

PARTICIPANTS' PREFERENCES & MOTIVATIONS ABOUT TAKAFUL PRODUCTS & SERVICES: AN EMPIRICAL STUDY ON SAUDI ARABIA

Hashem A. AlNemer
Assistant Professor in Finance & Insurance Department
Vice – Dean, College of Business
King Abdulaziz University, Saudi Arabia
halnemer@kau.edu.sa

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 (E & Y, 2010). Participants in the *takaful* industry are the main stakeholders and their equity consists of ownership of the underwriting activities and the investment funds. Hence, it is important to adhere to participants preferences as it considered an individual realization of a need, which is a perceived lack. However, a number of studies indicated a negative communication between policyholders or participants who require the service and suppliers who provide it is large. Weakness of information dissemination has causes a negative compliance with participants preferences. Negative adherence to customer preferences and motivations might carry a negative connotation concerning the image of Islamic institutions. Most of the investigated studies were towards the Islamic banking products and they found that the most important factor in motivating customers to participate in the Islamic banks was religion rather than profitability. No studies have been conducted to systematically document participants' preferences in the *takaful* industry. This paper attempts to fill the gap. The paper reports results about the preferences of 420 participants of *takaful* companies in Saudi Arabia on five dimensions. The research found that the most important factor in motivating participants to buy Islamic Insurance in Saudi Arabia was profit return rather than religion. The results indicate that there is a need for the TOs to educate their participants about the main purposes behind their contribution to the *takaful* fund.

Keywords: Saudi Arabia, Islamic Insurance "*Takaful*", Participants and Operators, Preferences & Motivations.

1. INTRODUCTION

Islamic insurance (*takaful*) is nearly as old as the Islamic banking system and dates back to 1979, when the concept was launched in Sudan and later in Saudi Arabia. Yet, unlike its banking counterpart, *takaful* has been covered less in the literature on Islamic finance, and its workings are not fully understood. *Takaful* is derived from the Arabic root word *kafala* a verb which means guarantee, bail, warrant or an act of securing one's need (Ali *et al* , 2006). The idea of insurance in Islam must be in harmony with the objectives *maqasid* of *Shari'ah* with regard to securing benefits for the Muslim client and preventing elements of *harm* (sin). The specific objectives are to protect religion, life, intellect, lineage and property (Al-Atar, 1983).

AAOIFI¹ (2004/2005) also defines Islamic insurance as per its Financial Accounting Standard No. 12, in Appendix E as:

“Islamic insurance is a system through which the participants donate part or all of their contributions which are used to pay claims for damages suffered by some of the participants. The company's role is restricted to managing the insurance operations and investing the insurance contributions.”

The two models most commonly used in the industry namely, the *mudarabah* system that was developed by the Malaysians and the *wakala* (agency) system that is now being used by most *takaful* operators and has achieved tremendous popularity and acceptance in recent years even in countries where the *mudarabah* model was earlier implemented (Alnemer, 2013). Further, there are two basic building blocks to the *takaful* contract, the concepts of *tabarru* and *mudarabah* (alnemer, 2013). *Tabarru* means donation, contributing, offering or granting, while *mudarabah* is when the TO invests the policyholders' accumulated donations or premiums in an islamically acceptable business. Thus, any person in society who has the legal capacity may contribute a sum of money to a mutual cooperative fund in view of ensuring material security for oneself against a defined risk probably encountered by another's life or property (alnemer, 2013). The business is conducted based on the concept of *sharikat al-anan* (unequal partnership) which allows the partners to evaluate each other's skill and capability to determine the profit-and-loss sharing ratio between them; even if one contributes a smaller share of the capital a larger share of profit may be given to him (Hassan *et al* , 2007). Hence, it's quite important for TO to listen and adhere to participants preferences and comply with their needs and wants. This paper will fill the gap and reflect participant's preferences in the Saudi *takaful* 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, presents background about customer perceptions and how such perceptions can lead to satisfaction. This section also reflects different literatures in regards to customer motivations and preferences when dealing with Islamic finance and insurance. Section 3, highlights the process of sampling framework and the empirical method. Section 4, review the actual preferences, motivations, needs and wants of the policyholders who participates in the *takaful* fund in Saudi Arabia. Finally, section 5 draws conclusions.

2. CUSTOMER PERCEPTIONS AND SATISFACTION

It is essential to consider the idea of perception, when individuals make judgment about situations. Encyclopaedia Britannica (2002) defines perception as awareness of the elements of environment through physical sensation; physical sensation interpreted in the light of experience. Such definition of perception suggests that the individual involved in perception is subjected to some stimuli (a sensation) and that the interpretation is then made in the context of experience (existing data, expectations, past experience) (Samwinga, 2009). Other researchers suggest that perceptions are generated by stimuli gathered by the senses, *i.e.* the process of perception involves sensory stimulation (Chisnall, 1985; Gross, 1996; Foxall *et al.*, 1998) which is complemented by information gathering, modification and sorting resultings in our own construct of what the situation appears to be. Hence, perception is not necessarily an absolute tangible but rather inherently subjective (Chisnall, 1985; Auchterlounie *et al.*, 2001). Ranaweera *et al* (2003: 377) defined customer satisfaction as an evaluation of an emotion, reflecting the degree to which the customer believes the service provider evokes positive feelings. Hence, satisfaction occurs when customers compare their perceptions of the performance of the products and services in relation to their desires and expectations (Spreng *et al.*, 1996).

Furthermore, Krishnan *et al.* (1999) have designed a questionnaire instrument to investigate customer satisfaction in a four distinct factors relating to customer experience (perceptions) of a firm offering financial services - in terms of personal contact, usage of telephone and IT systems, product performance, and periodic financial statements. Lassar *et al.* (2000) attempt a similar exercise, but provide separate measures of customer satisfaction of the firm's

¹ Accounting Auditing and Governance Standards for Islamic Financial Institutions.

technical offerings (in terms of product and systems performance) and functional offerings (in terms of the interface with front-office staff). However, both approaches' results confirm that customer satisfaction with a company's services is determined to a large degree by the quality of service the customer receives (Parasuraman *et al.*, 1985; Cronin *et al.*, 1992). In short, for the customers to have the required perceptions to identify his/her needs, wants and preferences, then it is necessary for the customers to have the right and required knowledge and awareness about the products they are dealing with. Having the right knowledge will let customers express their motivations of possessing such services and products.

2.1 CUSTOMER MOTIVATION AND PREFERENCES IN ISLAMIC FINANCIAL INSTITUTIONS

Customer motivation and preferences in selecting an Islamic financial institution is considered an important predictive factor for managers to improve their services and products. As has been described previously, customer preference is an individual realization of a need, which is a perceived lack (Blythe, 1997). Thus, negative adherence to customer preferences and motivations might carry a negative connotation concerning the image of Islamic institutions. Therefore managers and company key personnel must take all necessary action to assure their service quality measurements are set accurately to address any future malfunctions on the company products and services. Erol *et al.* (1989) were the first to study the factors that enhance Jordanian customer behaviour towards, and patronage of, Islamic and conventional banks. Their studies indicated that factors such as fast and efficient service, the institutes reputation and image, and confidentiality, respectively, were the primary selected criteria for Jordanian customers. Another similar study conducted by Erol, Kayank *et al.* (1990) examined patronage behaviour of Jordanian customers. Their findings were similar to the earlier study. However, they found that there was no effect at all for religious motivation in the use of Islamic banks' services by Jordanian customers.

Haron *et al.* (1994) discuss in their study the bank patronage factors of Muslims and non-Muslim customers in Malaysia. Their factor analysis results indicated that high quality services presented the most significant selected factors, while religious motivations were not the primary reason for Muslims dealing with Islamic banks in Malaysia. In contrast, Metwally (1996) has used the factor analysis and correlation matrix to study the attitudes towards Islamic banks of Muslims in Kuwait, Saudi Arabia, and Egypt, and he found that religious factors were the major reason in choosing Islamic banking by Muslims in the three-mentioned countries. Similar results were found by Omer (1993) about Muslims in the UK, as well as Hegazy (1995) about Muslims in Egypt.

Metawa *et al.* (1998) also investigated Islamic banks customers' attitudes towards the Islamic banking products in Bahrain and they found that the most important factor in motivating customers to participate in the Islamic banks was religion rather than profitability. They also indicated that Bahraini customers are not satisfied with the Islamic banking scheme because of the high level of costs. Naser *et al.* (1999) examine Jordanian customer satisfactions and attitudes towards Islamic banking products. They found that the majority of Jordanians were satisfied with the Islamic banking products and services. In addition, religion and a bank's reputation were the most significant factors that determined their bank selection criteria.

Alsultan (1999) analyzed 385 participants in the Islamic banking sector in Kuwait, and the factor analysis also confirmed that adherence to the Islamic rules was the primary motivational reason for customers to deal with Islamic banking products. Alsultan also found that 51.7 % of respondents preferred to deal with conventional banks because of their better service. This indicates that even though the 385 participants had religious reasons for using Islamic methods of finance, more than half ranked quality of service at the top of their banking selection criteria.

Okumkus (2005) conducted a survey about the satisfaction levels of Turkish customers towards Islamic banking products in Turkey. He found that the majority of Turkish customers expressed religion as the primary motivation for them to use Islamic banking products and services; they also expressed their satisfaction with the products available from the Islamic banking sector. However, Turkish respondents like other respondents in previous studies were found to be generally aware of the basics of Islamic methods of finance, except with the more complex Islamic finance structures such as profit/loss-sharing methods of finance. Okumkus (2005) also indicated that there was a significant relationship between customer satisfaction and variables such as customer age (20–39 years). Dusuki *et al.* (2006) explored respondents' motivations to deal with Islamic banks, and they found that quality and speed of service are important factors influencing customers' banking selections. They also indicated that elderly people who are relatively well educated preferred Islamic banking products.

Another important factor that leads depositors to select the Islamic banking system is the higher rate of return (Erol *et al.*, 1989; Erol *et al.*, 1990; Haron *et al.*, 1994; Rammal *et al.*, 2007; Yusuf *et al.*, 2006). Customers are also willing to move their money from the Islamic banks either to another Islamic bank or even to a conventional bank if the

financial return is not favourable and does not meet their expected return (Erol *et al*, 1989; Erol *et al*, 1990; Gerrard *et al*, 1997; Hamdan, 2007; Yusuf *et al*, 2006). The fact that customers' willingness to move to a conventional bank as a reason of low financial return was supported by Ramlee (2000), Bacha (2004), Sukmana *et al* (2005). They found that there were significant deposit outflows from Islamic banking to conventional banking as a result of a declaration made by the Islamic banking system of a lower return than their conventional counterparts.

Accordingly, Islamic financial institutions should understand that one of the main reasons that Islamic banking depositors open accounts with Islamic banks is to use *Shari'ah*-compliant financing or loans (Wilson, 1984). And the fact is that Islam does not prohibit people to gain profit as long as it is *Shari'ah*-compliant and according to the spirit of Islamic business ethics of honesty, justice and equity (Haron *et al*, 2005a). Therefore, Islamic institutions should realize that overall perceived service quality will be elevated as a consequence of high-return payouts on the investment deposits (Zaabi, 2007). On the other hand, other researchers have shown that respondents do not perceive cost and benefit as the main factors in selecting Islamic banks, *i.e.* *Shari'ah*-compliant systems were ranked as the first priority while higher financial return was ranked as the least important criteria (Kader, 1993, 1995; Hegazy, 1995; Okumus, 2005; Dusuki, 2007b, 2008). Dusuki (2007a) also suggests that customers and depositors in Malaysia believe that profit/loss sharing principles are the only principles representing the true spirit of the Islamic banking system.

In conclusion, the above research efforts based on primary data indicate that respondents differ in their preferences and priorities in respect of choosing Islamic financial institutions' products and services. Some respondent's rank *Shari'ah* compliance as a first priority and financial return comes as secondary, while other respondents have the opposite view as they rank financial returns as first priority followed by *Shari'ah* compliance.

3. 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 participants' preferences and motivations who participate on the *takaful* fund. Their preferences of receiving financial profits and underwriting surplus out of the *takaful* fund, also their preferences about the *Sharia'h* compliance mechanisms used by the TOs in the Saudi insurance market. 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 8 questions which are divided into 5 Preferences and Motivation dimensions². Accordingly, a statistical description with frequency

² The selection of the 5 preference 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

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.

4. PARTICIPANTS’ PREFERENCES

Blythe (1997) described need as a perceived lack, that individuals must realize their preferences in order for it to be described as need. This recognition (perception) of lack (unfulfilled need) has been linked to a series of resultant activities in the mind of the consumer. Kotler *et al* (2001) also define human needs as “states of felt deprivation”. Accordingly, this section will describe participant’s preferences as these mirrors their needs and wants. The highest the rate of participants’ preferences implies high lacking rate of perceiving the required services. The exploration of participants’ preferences will be with regards to the service provided by the TOs. Participants’ preferences will add an important factor to participants’ satisfaction. Some of these preferences have been recognized by the international insurance organizations, by complying with the corporate governance and market conduct standards. For meaningful understanding, the statistical descriptions of all five participants’ preference variables are given below.

1. Participants’ Preferences for *Shari’ah* compliance (PSC)

Table 1: Participants’ Preferences for *Shari’ah* compliance

Q1 - Participants’ Fund will be affected because SSB gives less time to judge assets validity.					
	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
Valid	Strongly Disagree	5	1.7	290.333	0.000
	Disagree	31	10.3		
	Neutral	144	48.0		
	Agree	117	39.0		
	Strongly Agree	3	1.0		
	Total	300	100.0		
Q2 - I would like to have an opportunity to select the SSB					
	Strongly Disagree	1	.3	286.567	0.000
	Disagree	26	8.7		
	Neutral	94	31.3		
	Agree	159	53.0		
	Strongly Agree	20	6.7		
	Total	300	100.0		

Table 1 clarifies participants’ preferences of TOs’ *Shari’ah* compliance. Participants were asked if the validity of participants’ fund will be affected if SSB was given less time to judge the assets portfolio and 120 (40 %) participants replied with ‘agree’ and ‘strongly agree’, respectively. A follow-up question was asked to participants as to their preferences on whether they would like to be given the chance to select the SSB members to which 179 (59.7 %) participants answered with ‘agree’ and ‘strongly agree’, respectively. This indicates that participants might require more disclosure on the *Shari’ah* pronouncements/resolutions for the participants’ fund. On the other hand, the Chi -square tests reveal that the variations of responses in both questions are statistically significant (Asymp. Sig. < 0.05).

imposed polices 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.

2. Participants' Preferences for a Representative on the TOs' BoD's (PRB)

Table 2: Participants' Preferences on having Representatives

Q3 - I would like to have a representatives who represents all participants on the BoDs					
	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
Valid	Strongly Disagree	5	1.7	317.233	0.000
	Disagree	144	48.0		
	Neutral	19	6.3		
	Agree	126	42.0		
	Strongly Agree	6	2.0		
	Total	300	100.0		

Table 2 reflects participants' preferences to have a representative who can represent their requirements to the TOs. The participants' replies were quite similar in that 49.7 % of the participants' replied with 'strongly disagree' and 'disagree', respectively, while 44 % of the participants replied with 'agree' and 'strongly agree', respectively. on the responses of participants might be due to the level of low premiums paid *i.e.* 182 (60.7 %) participants paid premiums between SAR 01- 1000, which might give them a feeling that it is not worthwhile for the participants representatives to spend much time managing other participants' fund for less expected profit as they prefer to concentrate on their daily life and careers. The Chi-square test reveals that the variations of responses in this question are statistically significant (Asymp. Sig. < 0.05).

3. Participants' Preferences on TOs' Key Personnel Power and Activities (PKP)

Table 3: Participants' Preferences on TOs' Key Personnel Power and Activities

Q4 - Participants should have the right to refuse shareholders activities on the participants' fund					
	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
Valid	Strongly Disagree	0	0	294.267	0.000
	Disagree	11	3.7		
	Neutral	84	28.0		
	Agree	193	64.3		
	Strongly Agree	12	4.0		
	Total	300	100.0		

Table 3 reflects participants' preferences of TOs' key personnel, and if they should have the rights to refuse shareholders intrusions on participants' funds. Their answer was quite reasonable in that 205 (68.3 %) participants replied with 'agree' and 'strongly agree', respectively which indicate that participants are not in favour of letting shareholders control their funds. On the other hand, the Chi -square test reveals that the variations of responses in this question are statistically significant (Asymp. Sig. < 0.05).

4. Participants' Preferences on the Reason to Use the Takaful Policy (PRU)

Table 4: Participants' Preferences on the Reason to Use the Takaful Policy

Q5 - Why do you use <i>takaful</i> insurance:					
5-1) To protect myself against financial loss					
	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
Valid	No	233	77.7	91.853	0.000
	Yes	67	22.3		
	Total	300	100.0		
5-2) To make a future plan that can benefit me and my family					
Valid	No	44	14.7	149.813	0.000
	Yes	256	85.3		

	Total	300	100.0		
5-3) To help other participants in their needs					
Valid	No	296	98.7	284.213	0.000
	Yes	4	1.3		
	Total	300	100.0		
5-4) To obey the government mandatory order to carry an insurance policy					
Valid	No	299	99.7	296.013	0.000
	Yes	1	.3		
	Total	300	100.0		
5-5) Because of <i>Shari'ah</i> compliance					
Valid	No	193	64.3	24.653	0.000
	Yes	107	35.7		
	Total	300	100.0		
Q6 - Which of the following do you prefer					
Valid	<i>Shari'ah</i> -Loose & high return	1	0.3	296.013	0.000
	<i>Shar'iah</i> -Strict & low return	299	99.7		
	Total	300	100.0		

Table 4 reflects the reasons for participants' to buy a *takaful* policy. As has been discussed previously, brotherhood and helping other Muslims is one of the main reasons that should motivates participants to buy a *takaful* policy as being stated in the Malaysian *Takaful* Act 1984. However, 256 (85.3 %) participants replied 'to make a future plan that can benefit me and my family', while only 4 (1.3 %) participants replied 'to help other participants in their needs', and 193 (64.3 %) participants clarified that *Shari'ah* compliance was not the reason that leads them to buy a *takaful* policy. Participants' preferences on the reason to buy a *takaful* policy were also challenged by linking *Shari'ah* with financial return. When participants are faced with only two choices, either loose *Shari'ah* compliance and high returns or strict *Shari'ah* compliance and low returns, 299 (99.7%) participants were in favour of the latter choice. Participants' responses to question 6 are not in contradiction to question 5. In question 5 the question was asked of the reason to buy a *takaful* policy and the main reason given by participants was the expected financial returns. In question 6 participants were given the choice to pick their type of *Shari'ah* preference. That participants' preferred *Shari'ah*-strict & low return is not considered unusual since the religiosity is expected to be high for all Muslims. The Chi -square tests reveal that the variations of responses in all sub-questions are statistically significant (Asymp. Sig. < 0.05).

5. Participants' Preferences for Claims and Underwriting Surplus (PCU)

Table 5: Participants' Preferences for Claims and Underwriting Surplus

Q7 - When I make claim I still want to share Underwriting Surplus with other participants					
Valid	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
	No	81	27.0	63.480	0.000
	Yes	219	73.0		
Total	300	100.0			
Q8 - When other participants make a claim, do you think they deserve to share Underwriting Surplus with other participants?					
Valid	No	76	25.3	73.013	0.000
	Yes	224	74.7		
	Total	300	100.0		

Table 5 reflects participants' preferences on claims and underwriting surplus. Participants were asked to clarify whether they wanted to share the underwriting surplus with other participants who did not make a claim and 291 (73 %) participants' replied 'yes'. The question was rephrased with a similar meaning and the participants were asked to clarify if they would allow other participants who made claims to share the underwriting surplus with them to which 224 (74.7 %) participants replied in affirmative. In short, participants' replies to these two questions supported their preferences on the main reason of buying a *takaful* policy *i.e.*, participants are buying the *takaful* policies for the expected financial return, and they are very eager to get the expected financial return regardless if

they made claims or not. On the other hand, the Chi-square tests reveal that the variations of responses for both questions are statistically significant (Asymp. Sig. < 0.05).

4.1 PARTICIPANTS' OVERALL PREFERENCES

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 6 below reflects participants' overall preferences for the five preferences independent variables (PSC, PRB, PKP, PRU, and PCU).

Table 6: Participants' Overall Preferences

Variables	Weak or no preference	Moderate preference	High preference	Chi-square & Sig.
PSC	22 (7.3 %)	98 (32.7 %)	180 (60 %)	124.88 (0 %)
PRB	149 (49.7 %)	19 (6.3 %)	132 (44 %)	99.86 (0 %)
PKP	11 (3.7 %)	84 (28 %)	205 (68.3 %)	192.02 (0 %)
PRU	0 (0 %)	175 (58.3 %)	125 (41.7 %)	8.333 (0.004 %)
PCU	57 (19 %)	43 (14.3 %)	200 (66.7 %)	150.980 (0 %)

Participants' Overall Preferences Regarding *Shari'ah* compliance (PSC)

Participants' overall preferences for company *Shari'ah* compliance, revealed that 180 (60.0 %) of participants reported a high preference, followed by 98 (32.7 %) of participants with a moderate preference. Furthermore, the Chi-square test revealed that participants' overall preferences for the *Shariah* compliance is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Preferences for a Representative on TO BoDs (PRB)

Participants' overall preferences to have a representative on the BoDs are almost equal, in that 149 (49.7 %) of participants reported weak preference, followed by 132 (44 %) of participants with high preference. The Chi-square test revealed that participants' overall preference to have a representative on the BoDs is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Preferences of TOs' Key Personnel (PKP)

Participants' overall preferences for shareholders' activities revealed that 205 (68.3 %) of participants reported high preferences, followed by 84 (28 %) of participants with moderate preferences. Furthermore, the Chi-square test revealed that participants' overall preference to refuse shareholders activities is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Preferences Regarding Reasons for the Use of *Takaful* policy (PRU)

Participants' overall preferences regarding reasons for buying a *takaful* policy revealed that 175 (58.3%) of participants reported a moderate preference, followed by 125 (41.7 %) of participants with high preferences. The Chi-square test revealed that participants' overall preference of the reason to buy a *takaful* policy is statistically significant (Asymp. Sig < 0.05).

Participants' Overall Preferences for Claims and Underwriting Surplus (PCU)

Participants' overall preferences for TO claims and indemnities procedures revealed that 200 (66.7 %) of participants reported high preference, followed by 57 (19.0 %) of participants with weak preference, then 43 (14.3 %) of participants with moderate preferences, Furthermore, the Chi-square test revealed that participants overall preferences on the claims and indemnities is statistically significant (Asymp. Sig < 0.05).

5. CONCLUSION & CLOSING REMARK

A higher degree of participants preferences implies more lack of perceiving the required services, as preferences is a mirrors of need, that individual must realize (preference) their need in order for it to be described as need (Blythe, 1997). As participants' preferences are reflections of their needs. Hence, Participants' preferences to have a representative on the TOs' Board of Directors (BoDs) (PRB), has scored almost equivalent score in that 132 (44 %) participants have an overall high preference, and 149 (49 %) have an overall low preference. However, it is recommended that the TOs adhere to IFSB (2009a) by assigning a governance committee which consists of non-executive directors, *Shari'ah* scholars, and actuary and/or participants' representative. Participants' preferences on TOs' key personnel power and activities (PKP), revealed an overall high preference with 205 (68 %) participants, which indicates participants' objections to TOs' intrusions in participants' fund. In other words 205 participants agree to refuse shareholders activities on participants' fund as per Table 3. As a result, TOs need to follow IFSB (2009a) which requires TOs to disclose the allocation of surplus or deficit for proper relationship determination between participants and shareholders. Participants' preference on the reason for using a *takaful* policy (PRU) indicates that the majority of participants are buying the *takaful* policy for the expected financial benefits. Specifically, Table 4 show that 256 (85 %) participants bought their policy for future planning that can benefit them and their families. 233 (78 %) bough their policy as a reason of loss protection, while 193 (64 %) participants indicated that *Shari'ah* compliance was not the reason to buy a *takaful* policy and 296 (99%) participants indicated they had not bought their *takaful* policy to help other participants in their financial loss. These findings indicate that participants are highly motivated by the promised financial return. However, they have less concern about the morality of *takaful* operations complying with the *Shari'ah* system. Participants also show less concern about one of the main purposes of *takaful* insurance *i.e.* to help other participants in their financial loss. The findings of the current research effort support results from previous writings such as Ramlee (2000); Bacha 2004) Sukmana *et al* (2005) that indicate that customers in Islamic banks are willing to move to a conventional bank as a reason of low financial return. Participants have not been educated properly by the TOs about the main purpose of using *takaful* products and they might be financially motivated by the promises made by *takaful* salespersons/intermediaries of expected quick and short financial returns. Mercantile & General Reinsurance (1993) concluded that the quality of life assurance sale is dependent on the quality of the people selling, the training they receive, the commission structure by which they are remunerated and the cultural environment in which they work. Gower (1984) was critical of the lack of training of life insurance salesmen and the conflicts of interest that can arise from commission payments. Therefore, it will better if *takaful* products are sold by the operator itself, since intermediaries need to acquire a wide set of information about customer preferences, such as customer perspectives and their view in regards to *Shari'ah* issues (Ali *et al*, 2008). Participants' preferences for claims and underwriting surplus (PCU) scored overall high preferences with 200 (67 %) participants. Specifically, Table 5 indicates that 219 (73 %) participants want to share in the underwriting surplus even when they made a claim for indemnities. Also, 224 (74%) participants also do not object to other participants who made claims to share the expected underwriting surplus with them. Participants' preferences on this notion concluded that participants are in favour of implementing the pro-rate mode of distributing underwriting surplus as per AAOIFI *Shari'ah* standards (2010). Despite the fact that the majority of participants want to share on the underwriting, 280 (93 %) participants did not know of the options that can be used to share underwriting surplus with other participants in association with the claim situation. Accordingly, TOs need to educate their participants about the options that can used to distribute underwriting surplus among participants as per AAOIFI *Shari'ah* standards (2010). In conclusion, participants have shown overall high preferences on all dimensions. However, there is a noticeable motivated preference for participants to have a decent financial return rather than *Shari'ah* compliance needs. These findings come in contrast of Metawa *et al* (1998) and Haron *et al* (1994) who conclude that Islamic banking customers in GCC are religiously motivated rather than profit-motivated. However, the current research complements the findings of Erol *et al* (1989) on the Jordanian Islamic banking sector.

While, participants' overall preferences as presented in Table 6, can be compared with the international insurance standards and policies to improve participants' protections. The results show that 180 (60 %) participants score high overall preferences about the *Shari'ah* compliance systems (PSC) of the TOs, which implies shortfalls in the TOs' *Shari'ah* services. Specifically, Table 8.27 shows that 179 (60 %) participants clarified that they want to select the *Shari'ah* supervisory board (SSB), since 120 (40 %) participants believe that participants' funds will be affected because the SSB is given less time to judge assets validity. Thus, TOs should try to fulfil participants' needs and wants in this regard. IFSB (2009b) asserts that the SSB should adopt and disclose a specified *Shari'ah* pronouncements/resolutions system and to identify fast and sound *Shari'ah* board response channels. One of the reasons of the differences in respondents' preferences and motivations to choose Islamic institutions might be due to lack of understandings and knowledge concerning the technical aspects of the Islamic financial institutions'

products and services (alnemer, 2015). As Dar (2004) asserted, knowledge and understanding is the utmost prerequisite for customers to engage in Islamic finance, that without proper knowledge about the Islamic products they could not identify their preferences in acquiring these products or services. Howcroft *et al.* (2003) also stressed on the importance of the level of knowledge and understanding of the financial products the customer should have, as this will determine their level of confidence in using any of the products, especially the sophisticated ones. So when customers have enough knowledge and confidence about the products then they can identify their preferences and motivation reasons. Therefore, as the family *takaful* scheme has a similar *Shari'ah* and financial system as the deposits accounts in Islamic banking, then participants would expect their funds to be used in a *Shari'ah*-compliant way, and they will also seek for some investments return and underwriting surplus as a reward for their contribution in the fund. Hence, it is wise to view participants' preferences and motivations that led them to buy a *takaful* policy.

REFERENCES

- AAOIFI. (2004/2005). *Accounting, Auditing and Governance Standards for Islamic Financial Institutions*, No 12, Appendix E. Manama: Accounting and Auditing Organization for Islamic Financial Institution.
- AAOIFI (2010). *Shariah Standards for Islamic Financial Institutions*. Manama: Accounting and Auditing Organization for Islamic Financial Institution.
- Al Attar, A.T. (1983), *Hukm Al-Tamin Fi Al-Sharia'h Al-Islamyah (Insurance Contract under Sharia'h Law)*, Maktabat Al-Nahdah, Cairo. Egypt.
- Ali, R. (2006). *Islamic Finance: A Practical Guide*. London, Globe Business Publishing Ltd, United Kingdom.
- AlNemer, Hashem, (2013). Revisiting Takaful Insurance: A Survey on Functions and Dominant Models. *Afro Eurasian Studies*, 2 (1&2), pp. 231-253.
- AlNemer, Hashem (2015). Participants' Perceptions about Takaful Operators Disclosure System: An Empirical Study on Saudi Arabia. *Islamic Finance, Performance and Efficiency*. V(3). ISBN: 978-3-940924-12-4.
- Al-Sultan, W (1999). Financial Characteristics of Interest-Free Banks and Conventional Banks. Accounting and finance. Unpublished Ph.D. Thesis. The University of Wollongong . Wollongong. Australia.
- Auchterlounie T. and Hinks, J. (2001). The measurement of Customers Satisfaction in the Private House Building Sector. COBRA 2001 Conference Paper. Available at (<http://www.rices-foundation.org/publish/download.aspx?did=2685>).
- Bacha, Obiyathulla Ismath. (2004). Dual Banking Systems and Interest Rate Risk for Islamic Banks. Unpublished Research Paper. Management Center, International Islamic University Malaysia.
- Blythe, J. (1997). *The Essence of Consumer Behaviour*. Harlow: Prentice Hall.
- Chisnall, P. M. (1985). *Marketing: A Behavioral Analysis*. (2nd ed). London: McGraw-Hill Book Company.
- Cronin, j j., and Taylor, S. A. (1992). "Measuring Service Quality: A Re-examination and Extension". *Journal of Marketing*. Vol. 56: pp. 55-68.
- Dar, Humayon A. (2004). Demand for Islamic Financial Services in the UK: Chasing a Mirage?. Unpublished Ph.D. Thesis. Sheffield Hallam University.
- Dusuki, Asyraf Wajdi. (2007a). "The Ideal of Islamic Banking: A Survey of Stakeholders' Perception". *Review of Islamic Economics*. Vol. 1: pp. 29-52.
- Easterby-Smith, M., Thorpe, R. and Jackson, P. (2008). *Management Research*. (3rd ed). SAGE Publications Ltd., London.
- Easterby-Smith, M., Thorpe, R. and Lowe, A. (1999). *Management Research, an introduction*. London: SAGE Publications.
- Erol, Cengiz, and El-Bdour, Radi. (1989). "Attitudes, Behaviour, and Patronage Factors of Bank Customers Towards Islamic Banks". *International Journal of Bank Marketing*. Vol. 7 (6): pp. 31-37.
- Erol, Cengiz, Kaynak, Erdener, and Radi, El-Bdour. (1990). "Conventional and Islamic Banks: Patronage Behaviour of Jordanian Customers". *International Journal of Bank Marketing*. Vol. 8 (4): pp. 25 - 35.
- Foxall, G., Goldsmith, R., and Brown, S. (1998). *Consumer Psychology for Marketing*. (2nd ed). London: International Thomson Business Press.
- Gerrard, Philip, and Cunningham, J. Barton. (1997). "Islamic Banking: A Study in Singapore". *International Journal of Bank Marketing*. Vol 15(6): pp. 204-216.
- Gower, L.C.B. (1984) *Review of Investor Protection, Report: Part I*, Cmnd 9125, HMSO, London).
- Gross, R. D. (1996). *Psychology: The Science of Mind and Behaviour*. 3rd ed, London: Hodder & Stroughton.
- Hassan, M. Kabir and Lewis, M.K. (2007). 'Islamic banking: an introduction and overview,' in *The Handbook of Islamic Banking*, M. Kabir Hassan and M.K. Lewis (eds.), Edward Elgar, Cheltenham, UK and Northampton, Mass. pp. 1-17.
- Haron, Sudin, Ahmad, Norafifah, and Planisek, Sandra L. (1994). "Bank Patronage Factors of Muslim and Non-Muslim Customers". *International Journal of Bank Marketing*. Vol 12(1): pp. 32 - 40.

- Hegazy, I. (1995). "An Empirical Comparative Study between Islamic and Commercial Banks' Selection Criteria in Egypt". *International Journal of Commerce & Management*. Vol. 5 (3): pp. 46-61.
- Howcroft, B., Hewer, P., and Hamilton, R. (2003). "Consumer Decision-Making Styles and the Purchase of Financial Services". *Service Industries Journal*. Vol. 23 (3): pp. 63-81.
- IFSB (2010). Standard on Solvency Requirements for TAKAFUL (Islamic Insurance) Undertakings.
- IFSB (2009a) Guiding Principles on Governance for Takaful (Islamic Insurance) Undertakings. Working Paper No. IFSB-8.
- IFSB (2009b) Guiding Principles on Shariah Governance Systems for Institutions Offering Islamic Financial Services. Working Paper No. IFSB-10.
- Julie Pallant (2010). *SPSS Survival Manual*. McGraw-Hill Education.
- Kader, Radiah Abdul. (1993). Performance and Market Implications of Islamic Banking : A Case Study of Bank Islam Malaysia Berhad. Unpublished Ph.D. Thesis. Durham University, Durham, United Kingdom.
- Kader, Radiah Abdul. (1995). "Bank Islam Malaysia: Marketing Implication". In Saad Al-Harran (Ed.), *Leading Issues in Islamic Banking and Finance* (pp. 103- 129). Kuala Lumpur: Pelanduk Publications.
- Krishnan, M., Ramaswamy, V., Meyer, M. and Damien, P. (1999). Customer Satisfaction for Financial Services: The Role of Products, Services and Information. *Management Scienc*. Vol. 45 (9): pp.1194 -1209
- Kotler, P. and Armstrong, G. (2001). *Principles of Marketing*. New Jersey: Prentice Hall International, Inc.
- Kotler, P. (1997). *Marketing Management: Analysis, Planning, Implementation and Control*. (9th ed). International Edition. New Jersey: Prentice Hall International, Inc.
- Okumus, H. Saduman. (2005). "Interest-Free Banking in Turkey: A Study of Customer Satisfaction and Bank Selection Criteria". *Journal of Economic Cooperation Among Islamic Countries*. Vol. 26 (4): pp. 51-86.
- Lassar, W.M., Manolis, C. and Winsor, R.D. (2000). "Service Quality Perspectives and Satisfaction in Private Banking". *Journal of Service Marketing*. Vol 14 (2/3): pp. 244-272
- Madzlan Mohamad Hussain. (2009). *'Legal Issues in Takaful'*. Simon Archer, Rifaat Ahmed Abdel Karim, Volker Nienhaus (eds.). Takaful Islamic Insurance Concepts and Regulatory Issue. West Sussex. UK. John Wiley & Sons. pp. 67 – 84.
- Metwally, M (2002). The impact of demographics factors on consumers selection of a particular bank within a dual banking system: a case study. *Journal of International Marketing and Marketing Research*. Vol 27 (1): pp. 35 - 44.
- Metwally, M. (1996). "Attitudes of Muslims Towards Islamic Banks in Dual-Banking System". *American Journal of Islamic Finance*. Vol. 6: pp. 11-17.
- Metawa, Saad A., and Almossawi, Mohammed. (1998). "Banking Behavior of Islamic Bank Customers: Perspectives and Implications". *International Journal of Bank Marketing*. Vol 16 (7): pp. 299-313.
- Mercantile & General Reinsurance (1993). *Survey of crop insurance in Australia*. Hill, Jeanene Publisher: [Sydney] : ISBN: 0646153188 DDC: 36812.
- Naser, Kamal, Jamal, Ahmad, and Al-Khatib, Khalid. (1999). "Islamic Banking: A Study of Customer Satisfaction and Preferences in Jordan". *International Journal of Bank Marketing*. Vol. 17(3): pp. 135-150.
- Omer, Hussein Sharif Hussein. (1993). *The Implications of Islamic Beliefs and Practice on the Islamic Financial Institutions in the UK : Case Study of Albaraka International Bank UK*. Unpublished Thesis (Ph.D.), Loughborough University, Loughborough.
- Parasuraman, A., Zeithaml, V.A. and Berry, L.L. (1985). "A Conceptual Model of Service Quality and its Implications for Future Research". *Journal of Marketing*. Vol 49: pp. 41-50.
- Rammal, Hussain Gulzar, and Zurbruegg, Ralf. (2007). "Awareness of Islamic Banking Products among Muslims: The Case of Australia". *Journal of Financial Services Marketing*. Vol. 12 (1): pp. 65-74.
- Ramlee, Roslily. (2000). Deposits Mobilization and Funds Utilization Analysis: BIMB as a Case in Point Unpublished Dissertation (MBA). Universiti Tun Abdul Razak.
- Ranaweera, C. and J. Prabhu (2003). "On the relative importance of customer satisfaction and trust as determinants of customer retention and positive word of mouth". *Journal of Targeting, Measurement & Analysis for Marketing*. Vol 12(1): pp: 82-90.
- Spreng, Richard A. and Robert D. Mackoy (1996). "An Empirical Examination of a Model of Perceived Service Quality and Satisfaction". *Journal of Retailing*. Vol 72 (2): pp. 201-214.
- Sukmana, Raditya, and Yusof, Rosylin Mohd. (2005). Are Funds Deposited in Islamic Banks Guided by Profit Motive? An Empirical Analysis on Malaysia. Paper presented at the 4th Global Conference on Business and Economics, Oxford 26-28 June 2005, United Kingdom.
- Wilson, Rodney. (1984). "Islamic Business Theory and Practice London". *The Economist Intelligence Unit*.
- Yusuf, Eva Z, and Kusumastutie, Galuh. (2006). *Consumer Behavior in Choosing Islamic Bank: Indonesian Case*. Paper presented at the INCEIF Islamic Banking and Finance Educational Colloquium 2006 organised by INCEIF on 3-5 April 2006, Kuala Lumpur, Malaysia.

Zaabi, Obaid Saif Hamad Ali al. (2007). *Measuring the Perceived Service Quality: An Empirical Study of Islamic Banks in the UAE*. Paper presented at the IIUM International Conference on Islamic Banking & Finance IICiBF 2007 organised by International Islamic University Malaysia on 23-25 April 2007, Kuala Lumpur, Malaysia.