

## **Awareness of Islamic Insurance and Conventional Insurance among Sri Lankan: A Comparative Study**

S. Nathira Jahan<sup>1</sup>, A.M.F. Roshan<sup>2</sup>, A.C.M. Nafrees<sup>3</sup> & S.M.M. Mazahir<sup>4</sup>

<sup>1,2,3&4</sup>South Eastern University of Sri Lanka  
nahirajahan94@gmail.com

### **Abstract**

The contemporary concept of Takāful can be explained as providing financial assistance to the participants as a basis of mutual help, brotherhood and solidarity if the participants face misfortune. Nowadays in Sri Lanka conventional and Islamic Insurance are conceptualized by offering products and services. The aim of this study is to check the Awareness of Islamic and conventional Insurance among Sri Lankan public. Therefore, the respective sample of 226 respondents were participated in this survey. Further, the reliability test of the accumulated data was inspected with Cronbach's Alpha test. For the data collection a set of questionnaires using Google structure and shared through E-Mail and WhatsApp media around Sri Lanka during the period between first week of October and first week of November 2020. Finding of this study indicated that the majority of the customers mentioned that they are using insurance due to they are engaged voluntarily in this (48.7%). It gives a good view of Takaful since they keen interest in Takaful without any compulsion. Although, 35.4% of them engaged with insurance policy by compulsion. And 30.1% of the participants had experience with Islamic insurance for more than 3 years. This ensures that they are satisfied with this insurance strategy. Further, in this study, the researchers worked on measuring the awareness of Islamic Insurance compare to Conventional Insurance among Sri Lankan; but it can be conducted gender wise or religion wise, to improve the awareness of Islamic Insurance among other communities, which can lead to increase the customers of Islamic Insurance organizations.

**Key words: Awareness, Islamic Insurance, Conventional Insurance, Sri Lankan**

### **Introduction**

The Muslim community is with the compatibility of Shari'ah ruling in economic and finance which is to be secured in order to contributing to the economic development of the country with the help of Takāful. Islamic insurance is also conceptualized by offering products and services since its establishment in 1999 in Sri Lanka. Moreover, Insurance is consists such prohibited elements due to this the Islam guides Muslims towards a victory from the prohibited elements of gambling, uncertainty and interest in the transactions. Takāful is only the best

alternative that was introduced to conventional Insurance. It is a risk management mechanism which is recovering the losses by sharing perils and risk among policyholders based on mutual assistance, brotherhood, and solidarity (Rusni Hassan et al. 2018).

Sudan is the first country to have implemented Takāful in 1979, whereby the Sudanese Islamic Insurance Company was launched by Islamic Faisal Bank in Sudan. It was followed by some Islamic companies such as Arab Islamic Insurance Company and other companies (Mulhim & Sabbagh, 2007). Sri Lanka is one of non-Islamic countries have legislation for the Islamic banking sector. Islamic finance was first introduced by Amana investment in year 1997, had become to be one of the growing financial sectors in Sri Lanka. Following amendment of the banking act No 30 of 1988 in March 2005, and conventional banks also have some flexibility to promote Islamic banking windows, Islamic Insurance Company and to launch Islamic financial companies in Sri Lanka (Annual Report of CBSL, 2018).

At present in Sri Lanka 27 major Insurance companies offering Insurance service (IBSL, 2018). They provide many kind of products both (general and life). Sri Lanka Insurance board was regulated by the Sri Lankan's Insurance industry (IBSL, 2018) it is one of the major regulators of Sri Lanka financial system. In 1999 Islamic Insurance was introduced in Sri Lanka with an establishment of Amana Takāful, which recently created history in Sri Lanka. Amana Takāful was incorporated as a public company for the purpose of composite Insurance in Sri Lanka (Listed in the Colombo stock exchange (CSE) since 2006 registered under the company Act, No 07 of 2007, on 27<sup>th</sup> of June 2007).

In recent years, there are some differences in commercial and financial activities by following Islamic principles and its rules. Islamic banks and Islamic Insurance are growing at repaid tendency in Sri Lanka (Islamic finance today 2018). There was an unparalleled demand of Islamic Insurance in the market with full support of the government. Also it was not confined by the Muslims only rather it goes regardless of religion also (Islamic finance today, 2018). As finally evaluate about Takāful, Takāful is a financial activity and not a religious thing, it goes beyond the religion section. Therefore, it is suitable for everyone those who are seeking it. Takāful plays a tremendously important and significant role in the finance industry. Moreover It is ultimate solution of financial protection for anyone those who are seeking protection against the risk because, it has more value-added substance than insurance.

Before the independence of Sri Lanka, insurance have been practiced since 1938 (Mazahir, et al. 2017). Thus, the community deals with conventional insurance due to its longer and wider

market share in financial and economic sector in Sri Lanka (IBSL annual report 2016). However, Lack of awareness and conceptual knowledge of Takāful contributes very much towards the involvement of community in conventional insurance. Unfortunately “The concept of Takāful is still vague to many people even to the Muslims because there is no proper explanation to educate them on lot of hidden advantages of it” (Mansoor and Masduki, 2015). Furthermore in Sri Lanka the knowledge and awareness of Takaful is insufficient (Ehsan Zaheed, 2018). So, the people in Sri Lanka are with the lack of awareness and knowledge on Takāful. According to this scenario, it is needed to investigate the level of awareness of Sri Lanka to bring them into shari’ah compliant insurance policies. Therefore, the main idea of this study is to evaluate the level of awareness of Takāful among Sri Lankan.

### **Literature review**

The research was conducted by Hassan et al. (2018). It was designed to examine the knowledge and awareness of Takāful among Malaysian consumers in Malaysia. Therefore selected customers for fill up the questioners from Kuala Lumpur and Selangor. The findings showed that out of the 503 respondents, more than 100 consumers, they don’t have knowledge about Takāful and less than 50% respondents are not sure as the policy holders are shared the risk among them by mutually. And half percentage of consumers doesn’t know about Takāful as it is free from gambling, uncertainty, and interest. Apart this more than 50% respondents sure that, Takāful products are based on Shari’ah.

According to Salleh et al. (2017) they investigated the impact of the flood that hit the east coast area in Malaysia to the victim’s lives in terms of finance, health, job, or source of income. Therefore, 147 flood victims were chosen as respondents from Kelantan and Pahang by adopting quantitative methodology where the data was collected via survey consisting of close-ended questionnaires. The findings showed according to the data captured through this research, that Majority of the victims were awareness of Takāful and they knew that, it is differ from conventional insurance, unless they not conform if any losses were caused by flood the Takāful will be reduced the losses by paying monthly Takāful contributions.

Hashem and AlNemer conducted the research in (2015) with the consideration of Saudi Arabian consumers to evaluate their knowledge and educational background about Takāful products & services. The questionnaire was distributed among 420 Takāful consumers in Saudi Arabia. The findings were calculated by them through the way of analyzing, the majority of participants have weak knowledge about Takāful, even though Saudi Arabia is considered the

Islamic hub of the world. The reason was found the participants have overall low perceived information.

Another research was done by Kamarul Ariffin & Masliah Mohammed (2015) based on the Muslim consumer's considerations through Takāful products in Malaysia. The questionnaire is used to collect the data from the participants and it distributed among the Muslim Takāful consumers from selected Takāful agencies. The findings were showed that, perception and religious factor play a significant influence towards preferences in Takāful product, unless the participant's awareness does not play an influential role.

Another research was did by Ismail, Othman, Mohamed Yousop, Syaidatul Zarina Mat Din, Abu Bakar, Ariff Noh, Shafi (2013) based on Johor, and Malaysia. The main objective of this study is to evaluate the level of awareness on Takāful among micro enterprises. The findings indicated that, the level of awareness was very low among respondents. It was measured by the way of interviewed them. Finally the researchers identified that, education background is very important part to decide the public awareness on Takāful. Some recommendations also provided by the researchers such the Takāful operators should promote micro Takāful products in their Takāful products and the Takāful agents should clearly know about Takāful and its framework. It will very helpful for them to explain these products to others in perfect manner.

Ayinde & Echchabi (2012), they focused the study on Malaysian consumers among 200 respondents to examine the customers' willingness to adopt Takāful. T-test, structural equation modeling, and random sampling methods were used for this research. Finding result showed that, awareness and compatibility are the two main influencing factors and that the respondents are willing to adopt Islamic Insurance.

The research was conducted by Nathira et al. (2019). To explore the awareness level as well as knowledge level of Takāful. Therefore, respective sample of 160 respondents which comprise general Muslim public from Sammanthurai division in Sri Lanka participated in this survey in perfect manner. The finding of this study indicated that out of 160 respondents, only 49 of them are aware of Takāful while 45 respondents do not know about Takāful and others majority of respondents are not conformed about it. Although, Takāful is being offered in Sri Lanka since 1999, its awareness seems to be low.

## **Methodology**

We have used both qualitative and quantitative methods, where these methods were used to check the Awareness of Islamic and conventional Insurance among Sri Lankan. Further, the reliability test of the accumulated data was inspected with Cronbach's Alpha test.

In the wake of assessing the past research works and existing pandemic circumstance around the world, analysts organized a set of questionnaires using Google structure and shared through E-Mail and WhatsApp media around Sri Lanka. Information assortment instrument was arranged into three extraordinary segments, specifically demographic variables, such as, age gathering, sexual direction, instructive capability, and so forward, another was numerous selection question, and dichotomous questions. A simple Random sampling technique was applied to collect the required data. The Structured questionnaires were shared to the participants during the period between first week of October and first week of November 2020 through E-Mail and WhatsApp and got 226 Responses which were imported to SPSS and led determinate investigations were finished. In this study, the customer awareness of Islamic insurance, reason behind dealing with Islamic insurance, and reason behind dealing with conventional insurance were checked. For this purpose, a cross-sectional descriptive test statistics were applied.

### **Finding and Discussion**

Table 1 shows the respondents' demographic profile. This study has been carried out among 226 respondents. The majority of the participants were males (72.6%) and 27.4% of them were females. The age range of most of them was between 31 to 40 years (33.2%), followed by the age group of 18 - 30 (24.8%), 41 - 50 (20.4%), 51 - 60 (15.0%), and over 61 years was 6.6%. When they were asked about their educational background, they mentioned that 4 types of qualifications. However, the majority of the respondents had a degree (38.9%). 27.0% of them were school leavers. A significant amount of people were postgraduate degree holders (17.7%). Also, 16.4% of them had a higher national diploma. According to their religion, they are classified into 2 groups for this study. 82.3% of them were Muslims. Only 17.7% of them were Non-Muslims. They were examined about their job level also. 35.0% of government sector employees, 19.5% of students, 17.7% of private-sector employees, 14.6% of self-employers, and 4.0% of retired people participated in this study. But 9.3% of them were unemployed. Besides, 68.6% of the respondents were married. 23.9% of them were single. Only 4.4% and 3.1% of the participants were widowed or divorced respectively.

Table 1. Respondents' profile

<b>Variable</b>	<b>Frequency</b>	<b>Percentage</b>
Gender		
Female	62	27.4
Male	164	72.6
Age		
18 - 30	56	24.8
31 - 40	75	33.2
41 - 50	46	20.4
51 - 60	34	15.0
Over 61	15	6.6
Educational Background		
School Leaver	61	27.0
Higher Diploma	37	16.4
Degree	88	38.9
Postgraduate	40	17.7
Religion		
Non-Muslim	40	17.7
Muslim	186	82.3
Occupation		
Student	44	19.5
Private Sector	40	17.7
Government Sector	79	35.0
Self-Employment/ Business	33	14.6
Retired	9	4.0
None	21	9.3
Marital Status		
Single	54	23.9
Married	155	68.6
Divorced/ Separated	7	3.1
Widowed	10	4.4

Participants were given 3 options to select the type of Insurance policy they had. Most of the people had insurance in conventional banks (54.4%). 38.5% of them had Islamic insurance. 21.2% of them had no insurance. But 14.2% of the participants opted for the insurance policy of both Islamic and conventional banks. These results are shown in Figure 1.

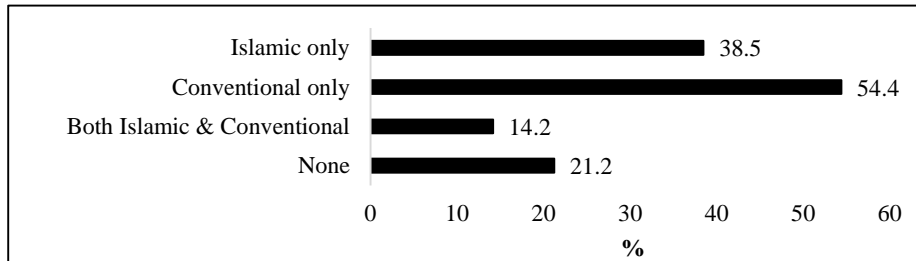


Figure 1. Selected Insurance policy\*\*\*

Note: \*\*\*Multiple choice questions

The customer awareness of Islamic insurance (Takaful) is an important part of this study work and it is shown in Table 2. The majority of the customers mentioned that they are using insurance due to they are engaged voluntarily in this (48.7%). It gives a good view of Takaful since they keen interest in Takaful without any compulsion. Although, 35.4% of them engaged with insurance policy by compulsion. And 30.1% of the participants had experience with Islamic insurance for more than 3 years. This ensures that they are satisfied with this insurance strategy.

The respondents were enquired about the advantages of having insurance. They mentioned that reducing financial problem (19.5%), attainment enough economic provision later retirement (16.4%), reducing distress for kids' education expense (10.6%) and further benefits. Around half of the people had general insurance (50.9%), 16.4% of them had life insurance whereas 35.0% of them had a general Takaful and 6.6% had family Takaful.

Mostly all of the participants knew that Takaful products comply with Islamic Law (90.3%) and Islamic Insurance is free from interest otherwise insecurity or else betting (81.0%). 82.3% of them knew that Takaful did not implicate in whatever forbidden commercial proceedings. Half of the people agreed that Islamic insurance is able to deliver the attention and profits same as conventional insurance meanwhile around half of the people did not agree with that (48.2%) and 44.7% of them aware that Takaful was based on the idea of shared collaboration amongst the customers.

Table 2. Awareness about Islamic insurance (Takaful)

<b>Variable</b>	<b>Frequency</b>	<b>Percentage</b>
What makes you engage with insurance policy?*		
Compulsory	80	35.4
Voluntary	110	48.7
Islamic Insurance experience*		
less than 3 Years	31	13.7
between 3 to 5 Years	35	15.5
More than 5 Years	33	14.6
Advantages of having the insurance products***		
Less financial burden	44	19.5
Less worry for kids' education fee	24	10.6
Getting sufficient financial support after retirement	37	16.4
Other	173	76.5
Which type of Takaful or insurance policy do you have? ***		
Family Takaful	15	6.6
General Takaful	79	35.0
Life insurance	37	16.4
General insurance	115	50.9
Other	15	6.6
I know that Takaful products comply with Islamic Law*		
Yes	204	90.3
No	16	7.1
I know that Islamic Insurance (Takaful) is free from interest/ uncertainty/ gambling*		
Yes	183	81.0
No	39	17.3
I know that Islamic Insurance does not involve in any prohibited business activities*		



Yes	186	82.3
No	37	16.4
I know that Islamic Insurance can provide the coverage and benefits*		
Yes	113	50.0
No	109	48.2
I aware that Islamic insurance (Takaful) is based on the concept of Mutual cooperation*		
Yes	101	44.7
No	117	51.8
I know that Islamic Insurance has been offered in many countries all over the world*		
Yes	210	92.9
No	14	6.2

Note: \*N#226 due to unmarked fields by respondents

\*\*\*Multiple choice questions

Table 3. Reasons for choosing Islamic insurance (Takaful)

Variable	Acceptance Level (Percentage)					Total Responses (Numeric)
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	
Accident	65.1	16	13.2	2.8	2.8	106
Theft	6.7	15.2	28.6	16.2	33.3	105
Disability	6.7	3.8	33.3	21.9	34.3	105
Illness	39	26.7	20	4.8	9.5	105
Education	16.2	15.2	17.1	11.4	40	105
Death	6.7	9.5	18.1	15.2	50.2	105
Investment	7.5	22.6	17	11.3	41.5	106
Tax	2.9	20	28.6	7.6	41	105
Services	24.8	41.9	17.1	7.6	8.6	105
Profitability	8.6	34.3	35.2	6.7	15.2	105
Charges	17	41.5	25.5	6.6	9.4	106
Transaction	25.7	46.7	15.2	2.9	9.5	105
Religion	65.7	14.8	8.3	0.9	10.2	105
Reputation	36.1	34.3	17.6	5.6	6.5	108

Note: \*N#226 due to only considered Islamic Insurance choices and unmarked field

Table 3 representing Percentage of reasons for choose Islamic Insurance from people who were engaged with Islamic Insurance. According to above results Majority of the respondents took

Islamic Insurance for Accident (81.1%), Illness (65.7%), good services (66.7%), reasonable charges (58.5%), quick transaction (72.45%), Religion (80.5%), and good reputation among other Insurance sectors (70.4%); where Islamic Insurance holders give less priority for Theft (49.5%), Disability (56.2%), Education (51.4%), Death (65.4%), Investment (52.8%), and Tax (48.6%).

### **Conclusions & Recommendations:**

This study confirmed that the majority of the people who are working or self-employer or school leaver or retired or unemployed or educated or married or single or widowed or divorced involved in insurance either in conventional insurance or Islamic insurance (Takaful) or both. Furthermore, we found that the majority of people holding Conventional Insurance meanwhile less number of keeping both Conventional and Islamic Insurance. It is important to point out that around 50% Islamic insurance holders engaged with Islamic insurance voluntarily; and Islamic insurance holders happy with Islamic Insurance strategy. Further, the majority of the people prefer with general insurance in both conventional and Islamic. Finally, it is confirmed that Majority of the people of both Muslims and non-Muslims aware that Islamic Insurance complies with Islamic Law and avoid prohibited activities; in addition to that Muslims aware that Islamic Insurance provides the same benefits and opportunities as Conventional Insurance but not non-Muslims.

In this research work, we worked on measuring the awareness of Islamic Insurance compare to Conventional Insurance among Sri Lankan; but it can be conducted gender wise or religion wise, to improve the awareness of Islamic Insurance among other communities, which can lead to increase the customers of Islamic Insurance organizations.

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