied, revealed that 237 (79.0 %) of participants reported a weak knowledge, followed by 63 (21.0 %) of participants with a moderate knowledge. Furthermore, the Chi-square test revealed that participants' overall knowledge for a proper dissatisfaction channels is statistically significant (Asymp. Sig. < 0.05).

6. CONCLUSION & CLOSING REMARKS

In conclusion, the findings above concluded that respondents have a limited knowledge and understanding, but with acceptable awareness levels, of the advanced products and services. This implies that pertinent information about the technical aspects of the products was not explained to customers in the way they should have been. It's believed that the future of the *takaful* industry is dependent on industry players who must take a more active role in educating their customers and regulators while enhancing discipline in their activities. Therefore, it is useful to view participants' knowledge about the principles of the used *takaful* model, which will give an indication whether the TOs have exerted the required efforts to educate their participants of the different aspects of *takaful* that affect their benefits in the participants' fund.

Participants' overall perceived knowledge was low, which implies that TOs have not conducted a proper education programme to enhance participants' knowledge and awareness. Accordingly, TOs need to adopt an education programme or to structure an active disclosure mechanism to educate participants about the principles of the used *takaful* model. Furthermore, the findings of this research complements the findings of Metawa *et al* (1998); Bley *et al* (2004); Naser *et al.* (1999) and Gait *et al* (2009a; 2009b) who find that participants in Arabic and GCC countries have the basic knowledge of Islamic banking financing schemes such as savings accounts, current accounts (participants in the current research are aware of the different investments returns from savings and risk accounts, underwriting surplus return rate). However, respondents are not aware of the complicated concepts used in the Islamic banks such as *mudarabah*, *musharakah*, and *murabahah*. The results of this research also indicate that participants have a limited knowledge on the differences between net and gross underwriting surplus, between *re-takaful* or re-insurance and between *wakalah* or *murabahah takaful* models, *etc.* Its recommended that SAMA to launch a participant's education programme especially with those who possess a life family *takaful* policy as they have long-term contractual agreements with the insurance company, which entitles them to receive periodic financial benefits. The education programme should work quite effectively with a strong disclosure mechanism that have such a proper tools (effective IT system, effective social communications, listening to participants expectations, and educated sales personnel and intermediaries) to disseminate the required information to participants.

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