

**Takaful and Conventional General Insurance:  
Analysing Muslim Consumers' Perceptions and  
Choices in the UK and Saudi Arabia**

By

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A Thesis Submitted to the School of Management,  
Royal Holloway, University of London  
In Fulfilment of the Requirement for the Degree of  
Doctor of Philosophy

2014

## **DECLARATION OF AUTHORSHIP**

I Aysha Al-Salih hereby declare that this thesis and the work presented in it is entirely my own. Where I have consulted the work of others, this is always clearly stated.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

## **ABSTRACT**

This thesis aims to identify the conceptual and operational differences between Takaful and conventional general insurance, and to investigate the role of religiosity, among other factors that affect the choices of insurance policies by Muslims in the United Kingdom (UK) and Saudi Arabia (KSA). The thesis studies the philosophy and features of Islamic finance, and examines religion and religiosity in the context of social sciences. A structured questionnaire based on consumer-oriented questions was used to collect the quantitative data analysed in this study. Differences between UK and Saudi Muslims relating to their preferences for and choices of insurance policies were examined, and the influence of consumers' perceptions and awareness on choosing between Takaful and conventional insurance models and between the various products offered within each model was also investigated. Factor analysis has been used to identify different dimensions to the overall notion of religiosity. Regression analysis has been used to investigate whether there are any systematic explanations for choices between Takaful and conventional insurance policies. Respondents show varying degrees of awareness of Islamic products, with high awareness of general Takaful, much lower awareness of family Takaful, and mixed awareness of other products. Compliance with Sharia is a highly valued attribute of Islamic financial products, though this attribute is less highly valued by UK respondents. There are some significant differences in how respondents in the UK and KSA perceive insurance companies and providers, with KSA respondents tending to differentiate Takaful from conventional insurance much more than UK respondents. The purchase of Takaful policies was associated with greater knowledge of Islam, while purchase of conventional policies was associated with low adherence to Islamic practises. Identification of consumers' reasons for acquiring particular forms of insurance helps to highlight the perceived weaknesses and strengths of the different forms. The findings of this thesis will help researchers and practitioners to understand consumer needs, which will affect the survival of Islamic banking and insurance institutions.

# Table of Contents

<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>12</b>
1.0 Research Background .....	12
1.1 Research Aim, Objectives and Research Questions .....	15
1.2 Core Concepts .....	17
1.3. The Research Contribution .....	18
1.4. Research Methodology .....	20
1.5 Outline of the Thesis .....	21
<b>CHAPTER TWO: A CRITICAL INSIGHT INTO ISLAMIC FINANCE.....</b>	<b>25</b>
2.0 Introduction.....	25
2.1 Fundamentals of Islam.....	25
2.2 Islamic Socio-Economic Principles .....	33
2.3 Economic Scenario in the Neoclassical Framework.....	37
2.4 The Philosophy and Features of Islamic Finance .....	39
2.5 Criticism of Islamic Finance .....	59
2.6 Summary .....	63
<b>CHAPTER THREE: CONCEPTUAL AND OPERATIONAL DIFFERENCES BETWEEN TAKAFUL AND CONVENTIONAL GENERAL INSURANCE ...</b>	<b>64</b>
3.0 Introduction: What is Insurance and Takaful?.....	64
3.1 The Concept of Insurance: is it acceptable in Islam?.....	66
3.2 Historical Development of Conventional Insurance.....	71
3.3 The History of Takaful.....	74
3.4 The Mechanism of Conventional Insurance .....	77
3.5 The Characteristics and Features of Takaful.....	80
3.6 Relevant Contracts for Takaful .....	82
3.7 Reinsurance and ReTakaful .....	90
3.8 Insurance and Hedging Compared .....	92
3.9 Summary .....	94
<b>CHAPTER FOUR: RELIGION, RELIGIOSITY AND MUSLIMS .....</b>	<b>97</b>
4.0 Introduction.....	97
4.1 Religion as an Object of Study .....	97
4.2 Studying Religion in the Social Sciences .....	101
4.3 Introduction to Religion as an Explanatory Variable .....	108
4.4 Concept of Religiosity .....	112
4.5 Prior Research of Relevance .....	114
4.6 Existing Measures of Islamic Religiosity .....	117
4.7 Background on Muslims and Islam in UK and KSA.....	124
4.8 Key Differences That Might Lead To Differences in Perceptions and Choices Regarding Insurance .....	128
4.9 Identifying Degree of Religiosity as Potentially a Key Factor That Could Explain Differences .....	130
4.10 Summary .....	131
<b>CHAPTER FIVE: RESEARCH METHODS .....</b>	<b>133</b>
5.0 Introduction.....	133
5.1 Research Philosophy .....	133
5.2 Theorisation and Hypothesis Development .....	138
5.3 Research Strategy.....	145
5.4 Research Design.....	148
5.5 Research Techniques .....	149
5.6 Research Quality Issues .....	163
5.7 Data Analyses .....	167

5.8 Summary .....	177
<b>CHAPTER SIX: CONCEPTUAL AND OPERATIONAL DIFFERENCES: QUALITATIVE ANALYSIS .....</b>	<b>178</b>
6.0 Introduction .....	178
6.1 Literature Summary .....	179
6.2 Key Findings of the Interviews .....	182
6.3 How Do Conventional General Insurance Policies Differ from Takaful General Insurance? .....	187
6.4 Comparison of the Interview Finding With the Existing Literature and the Insurance Policy Documents .....	192
6.5 Summary .....	195
<b>CHAPTER SEVEN: BASIC ANALYSIS OF SURVEY RESPONSES.....</b>	<b>197</b>
7.0 Introduction .....	197
7.1 General Demographic Analysis .....	198
7.2 Usage of Takaful and Conventional Insurance Products .....	201
7.3 Awareness of Islamic Financial Products and Takaful Products .....	220
7.4 Perception of Takaful and Conventional Companies and Products.....	223
7.5 Attribute Salience of Islamic Financial Products .....	224
7.6 Summary .....	225
<b>CHAPTER EIGHT: ANALYSIS OF RELIGIOSITY .....</b>	<b>227</b>
8.0 Introduction .....	227
8.1 R-Index as an Overall Measure.....	227
8.2 Normality Distribution of R-Index as an Overall Measure .....	228
8.3 The Relationship between the R-Index as an Overall Measure and Location and Gender .....	230
8.4 Religiosity Chi-Squared Testing and Z-Test of Sample Proportions .....	232
8.5 Factor Analysis .....	235
8.6 Normality Distribution of Multi-Dimensional Indexes .....	240
8.7 Mean Values and T-Test of Sub-Concepts of Religiosity, Awareness and Perception amongst Different Sub-Groups .....	243
8.8 Summary .....	245
<b>CHAPTER NINE: FACTORS AFFECTING INSURANCE POLICIES CHOICES .....</b>	<b>247</b>
9.0 Introduction .....	247
9.1 Measures .....	248
9.2 Variables .....	248
9.3 Usage of Takaful and Conventional Products.....	250
9.4 Summary .....	278
<b>CHAPTER TEN: CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>280</b>
10.0 Introduction .....	280
10.1 Summary of the Thesis .....	280
10.2 Discussion of Findings.....	285
10.3 Research Contributions .....	291
10.4 Limitation of the Study .....	294
10.5 Recommendation for Future Research.....	295
10.6 Epilogue .....	296
<b>REFERENCES.....</b>	<b>297</b>
<b>APPENDICES .....</b>	<b>320</b>

# LIST OF TABLES

Table 2.1	World Muslim Population by Region	29
Table 3.1	Fully Independent ReTakaful Companies	92
Table 4.1	Studies of Islamic Religiosity	123
Table 5.1	Religious Beliefs and Practises Questions	162
Table 6.1	Comparison of Takaful and Conventional Insurance Policy Documents	188
Table 7.1	Demographic Data	198
Table 7.2	Policy Usage in the UK and KSA	202
Table 7.3	Policy Usage vs. Gender	205
Table 7.4	Policy Usage of Different Sub-Groups in the UK and KSA	207
Table 7.5	Policy Usage of Different Sub-Groups of the Whole Sample	209
Table 7.6	Policy Usage of Different Sub-Groups of the UK Sample	212
Table 7.7	Policy Usage of Different Sub-Groups of the KSA Sample	215
Table 7.8	Systematic Differences across the Whole Sample	218
Table 7.9	Systematic Differences across the UK Sample	219
Table 7.10	Systematic Differences across the KSA Sample	220
Table 7.11	Awareness of Some Islamic Financial Products	221
Table 7.12	Awareness of Takaful Products	222
Table 7.13	Consumer Perception of Takaful and Conventional Companies and Products	223
Table 7.14	Importance of Attributes of Islamic Financial Products	225
Table 8.1	R-Index Normality Distribution Statistics	228
Table 8.2	Kolmogorov-Smirnov Test for R-Index	228
Table 8.3	The Relationship between the R-Index and Location and Gender	231
Table 8.4	The Relationship between the R-Index and Awareness of Islamic F. Products	231
Table 8.5	The Relationship between the R-Index and perception of I Co. and Products	232
Table 8.6	Numbers Of Participants In Each Group	232
Table 8.7	The Proportions Of People With Different Types Of Insurance	233
Table 8.8	Z-test Low v Medium Comparison	234
Table 8.9	Z-test Low v High Comparison	234
Table 8.10	Z-test Medium v High Comparison	234
Table 8.11	Religiosity Index of the Full Sample	238
Table 8.12	Awareness Index of the Full Sample	239
Table 8.13	Perception Index of the Full Sample	240
Table 8.14	Religiosity Measurement Range of Score	241
Table 8.15	Kolmogorov-Smirnov test for Religiosity	241
Table 8.16	Awareness Measurement Range of Score	242
Table 8.17	Kolmogorov-Smirnov test for Awareness	242
Table 8.18	Perception Measurement Range of Score	242
Table 8.19	Kolmogorov-Smirnov test for Perception	242
Table 8.20	Mean values and T-Test of Sub-Concepts of Religiosity, Awareness and Perception Amongst Different Sub-groups	243
Table 9.1	Iteration History of Takaful Holder	250
Table 9.2	Iteration History of Conventional Holders	251
Table 9.3	Religiosity as Single Category Model	252
Table 9.4	Logistic Regression Single Category Models	255
Table 9.5	Awareness as Single Category Model	259
Table 9.6	Perception as Single Category Model	260
Table 9.7	Two Category Model (A): Religiosity plus Control Variables	262
Table 9.8	Two Category Model (B): Religiosity plus Control Variables	264
Table 9.9	Two Category Model (A): Awareness plus Control Variables	265
Table 9.10	Two Category Model (B): Awareness plus Control Variables	266
Table 9.11	Two Category Model (A): Perception plus Control Variables	268
Table 9.12	Two Category Model (B): Perception plus Control Variables	269
Table 9.13	Three Category Model: Religiosity plus Awareness plus Control Variables	271
Table 9.14	Three Category Model: Religiosity plus Perception plus Control Variables	273
Table 9.15	Full Logistic Regression Model	275
Table 9.16	Correlation Matrix of All Variables	277
Table 10.1	The Review of the Study	290

## LIST OF FIGURES

Figure 3.1	Islamic Finance Instruments through Sharia Filter	83
Figure 3.2	Mudaraba Model of Takaful operations	86
Figure 3.3	Wakala Model of Takaful Operations	88
Figure 3.4	Hybrid Model of Takaful Operations	89
Figure 3.5	Basic model of ReTakaful	91
Figure 5.1	The Process of Deduction Approach	138
Figure 5.2	Islamic Religiosity Model	159
Figure 5.3	The Frequency Distribution Histogram	176
Figure 8.1	R-Index Normality Distribution of Whole Sample	229
Figure 8.2	R-Index Normality Distribution of UK Sample	229
Figure 8.3	R-Index Normality Distribution of KSA Sample	230

## LIST OF EQUATIONS

Equation 5.1	T-Test	168
Equation 5.2	Cox and Snell R-squared	173
Equation 5.3	Nagelkerke R-square	173
Equation 5.4	Hosmer–Lemeshow Test Statistic	174
Equation 5.5	Normal Distribution Formula	176



## **ABBREVIATIONS**

AAAJ	: Accounting, Auditing & Accountability Journal
AAOIFI	: Accounting and Auditing Organisation for Islamic Financial Institutions
C.C	: Conventional Companies
C.H	: Conventional Holder
C.P	: Conventional Products
Cn.C	: Considering Conventional
Cn.T	: Considering Takaful
F.P	: Financial Products
I.P	: Insurance Products
ICMIF	: International Cooperative and Mutual Insurance Federation
IFAAS	: Islamic Finance Advisory & Assurance Services
K.	: Knowledge
MASB	: Malaysian Accounting Standard Board
MIHE	: Markfield Institute of Higher Education
PBUH	: Peace be upon him (The Prophet Muhammad)
PIF	: Participants' Investment Fund
PTF	: Participants' Takaful Fund
SSB	: Sharia Supervisory Board
SW	: Subḥānahu wa ta'āla (May He be Glorified and Exalted)
T.C	: Takaful Companies
T.H	: Takaful Holder
T.P	: Takaful Products
TO	: Takaful Operator
TRA	: Theory of Reasoned Action

## ACKNOWLEDGEMENTS

The creation of this thesis have been made possible through the support of many but first I would like to single out my supervisor, Professor Christopher Napier, for his immense support, generous advice, valuable suggestions and insistence on perfection at every step of this thesis. I am particularly indebted to the unselfish yielding of his time, and continuous efforts to help me make complicated material as clear as possible. He has truly been an invaluable mentor throughout my time at this beautiful Royal Holloway University of London. The experience of publishing an article together had contributed to the improvement of Chapter 8 of this thesis.

I also extend my appreciation to my advisor, Professor Brendan McSweeney, for his valuable comments. Acknowledgement also goes to the staff of the Royal Holloway University of London for their kindness and great assistance. My gratitude also extended to the Saudi Ministry of Higher Education (MOHE) for their financial support during the course of this thesis preparation. My sincere gratitude goes to the support and cooperation of Dr. Sami Al-Suwailem, Dr. Sami Al-Ali, Dr. Miteb Al-Rouqi, Dr. Hamed Merah and Prof. Mamdouh H. Ahmed. Their comments gave much instructions and insight into an emerging subject during various stages of my research. I am also grateful to the Professors from College of Sharia and College of Fundamentals of Islam in Imam Muhammad bin Saud Islamic University for allowing the time to assist in developing the religiosity measurement used in this study. The cooperation of the officials at the Al Ahlia for Cooperative Insurance, Weqaya Takaful Insurance and Bank AlJazira Takaful Ta'awuni is also highly appreciated. Special thanks to my colleague Mr. Mushal Al-Masaad for interviewing two of the interviewees in KSA. Grateful acknowledgment and appreciation is given to the interviewees for the insights they gave into policy making and for providing access to data. I would also like to extend my gratitude to all my respondents, without whose engagement there would have been no primary data for my thesis.

Very warm thanks and appreciations extended to the special people in my life: my mother Wijdan, my father Nizar, my sisters Norah, Shaikha, and Lulu, my brother Bader, my brother in law Feras and my niece Jenna. Their patience, unceasing prayers, love, constant support, encouragement and good humour throughout my entire academic venture are invaluable. My last acknowledgment is to my friends who enthusiastically and joyfully extended their help and support throughout the period of my study.

## **DEDICATION**

I would like to dedicate this humble effort, with all my love, to my parents.

# CHAPTER ONE: INTRODUCTION

## 1.0 Research Background

In recent years, Islamic finance has become one of the most rapidly growing segments of the global financial system. For instance, the Islamic finance assets worldwide could reach \$4 trillion by 2015. Furthermore, it has spread to more than 75 countries, from the East and West that covered not only Muslim countries but extended to non-Muslim regions as well e.g. Europe and North America (Euromoney Institutional PLC Group, 2013 and International The News, 2013). Moreover, the events, conferences seminars and training programmes, held in this area are increasing too. Interestingly, there is an increasing number of Islamic finance and banking research and teaching programmes introduced in many universities throughout the UK. For example, Al-Maktum Institute in Dundee, Scotland, Aston University in Birmingham, Durham University, The Markfield Institute of Higher Education (MIHE) in Leicestershire, Bangor University, University of Salford and University of Dundee all offer programmes.

The introduction of an Islamic model of insurance has boosted the Islamic world economy according to many reports conducted in this area (Kwon, 2007). Moreover, a column published in Al- Riyadh Newspaper (7th August 2009: 8) states ‘the insurance field became the biggest industry in Saudi Arabia’s market compared with the banking, real estates and manufacturing industries’. Aris (2003: 10) argues ‘The Takaful industry represents an important component in the overall Islamic system. Its ability to mobilise long-term funds and in providing risk protection and at the same time as an institutional investor is sufficient to say that it has risen to become a major player in the global financial system’. The Takaful industry is a relatively new industry as compared to its conventional equivalents. The first Takaful company and the world pioneer Takaful insurer was established in Sudan in 1979, however today Takaful insurance companies are spreading around the world (Maysami and Kwon, 1999).

The development of Islamic finance, banking and insurance in KSA and UK, amongst other countries, was influenced by Islamic “windows” (self-standing Islamic departments) in the conventional financial institutions. One of the complicated and controversial products structured and engineered by Islamic financial institutions, which is the focus of the present study, is Islamic insurance (Takaful). Takaful products are

considered to be the Islamised version of conventional insurance products. Takaful is the Islamic alternative to insurance and it originates from the Arabic verb *kafal*, meaning to take care of one's needs. This is the essence of the practice where participants in a group agree jointly to guarantee themselves against loss or damage (Wahab, Lewis and Hassan, 2007). The monopoly of conventional insurance companies in the insurance policies world ended when Takaful policies first were marketed in Middle Eastern and South Asian countries. Over the last decade, the insurance markets in the Middle East and Asia have witnessed a significant growth in Takaful products. In line with this trend, market commentators expect the increasing interest in Takaful to translate into the European market. While predictions vary as to the estimated future rate of growth, research from Ernst and Young indicates that global Takaful premiums are likely to reach a total of over US\$7 billion by 2015 (Ernst and Young, 2008). With over 15 million Muslims in Europe, it is possible that the European shares of that market will be a substantial contributor to such projected growth.

As the practice of Takaful business around the world shows, its success does not always wholly depend on the role played by Islam in a particular country. For example, the Sultanate of Oman, whose economy has been in the process of islamisation, still has no Takaful companies. At the same time, in South-East Asia where Islam has less influence on public life than in Oman, the Islamic insurance business is widely developed. In this sense, the introduction of an Islamic model of insurance has boosted the Islamic world economy (Kwon, 2007). A column published in Al- Riyadh Newspaper (7th August 2009: 8) states 'the insurance field became the biggest industry in Saudi Arabia's market compared with the banking, real estates and manufacturing industries'. Furthermore, Aris (2003: 10) argues 'The Takaful industry represents an important component in the overall Islamic system. Its ability to mobilise long-term funds and in providing risk protection and at the same time as an institutional investor is sufficient to say that it has risen to become a major player in the global financial system'. The Takaful industry is a relatively new industry as compared to its conventional equivalents. The first Takaful company and the world pioneer Takaful insurer was established in Sudan in 1979, however today Takaful insurance companies are spreading around the world (Maysami and Kwon, 1999). Despite these achievements, the development of Islamic finance, banking and insurance in the UK and KSA is not gone without criticism, which, among others, include the low awareness and acceptance of Islamic financial products and that the products are suspected as not being fully aligned with Sharia principles.

In terms of product structures, conventional insurance is considered unacceptable from an Islamic point of view because it contains 'haram' or prohibited elements. First, uncertainty exists in the contract elements and mechanisms. Second, the companies' investment activities involve the factor of interest. Third, gambling is considered to be involved, for instance, the policyholders get to lose all the premiums paid if the insured risk does not occur, but receive more than the premiums paid if the insured risk does occur (Khan, A. 2009, and Aris, 2003: 6). Islamic jurists resolved that the system of insurance that would conform to the Islamic framework should be founded on the Takaful concept. An Islamic insurance transaction is a policy of genuine mutual co-operation, solidarity and brotherhood against unexpected risk, peril or catastrophes, in which the parties involved, are expected to contribute financially. The concept of Takaful according to the jurists is acceptable in Islam for the following reasons: The policyholders would co-operate among themselves for their common good; every policyholder would pay his subscription in order to assist those of them who need assistance; it falls under the donation contract which is intended to divide losses and spread liability according to the community pooling system; the element of uncertainty is eliminated insofar as subscription and compensation are concerned; and it does not aim at deriving advantage at the cost of other individuals (Billah, 2001). Unlike conventional insurance policies, Takaful policies are considered to be free from interest, uncertainty and gambling. However, since Takaful is claimed to be similar to conventional insurance at an operations level, the nature of Takaful products has been subject to various questions. The questions include whether Takaful products are free from *riba*? whether Takaful products are replica of conventional insurance products? and whether Takaful exploits Islamic motives to attract customers to acquire their products? Despite the questions, there are a growing number of Takaful policies that have been issued with a growing number of customers holding the policies and also an increase in issuing financial institutions entering into the market. Regardless of the progress made in this area, Takaful operations are still in the developmental stage, which may make it premature to assess Takaful against conventional insurance. However, as Takaful develops, it may be able to act as an alternative in substance and in form to conventional insurance. Furthermore, this development may meet the Islamic world's expectation of benefiting from the application of Islamic insurance in a wider range, without further depending on the insurance practises operated under the banner of conventional economy (Billah, 2001).

Given the backdrop, there are two main motives for undertaking this study: (1) to determine whether Takaful, as it operates in practice, is different in substance from conventional insurance and (2) to explore the attitudes of Takaful policyholders to investigate the extent of differences from the attitudes of conventional policyholders. In addition to ‘demographic’ factors such as location, gender, age, income, and education, the study examines policyholders’ attitudes to religion and attempts to measure this through the construction and analysis of an index of religiosity. This study investigates two countries, the UK and KSA. Although the UK has a significant Muslim minority, most financial provision is conventional, and Islamic finance is only beginning to have an impact. On the other hand, KSA is a Muslim country religiously, culturally, politically, socially and economically, and Islamic financial products are increasingly embedded. In this study, the term ‘Takaful’ will be used when referring to Islamic insurance. ‘Conventional’ on the other hand, is a term which the Islamic finance specialists use for non-Islamic financial services such as banking and insurance (Maurer, 2002: 651).

## **1.1 Research Aim, Objectives and Research Questions**

This research aims to advance an understanding and analysis of the conceptual and operational differences between Takaful and conventional general insurance and explores the perceptions and choices of Takaful policyholders in comparison with Conventional policyholders on the selection criteria and the motivation of having an insurance policy. In doing so, this study aims to determine whether there is a distinction in substance as well as in form between Takaful and their conventional counterparts and whether there are any significant differences in perceptions and choices between Takaful and conventional insurance holders. In particular, the thesis plans to explore whether Takaful holders will acquire Takaful policies because of religious reasons; hence, less negative perceptions are expected from them than those with conventional insurance policies.

In attaining the research aim, the following objectives are developed:

(i) The first objective is to identify the conceptual and operational differences between Takaful and conventional general insurance. To achieve this objective, and, in light of the existence of Takaful, the following sub-objectives are outlined:

- (a) Evaluate critically both insurance models and frameworks. Sharia compliance is the basis for evaluation.

- (b) Investigate the extent to which Takaful products are distinctive in substance from conventional insurance products.

To achieve these objectives, the following research questions are formulated, and are investigated from the perspective of providers of insurance products:

1. What are the conceptual and operational differences between Takaful and conventional general insurance, both in principle and in practice?
2. Can Takaful be distinctive in substance as well as in form from its conventional counterparts?

(ii) The second objective is to determine whether the selection factors among Takaful holders are different from those of conventional insurance holders. In particular, the study aims to investigate the relationship between acquiring a Takaful policy and the depth of religiosity among Muslims. In accomplishing this main objective, the following sub-objectives are formulated:

- (a) The introduction of Takaful is to fulfil the need of Muslim consumers in dealing with insurance products that do not involve haram elements. Therefore, it is important to identify which attributes, in particular religious factors, are more important to Takaful holders, than conventional insurance holders.
- (b) The religious factors are expected to make Takaful holders more aware of Islamic financial and insurance products than conventional insurance holders. Hence, this leads to a research objective of determining the awareness of such products among different groups.
- (c) As the holders of Takaful are believed to hold the insurance policy due to religious factors, this may mean that Takaful holders perceive Takaful to be more Islamic than conventional holders. Hence, this leads to the following research objective, which is to determine whether Takaful holders perceive Takaful policies to be more Islamic than conventional holders.
- (d) Due to the religious elements, it is also expected that other factors will become less important to Takaful holders in patronising Takaful insurance policies. Hence, it is expected that Takaful holders will still hold Takaful insurance policies even if they perceive conventional insurance as superior to Takaful. In this light, another research objective is developed: to examine whether Takaful holders perceive conventional insurance as being superior to Takaful.



- (e) It is expected that usage of Takaful will be greater in Saudi Arabia, where the market for Takaful is more developed, than in the UK, where not only has a Takaful market not emerged to any great extent, but also where Muslims are likely to be more secular and hence less motivated by religious factors in their purchasing decisions.
- (f) As the selection of religious factors is dependent on the level of an individual's religiosity, it is expected, that the holders of Takaful policies must be more religious than conventional insurance holders. This leads to another sub-objective: to identify whether the depth of religiosity of Takaful holders is greater than that of conventional insurance holders.

To achieve these objectives, the following research questions are formulated, and are investigated from the perspective of consumers of insurance products:

1. How far are Muslims aware of Islamic financial products (including Takaful)?
2. What do Muslims consider to be the most important attributes of financial products?
3. How do Muslims perceive Takaful and conventional insurance products?
4. What types of insurance products do Muslims consider and actually buy? Why do consumers choose between Takaful insurance and conventional insurance?
5. Is there a relationship between acquiring a Takaful policy and the depth of religiosity among Muslims?

It is important to clarify that the main focus is on one particular branch of insurance: general insurance (insurance against losses excluding life insurance). Further, this study considers existing guidelines of Takaful and conventional general insurance and explores the relationship between acquiring a Takaful policy and the depth of religiosity among Muslims in the UK and KSA.

## **1.2 Core Concepts**

This study builds on the existing literature of Islamic finance, Takaful, Islamic religion and religiosity, both in Arabic and English languages. This is supplemented by empirical data collected during the course of the study. This study discusses in detail three important concepts. The first concept is the idea of Sharia (as will be discussed in Chapter 2) – the importance of Islam in determining and regulating all aspects of human

conduct. This study also discusses how Sharia affect insurance policy making, and reflects on the degree of compliance of Takaful product to Islamic principles. The second concept is halal and haram – the prohibited and permitted elements, which is implied by the first concept. The third concept is religiosity – the notion that individuals' actions may be influenced by the extent of their religious knowledge and beliefs. In dictionaries religiosity is often found to be synonymous with such terms as religiousness, orthodoxy, faith, belief, piousness, devotion, and holiness. However researcher in this area (e.g. Khraim H. et al., 2011, Holdcroft, 2006, Bergan and McConatha, 2001, Poloma and Pendleton, 1991, Wilkes et al., 1986, and Glock and Stark, 1965), argue that religiosity can only be identifies as dimensions rather than terms that are equivalent to religiosity. Holdcroft (2006: 89) states 'Psychologists might choose to address the dimensions of devotion, holiness, and piousness, whereas sociologists would consider the concept of religiosity to include church membership, church attendance, belief acceptance, doctrinal knowledge, and living the faith'. This concept is discussed at length in Chapter 4. Religiosity is an important concept in social science research, and many researchers have attempted to operationalise the concept through developing measurements of religiosity. Also, researchers (e.g. Glock and Stark, 1965, Ellison, Gay and Glass, 1989, Ellison, 1991, Poloma and Pendleton, 1991 and Chumbler, 1996) have attempted to identify the various components or factors that make up an overall concept of religiosity. However, such research mainly studies religiosity among Christians. This study is one of a very small number to examine religiosity among Muslims, in particular within a setting of preferences for Islamic financial products.

### **1.3. The Research Contribution**

The significance of this research stems from the fact that, at present, no research has been carried out to investigate whether Takaful products are distinctive in substance from conventional insurance products. Most of the previous research was mainly descriptive or normative and the empirical work focuses on the operational framework for Takaful (e.g. Farooq, Chaudhry, Alam, and Ahmad, 2010, Archer, Karim, and Nienhaus, 2009, Fisher, 2009, Hodgins and Jaffer 2009, Aris, 2003, Butt, 2002, Billah, 2001, and Fisher and Taylor 2000). Furthermore, there is no in depth empirical study has been taken in a country comparison with dual models of insurance (Takaful and conventional general insurance). This study has a wider perspective than that of existing Takaful literature (e.g. Amin, 2012, Yusof, Ismail, Naa'im, 2011, Rahman, 2010, Kwon, 2007, Khorshid,

2004, Khan, 2003, Yusof, 2001, Maysami, and Kwon, 1999) which helps to make a comprehensive comparison of insurance holders in UK and KSA. Established literature has been dominated by conventional insurance, while previous studies of Takaful have a narrower scope. Specifically, this study not only examines the selection factors, but it also measures religiosity, awareness and perceptions, as well as comparing each of the mentioned aspects between Takaful holders and conventional holders in assessing any differentiation between the two holders and two contexts.

Besides offering a wider scope than previous literature, this study is original as it constructs two Islamic religiosity measurements, one as a uni-dimensional index and the second as a multi-dimensional index. In addition, this study investigates the relationship between acquiring a Takaful policy and the level of religiosity among Muslims in the UK and KSA. To date and to the writer's knowledge, there have been no such empirical studies made to measure the depth of religiosity between the two types of insurance holders. As most research in the field of Takaful is from the insurers' perspective and not from the consumers' viewpoint, it is important look into consumers' reasons behind choice of policy. Moreover, studies conducted to measure and understand consumers' awareness and understanding of Islamic insurance are very few and very little is known about consumers' attitudes, perceptions in the UK or KSA which are the context of this study.

As a result, this study contributes to the development and understanding of the differences between Takaful and conventional general insurance in a number of important ways. Firstly; examining existing insurance models and frameworks, Secondly; providing a critical review of the implementation of Takaful and conventional general insurance. Thirdly; investigating Muslims consumers' actual understanding and perception of existing Takaful products in order to provide a rich picture of their basis for selection. Moreover, this study uses structured interviews not merely to investigate the extent to which Takaful products are distinctive in substance from conventional insurance products. However, it goes further to support and confirm what already exists in the Takaful literature regarding the differences between Takaful and conventional general insurance. In the sense that Takaful conforms to Sharia due to the elimination of Riba, Gharar, and Maisir, the adaptation of Sharia-compliant underwriting policies and investment strategies and the financial segregation between the interests of the participants (insured/insurer) and the operator (insurance company) in Takaful

companies. Specifically, this study interviews a number of insurance providers, as well as Islamic finance Sharia specialists. This method is useful to further complement the findings gathered from the literature. This kind of data collection and analysis makes this study distinct from other studies.

Hence, the originality of the study is that it provides empirical evidence as a contribution to the literature by providing a comparative study, which can provide valuable results for Islamic insurance industry providers, and, thus, serve as a feedback to evaluate the level of the negative consequences of their products, compared to their conventional counterparts. With the allowance of a meaningful comparison, an improved understanding of Muslim consumer perspective and desire toward Takaful products should emerge. The latter will help Takaful operators (TOs) to know the current level of Islamic insurance awareness and devise strategies to attract the customers toward Islamic insurance and in return will benefit the Islamic insurance industry to grow further. Therefore, the findings of this research should be of interest not only to academic researchers interested in examining Takaful and usage among Muslims, but also to insurance providers and policy makers that targets Muslims potential consumers.

#### **1.4. Research Methodology**

To achieve the aim of the study, a quantitative research methodology is used as the main framework of the research. In terms of the operationalisation of the research and the collection of primary data, quantitative and qualitative research methods are utilised. Accordingly, the quantitative research method is applied through a consumer questionnaire survey. Most of the variables, with the exception of demography, were measured using the five-point Likert scale. The rest were measured using yes/no questions and two-point Likert scale. The questionnaire was produced in two versions, English and Arabic. The qualitative research method was conducted through structured interviews for producers and comparison of insurance policies documents. Specifically, this research utilises questionnaire surveys using convenience sampling distributed among Muslims in the UK and KSA that have and/or consider the acquisition of insurance policies. This process gathered 1067 usable questionnaires. The second method is structured interviews with a number of insurance providers, Islamic finance specialists, and Sharia specialists. This was supported by comparison of insurance policies documents with the objective that the knowledge of the research field can be extended.

The sampling for structured interviews was based on snowballing. The methodology and methods related issues are detailed in the Research Method Chapter 5.

## **1.5 Outline of the Thesis**

In accomplishing the aims and objectives mentioned in Section 1.2, the study is organised into a structure involving ten chapters as follows.

Chapter 1 is the Introduction chapter. This chapter states the overall idea of the research. It starts with the background of the study and then presents the aim, objectives, core concepts and research questions. This chapter closes by providing the structure of the research where the main contents for each chapter of the thesis are explained.

Chapter 2 offers a critical insight into Islamic finance. It introduces the essence of Islam, the main sources of Islamic values and the history of the Islamic economic System. It examines Islamic socio-economic principles and briefly reviews the economic scenario in the neoclassical framework. This chapter then goes into deeply reviewing the philosophy and features of Islamic finance. *Riba*/usury has dominated the discussion under this section for the reason of its existence in religions and cultures that came before Islam. Also, there is a discussion of the rationale of allowing interest from the perspective of conventional economics. This chapter ends the discussion with reviewing and summarising major criticism of Islamic finance. One important criticism is that the literature of Islamic finance is often conceptual rather than practical, so that little is known about how Islamic financial products operate in practice. Although the literature identifies conceptual differences between Islamic and conventional products, these may not be substantive in practice. In particular, little is known about how Takaful differs in practice from conventional insurance from the producers' point of view.

Chapter 3 offers conceptual and empirical literature on the differences between Takaful insurance and conventional general insurance. It explains the use, concept and history of Takaful and insurance. In expanding the understanding of insurance, it presents its motives as well as its history and development. It also reviews the relevant contracts for Takaful, briefly setting out the general working mechanism of Takaful to provide an understanding of the relationship between the theory of Takaful and its practical usage. This chapter touches on reinsurance and reTakaful. Also, this chapter briefly shows the

differences between hedging and reinsurance. The review in this chapter reinforces the conclusion from Chapter 2 that there is an empirical research gap in that we have little knowledge of producers' attitudes to Takaful as compared with conventional insurance. Chapter 4 offers a substantial review of religion and religiosity in the context of consumer behaviour. Having identified the literature of religiosity and how it is operationalised in this study, with their critics, this chapter identifies ways to conduct the current research more effectively, as it explores previous studies of relevance that use religiosity as a determinant factor. This determines gaps in the existing body of the literature, hence, allowing the construction of new variables as an original contribution of the study. Also this Chapter goes further to discuss the background on Muslims and Islam in UK and KSA and looks into key differences in background that might lead to differences in perceptions and choices regarding insurance. There are various differences between Muslims in the UK and KSA. The legal requirements for having insurance policies are different in the two countries, who is likely to make purchasing decisions is also different, and Muslims in the UK may be more secularised than those in KSA. On the other hand, Islamic finance is only beginning to be embedded in the UK, with Takaful finding it difficult to become established. All of these factors mean that there is a need to find out more about attitudes to, perceptions of and usage of insurance policies by Muslims, and to explain differences between those preferring Takaful and those preferring conventional policies, and differences between consumers in the UK and KSA.

Chapter 5 is the research methodology chapter. It defines the research methodology adopted in this study. It also explains the research design, strategy, and methodology used in the study. It details the research processes in providing an understanding the process of answering the research questions to achieve the research aim. The formulation of the research variables based on literature, as presented in Chapter 2, 3, and 4, is also shown together with the hypotheses developed for this research. The chapter discusses the construction of the survey instrument and also the interview approach. The statistics used in analysing the questionnaire survey data and the method to analyse the structured interviews with insurance and Takaful providers are also explained. This chapter also discusses the research quality issues.

Chapter 6 is the first empirical chapter. Having identified the literature and how conventional and Takaful insurance work, this chapter provides a summary to the

literature. It also compares Takaful and conventional insurance policy documents. This chapter summarises the interview findings. This is followed by comparing the interview findings with the literature and the policy documents. Overall answers to the first two research questions of this research are provided. Briefly, despite some superficial differences between the policy documents of Takaful and conventional policies, there does not appear to be any difference at the level of the underlying economic substance of the policies. Also, although interview respondents accept the underlying religious rationale for Takaful, and consider that it provides a halal alternative to conventional insurance, they generally believe that there is no difference in substance between Takaful and conventional policies.

Chapter 7 is the second empirical chapter. It presents an analysis of the data collected through the questionnaire survey. It provides the general demographics of participants in the questionnaire survey which is divided into nine categories. The next part of this chapter focuses on the results of various dimensions: calculation of usage, awareness, perception and attribute salience of respondents. The chapter finds that reported use of insurance is greater among UK respondents than among KSA respondents, with proportionately more UK than KSA respondents declaring that they have general Takaful products. This was unexpected as consumer Takaful products are not available from UK companies, and various explanations for this result are explored in the chapter. However, UK consumers tend not to distinguish Takaful from conventional insurance to the same extent as KSA consumers. The survey also confirmed the importance of Sharia-compliance of Islamic financial products from the point of view of consumers.

Chapter 8 is the third empirical chapter. It looks at religiosity (“R-index”) as an overall measure and the relationship between the R-index and demographic data. Also, this Chapter looks at religiosity as a multi-dimensional measure with an aim to develop the most suitable and representative religiosity index to use for the analysis of this study. This is followed by tests of normality distribution of R-index as an overall measure and as a multi-dimensional measure. Then this Chapter looks at the relationship between the R-index as an overall measure and location and gender. The main overall finding is that consumers who have high religiosity scores tend to prefer Takaful to conventional insurance (though they also are more likely not to purchase insurance at all), while consumers who have lower religiosity scores are more likely to purchase insurance but to avoid Takaful. The following part sets out the results of an exploratory factor analysis of

the responses on religiosity from the survey. In such an analysis, independent factors that contribute to the overall concept of religiosity are identified statistically. Based on the various questions whose responses contribute to the different factors, it is possible for the researcher to identify and describe sub-concepts of religiosity. The Chapter discusses factor analysis of the main variables of this study and the empirical results of normality distribution testing. This Chapter then goes into calculating and comparing mean values of sub-concepts of religiosity, awareness and perception for different sub-groups of the sample.

Chapter 9 is the fourth empirical chapter. It discusses the used scale measures and variables. It analyse the usage of Takaful and conventional products through four main approaches: first, usage is explained by reference to single explanatory categories (religiosity, awareness, perception), then control variables for gender and location are added. The third approach involves religiosity together with each of the two explanatory categories as well as control variables, and the fourth approach involves all three explanatory categories together with control variables. In addition, whether subjects are considering Takaful or conventional products is analysed by reference to single explanatory variables together with gender and location controls. There are six models using single explanatory categories, twelve models using single explanatory categories plus controls, four models using religiosity together with one of the other two explanatory categories and controls, and two models using all three explanatory categories plus controls. This chapter is largely exploratory as there is no prior theorisation to link specific factors with consumers' decisions. However, some attempt is made to explain the results of the analyses. This chapter ends with a correlation analysis of all variables.

Chapter 10 is the final chapter that concludes the entire research. It presents an overview of the study and discusses the findings. It also discusses the research contributions and limitations. It also provides recommendations for future research.



## **CHAPTER TWO: A CRITICAL INSIGHT INTO ISLAMIC FINANCE**

### **2.0 Introduction**

Financial systems play an important role in supporting and sustaining every business movement in any community. For instance, productive assets, such as natural resources, labour forces and economic development programmes, must be financed to maintain and improve the quality of living. Not neglecting the fact that every community has its own unique values, which are generally affected by various factors, such as religion, demography and culture. The needs of individuals differ from one community to another depending on these values and ethics (Muljawan, 2002). Theoretically Muslim society as a whole has a typical set of financial needs that result from Islamic principles. One of the vital concerns in examining Islamic finance is to understand how Islamic religious rulings affect business operations in a commercial setting (Ahmed, Iqbal and Khan, 1983, Gait and Worthington, 2007). According to Islamic teaching, the existing western financial services and activities are not Islamic because they include certain financial activities that are prohibited. Muslims' growing awareness of the application of Islamic principles to the financial system has led to the recent development of Islamic financial services and activities. Nevertheless, building a sound and efficient economic base and assuring the stability of the financial system must have more than the religious factor.

The objective of this chapter is to examine Islamic finance. The chapter starts with an introduction of Islam and its values and beliefs. This Chapter then investigates the history of Islamic economic system. Section 2.2 discusses Islamic socio-economic principles. A discussion of the economic scenario in the neoclassical framework is provided in section 2.3. Section 2.4 discusses the philosophy and features of Islamic finance which include its foundation and principles. Section 2.5 considers criticism of Islamic Finance. Section 2.6 briefly summarises this chapter.

### **2.1 Fundamentals of Islam**

#### **2.1.1 The Essence of Islam**

Following Judaism and Christianity, Islam is the third monotheistic religion. Islam is an Arabic word which means peace and submission. Islam originated in the heart of the

tribal Arabian society. It began with the emergence of Prophet Muhammad in 570-632 AC. Allah (God) revealed the Qur'an to Muhammad and gave him the responsibility of spreading the doctrine of *Tawheed* (monotheism) <sup>1</sup> (Morgan, 1987, Vogel and Hayes, 1998). Islam is a religion of unity, which is demonstrated in the declaration of the Oneness of Allah, a consistent message in the worship of Allah, who is regarded as the origin of creation. Moreover, Islam enjoys a unique characteristic in that it is not a product of a human mind.

Muslims testify to the Oneness of the Creator and gratefully surrender to His will by embracing the *Shahada*<sup>2</sup> with conviction and faith (Campbell, 2010). The religion of Islam provides the foundation of Muslims' lives through following the 'Five Pillars'. All in all, the five pillars are: (1) Faith or belief in the Oneness of God and the finality of the prophethood of Muhammad; (2) Establishment of the daily five prayers; (3) Concern for and almsgiving to the needy 'Zakat'; (4) Self-purification through fasting; and (5) The pilgrimage to Makkah 'Hajj' for those who are able (Lahoud and Johns, 2005). Islamic teaching gives attention to the welfare of the family, parents and the aged, and concern for learning and work. Additionally, it proscribes suicide, sexual perversions, crime, and racial discrimination. By means of following these teachings, Muslims can enjoy healthy and balanced lives.

### **2.1.2 The Main Sources of Islamic Values and Beliefs**

The main sources of Islamic values and beliefs sequentially are the Qur'an, *Sunnah*, Hadith, *Ijmaa'*, *Qiyas* and *Ijtihad*. The Qur'an is the holy book revealed by Allah through the Angel Gabriel to the last Prophet, Muhammad, as a complete system for mankind. Hadith is the narrative relating the manners and utterances of Prophet Muhammad. *Sunnah* refers to the habitual practise and deeds of Prophet Muhammad during his lifetime. *Ijmaa'* is the agreement among religion scholars about particular issues not visited in either the Qur'an or the *Sunnah*. *Qiyas* is the use of deduction by similarity to provide an opinion on a case not referred to in the Qur'an or the *Sunnah* in comparison with another case referred to in the Qur'an and the *Sunnah*. Finally, *Ijtihad* represents a jurist's independent analysis relating to the applicability of certain Sharia rules on cases

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<sup>1</sup> The term is derived from the three consonants root **w-h-d**, which serves as the vehicle for the basic concept of 'oneness,' or 'unity,' along with the closely related ideas of 'singularity' and 'uniqueness'.

<sup>2</sup> The first of the five pillars of Islam. *Shahada* is the Muslim profession of faith, expressing the two simple, fundamental beliefs that make one a Muslim: There is no god but Allah and Muhammad is his messenger.

not mentioned in either the Qur'an or the *Sunnah* (Gait and Worthington, 2007, Maali, 2005, Vogel and Hayes, 1998, Abod, Agil, and Ghazali, 1992).

The individual and consensus based validities collectively are known as Sharia (Kwon, 2007). Likewise, Sharia offers, among other aspects, guidance to human activities using the following principles:

- *Fard* or *Wajib* refer to obligations strictly enforced by law.
- Halal refers to permitted actions.
- Haram relates to strictly prohibited or unlawful actions.
- *Mustahab* refers to what is recommended or the activities that individuals are advised to do so for their personal benefits.
- *Makruh* relates to what is discouraged or the activities that individuals are advised to avoid for their personal benefits.

Chapra (2000, in Muljawan, 2002), restates the expression of Al-Gazali (1111 CE) about the objectives (*maqasid*) of Sharia:

*The objective of the Sharia is to promote the well-being of all mankind, which lies in safeguarding their faith (deen), their human self (nafs), their intellect (aql), their posterity (nasl) and their wealth (maal). Whatever ensures the safeguard of these five serves public interest and is desirable.*

### **2.1.3 The Significance of Sharia**

The importance of Sharia can be seen through the meaning of its concept. Sharia literally means one of the following: 1) The straight path and 2) a stream that people go to for watering their cattle. Conceptually, Sharia refers to a set of Allah's rules, regulations, teachings, and values governing the lives of Muslims. As mentioned in section 2.1.2, Sharia aims to embrace worship, morals and conduct, as well as it embraces the political, social and economic, and other aspects of life. More precisely, Sharia guides are often divided into four parts: laws relating to personal acts of worship, laws relating to commercial dealings, laws relating to marriage and divorce, and penal laws. As mentioned earlier in section 2.1.1 that Muslims testify to the Oneness of the Creator and gratefully surrender to His will by embracing the *Shahada* with conviction and faith. In

fulfilment to the submission to Allah, Muslims should follow the guidance of Allah, which is the Sharia. In other words, Muslims accept Islam as a religion and adhere to Sharia as the guidance, although in practise followers do not always strictly adhere to them. Therefore, the importance of the Sharia is its central role in guiding Muslims to the right way, whereby the mission of creation can be fulfilled which enable people to attain success both in life and in the hereafter. It is important to note here that the process of structuring Sharia normally occurs within the framework and its establishing doctrine and methodology of a particular Islamic school (*math'hab* plural *mathahib*). Accordingly, Muslims will follow the teaching of the *math'hab* they belong to, although the teaching of Muslims *mathahib* shares many similarities (An-Na'im, 2009).

Sharia uses certain principles (refer back to section 2.1.2) to offer guidance to human activities. Two important principles are the halal and haram. Prohibited (haram) actions are expressed clearly in Islam and any other actions are considered permitted (halal). In other words, everything is halal unless it is specifically prohibited. Examples of haram activities would be using profane language, displaying certain images, drinking alcohol, consuming prohibited food products such as pork, and sale transactions that involve *Riba*. As this applies to products, Muslims are obliged to seek full Sharia compliance products such as food, clothing, cosmetics, and financial products. Full Sharia compliance product means that production of the product, logistics, financing for the business and safety along other activities meet the religious standards. Muslims who fail to meet this guidance are committing a sin. In the case of financial products, Muslims look for Sharia compliant modes of finance to avoid committing sins. However, some Muslims cannot do this. For example, if insurance is legally required and a Sharia compliant product is not available as the case of the UK. In this case purchasing insurance policies is considered a necessity. In Islam, necessity '*daroura*' permits haram which means that necessity permits Muslims, when there is no Sharia compliant alternative, to follow practices that strictly are haram (Billah, 2001). Necessity as clarified by many Muslim scholars does not apply on unnecessary situations but it applies on essential ones (Al-Ashqar, 1984).

According to a 2012 report by Pew Research Centre on religion and public life, there are approximately 1.6 billion followers of Islam, which represents approximately 23% of the world's population. Although a majority of the world's Muslims live in Asia and the Pacific, only about one-in-four people (24%) in that region are Muslims. By contrast, the

Middle East-North Africa region has an overwhelmingly Muslim population (93%), but they represent only about 20% of the world's Muslims. Muslims also make up about three-in-ten people in sub-Saharan Africa, 6% of those who live in Europe, 1% of North Americans, and less than 1% of the population of Latin America and the Caribbean (See Table 2.1).

From this report, it can be concluded that the world's Muslim population represents an increasingly attractive consumer market. Muslims are expected to avoid certain activities and substances and these prohibitions have significance for marketing activities. This case explores the Islamic practises and restrictions that apply to financial products, the difficulties of meeting differing international Sharia compliant standards, and the opportunities for domestic and international financial institutions to expand into the growing Muslim market. It is worth mentioning that there should be a demand for Takaful, yet this demand might not be strong in non-Muslim countries, even for Muslims due to the concept of *daroura*.

**Table 2.1 World Muslim Population by Region**

	ESTIMATED 2010 MUSLIM POPULATION	ESTIMATED 2010 TOTAL POPULATION	PERCENTAGE OF POPULATION THAT IS MUSLIM
Asia-Pacific	985,530,000	4,054,990,000	24.3%
Middle East-North Africa	317,070,000	341,020,000	93.0
Sub-Saharan Africa	248,110,000	822,720,000	30.2
Europe	43,490,000	742,550,000	5.9
North America	3,480,000	344,530,000	1.0
Latin America-Caribbean	840,000	590,080,000	0.1
<b>World Total</b>	<b>1,598,510,000</b>	<b>6,895,890,000</b>	<b>23.2</b>

Source: Pew Research Centre, December 2012.

#### **2.1.4 The History of the Islamic Economic System**

Muhammad the Arabian prophet started the mission of spreading Allah's message 'Tawheed' from Makkah, which is located in the Arabian Peninsula. Since Prophet Muhammad was Arabian, it is felt necessary to draw attention to the Arabian society before its expansion in the name of Islam. In the north, west and centre of the Peninsula, between the Byzantine and Sassanid empires, a vast area of land remained inhabited by Arabian Bedouin<sup>3</sup>. This area was dry and gave little vegetation. However, the Arabian

<sup>3</sup> A member of any of the nomadic tribes of Arabs who have no permanent home but move about according to the seasons.

Peninsula was spotted with oases which facilitated the production of wheat, grapes, dates and other foods. This agrarian economy provided the infrastructural support for the Bedouin tribes. Moreover, trade and commerce played an important role in the Bedouin activities (Hallaq, 2005). For instance, they were involved in the camel trade which was carried out through caravans in the lands between the lower eastern Mediterranean and the Arabian Sea and between the latter and north-eastern Arabia. Bedouin's two forms of material existence, trade and agriculture, composed an economic ecology in the greater part of the Arabian Peninsula (Clover and Humphreys, 1989).

The Bedouin were in close contact with each other throughout the area that they roamed, from Syria to Iraq, Najd to Hijaz, and from Hadramawt to Yemen. That enabled them to establish wide-ranging connections that gave them incomparable influence over peninsular caravan traffic (Potts, 1990). Furthermore, having power over the trade routes, they enforced taxes on the exchange and sales of goods (Hallaq, 2005). Makkah, the home of Prophet Muhammad, was the centre of all the trade routes because of its strategic location. In addition, the Quraysh; the tribal confederation at Makkah, managed to build an active network of regional trade that connected the Peninsula with a larger international system. The major commodities that wended their way through Makkah included: wheat, barley, oils, wine, gold, silver, ivory, precious stones, sandalwood, spices, silk, cotton textiles and leather. Moreover, the engagement in non-commercial activities such as literary contests and prestigious poetic fairs contributed to Makkah's intense commercial activity. Another factor that gained Makkah a prominent position in the Peninsula was the *Ka'ba*; a place of worship, which became the most important destination for pilgrimage by the sixth century AD (Bravmann, 1972). As a commercial, religious and literary centre, Makkah was connected not only with every major tribe and then every region in the Peninsula, but also with the Near East at large.

Prophet Muhammad and the influential men who surrounded him in the light of Islam were privileged from living in this environment, in a way which made them familiar with the cultures of the neighbouring areas which they visited regularly in their role as important merchants. Moreover, Muhammad was familiar with all the religions and cultures that had many adherents among the major Arab tribes of the Peninsula and of its neighbours, particularly Judaism and Christianity. Muhammad's mission was religious and ethical, calling for modesty, generosity and belief in a God who has neither a partner nor a father nor a son (Morgan, 1987). His message was articulated in terms of continuity

with Judaism and Christianity. In addition, the same mission continued after his move to Madinah, where he was forced to migrate with some followers. Muhammad managed to establish a new polity and legal system in Madinah with the support of his followers, although he had to face opposition from Madinah's Jewish tribes who came face to face with Muhammad and his message.

Qur'anic revelation at the end of the fifth year of the *Hijra*<sup>4</sup> early 626 AD, began to reflect a new development in Muhammad's career which made him think of the Islamic community '*The Umma*' as capable of following the Islamic path '*Minhaj*' that is distinct from other monotheistic laws. In the last few years of Muhammad's life Qur'anic revelation showed a conscious tendency toward legislation, in terms of declaring the independence and uniqueness of the new religion. Some of this legislation was specifically economic. For instance, *zakat*<sup>5</sup> was rehabilitated in order to provide for the weak and dispossessed, and to assist in the widespread cause of the new religion (Hallaq, 2005). Likewise, a ban and penalties were imposed on feuding, which had been a significant factor including economic development. The Qur'anic legislation also regulated inheritance and provided clear economic rights for women. Males retained much of the powerful status that they had enjoyed in pre-Islamic Arabia. However, in the light of Islam wives and daughters were granted substantial rights. Women enjoyed the rights of dowry and inheritance: all property acquired by the woman during marriage or property that she brought into the marriage remained exclusively hers and the husband could not claim as much as a hundredth part of it (Qur'an, 4:19). These legislations reflected positively on *the Umma* whose members regarded themselves as individuals independent of tribal affiliation.

On the other hand, the existence of the old institutions and established rules and customs remained mostly unchallenged. For example, the pre-Islamic traditional laws of trade and exchange of agricultural products such as bartering unripe dates still on the palm tree against their equal value in picked dried dates were to continue in Sharia. Furthermore, the ancient Near Eastern contracts of sale and involving immediate delivery with a later payment or immediate payment for a later delivery were customary in the pre-Islamic Hejaz and were utterly integrated into Islamic law (Versteeg, 2000). The adoption of

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<sup>4</sup> *Hijra* is the time when Muhammad and his followers migrated to Madinah.

<sup>5</sup> *Zakat* will be revisited later in this Chapter.

these ancient laws by the mature Sharia was justified by the jurists on the grounds that the prophet did not revoke them and approved them implicitly or in his actual practise.

After the death of Prophet Muhammad, Islam conquered lands from east and west; western China to the Iberian Peninsula. Likewise, Islamic law and the Islamic legal system were spread with this expansion. This involved a high degree of urban settlement, which is considered as a principal factor in the economic regeneration of the 'Islamic Empire' as described by Gene Heck (Heck, 2006). The initial construction or expansion of urban centres stimulated much commercial and industrial activity and that resulted in the evolution of a sizable urban consumer population and a concomitant reserve of reasonably priced labour. Furthermore, the spread of the Islamic religion led to a rapid increase in mosque construction and prayer rug manufacturing, which became an industry in itself. This fast industrial expansion was further made possible by the vast quantities of construction materials such as iron, marble, asbestos, tar and bitumen (Al-Mawardi, 1909 and Al-Hamadani, 1885). This led to the development of massive road and water networks which supported the new Islamic territories and their economic infrastructures (Heck, 2006). Special security forces likewise were established to protect their trading. Furthermore, *Al-Hisba*<sup>6</sup> was established to ensure that every sort of industry and occupation adhered to high cleanness and hygienic standards, free from fraud and monopoly, sustaining the necessity of pricing and identifying workers' wages (Al-Mubarak, 1974: 66-67). Moreover, extensive public sector efforts were carried out across the entire market regions for the sake of expanding private sector growth (Al-Harbi, 1981).

Consumer demand was further stimulated by a state welfare system known as the '*Ata*', which consisted of basic cash allowances paid to all Muslims in varying amounts (Ibn Abd Al-Hakam, 1960 and Abu Yusuf, 1927-1928). The *Ata* system enabled the Bedouin warriors in the conquered provinces to concentrate on improving their military skills and empowered them to diversify their economic interests by insuring ample supplies of helpful capital. The *Ata* system was made possible by *bait al mal* or the Islamic treasury which was classified into two categories: (1) *Ghanimah* or movable property, some four-fifths of which belonged to the soldiers who seized it, (2) *Fay*' or real property, whose

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<sup>6</sup> An Arabic word for the Market Inspection Agency which was originally founded by the Prophet Muhammad and continued into the period of the Caliphs, by which time this system became part of the state institutions.



ownership and proceeds belonged to the Islamic community as a unity (Lombard, 1975, and Al-Tabari, 1901). The basis for currency was provided by the prolific supply of metals in the Arabian Peninsula and conquered provinces. This facilitated vital commerce in the Islamic countries and globally (Ibn Al-Athir, 1851-56).

New financial tools evolved due to the pooling of the numerous entrepreneurs' capital resources that formed sizable new trading and banking companies (Sharrah, 1984: 321). Islamic insurance saw the light with the expansion of maritime trading in the early second century of the Islamic era, when the Muslim Arabs agreed to contribute towards a fund to cover anyone in the group that incurred accidents or robberies along the various sea voyages (European Council for Fatwa and Research, 2009). This was a simple example of an important idea that underpins both conventional and Takaful insurance,<sup>7</sup> the sharing and pooling of risk of loss. Medieval Islamic economic ideology was passed from East to West. This is an example of the widely documented transmission of knowledge from the Arab world to Europe in the middle ages. Likewise, technical and scientific terms were passed into various Western vocabularies, for instance: alchemy, algebra, algorithm (from the mathematician 'Al-Khwarizmi), almanac (from *Al-Manakh*, weather), atlas, average, bark (nautical term), canon (from *qanun*, law), carat (from *qirat*), tariff (from *ta'rifah*), cheque (*sakk*), and the French term aval (from *hawalah*) (Heck, 2006, Haskins, 1970, Edler, 1934).

## 2.2 Islamic Socio-Economic Principles

Every civilization has a set of principles (some of which take the form of laws) that identify the ownership, property and transaction rights for individuals and groups (state or entire community). In addition, these principles identify work and profit, production and power, offered services (materialistic and moralistic) and the basis for financial interactions among individuals or between individuals and the community. The combination of these principles creates the economic system (Al-Mubarak, 1974:19). An Islamic economic system would be in accordance with Islamic principles as contained in the Qur'an and *Sunnah*, and discussed within the publications of the four Sunni Islamic jurisprudence schools; *Hanbali*, *Shafi'i*, *Hanafi*, and *Maliki*. The basis for an Islamic economic system can be divided into three major grounds: (1) philosophical and ideological grounds, (2) morality grounds, and (3) legislative grounds.

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<sup>7</sup> Takaful insurance will be discussed later in this thesis.

### 2.2.1 Islamic Philosophical and Ideological Grounds

**First:** Humanity, in general, is appointed by Allah to build the earth and utilise its resources. Therefore, Allah gave humanity the ability on exploiting the earth and the whole universe to his benefit by granting them the senses, mind, and every physical feature. Many verses of the Qur'an support this, for example:

*And (remember) when your Lord said to the angels: "Verily, I am going to place (mankind) generations after generations on earth." (2: 30)*

*And it is He Who has made you generations coming after generations, replacing each other on the earth. And He has raised you in ranks, some above others that He may try you in that which He has bestowed on you. (6: 165)*

**Second:** The earth and the whole world are made subject to humans to enable them to achieve this appointment. The Qur'an declares this as follows:

*He it is Who has made the earth subservient to you, so walk in the path thereof and eat of His provision. And to Him will be Resurrection. (67: 15)*

*Allah, it is He Who has subjected to you the sea, that ships may sail through it by His Command, and that you may seek of His Bounty, and that you may be thankful. And has subjected to you all that is in the heavens and all that is in the earth; it is all as a favour and kindness from Him. Verily, in it are signs for a people who think deeply. (45: 12-13)*

**Third:** The concept of the subservience of the earth and the whole universe to humanity is to fulfil the human benefit from what Allah had created. Additionally, the work and effort made in obtaining livelihood, investing and benefiting from what Allah created is highly recommended, and turning away from benefiting from the offered resources is considered as deviation and aberration<sup>8</sup>.

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<sup>8</sup> 'Say (O Muhammad): "Who has forbidden the adornment with clothes given by Allah, which He has produced for His slaves, and all kinds of lawful food," Say: "They are, in the life of this world, for those who believe, and exclusively for them on the Day of Resurrection." Thus We explain the Islamic laws in detail for people who have knowledge.' (The Holly Qur'an, 7: 32).

**Fourth:** In Islamic perspective, obtaining livelihood or in other word economic activity; work, production, investment and consumption, is not a purpose in itself, however, it is a vital medium for human nature. Qur'an refers to this issue widely.

**Fifth:** Allah's appointment to mankind is universal and not peculiar to any particular group rather than another, and that all people are (or should be) the worshipers of Allah.

**Sixth:** Possessions do not give their owners any privilege over the poor. Furthermore, monetary loss or poverty does not diminish the poor's humanity and social rights.

**Seventh:** Every single person is responsible for his or her actions in the present life and later in front of Allah in the hereafter.

### 2.2.2 Morality Grounds

**First:** Benefit all Allah's believers and provide them with true welfare (*maslaha*) and happiness. This considered as humanitarian and noble goal. For instance, if the trader intends by his business to benefit people and meet their needs, he then executes good work from which he will earn money and for which he will be rewarded by Allah. This certainly applies to every profession that provides utility for people. Prophetic *Hadiths* show this goal extensively. In Islam, the concept of utility is certainly encouraged by the concept of welfare which is built on five basics: life, property, faith, reason and posterity (Shatibi, 1996).

**Second:** Human beings should enjoy and get pleasure from what Allah permitted from fruits, goods, wealth, etc. The following two verses of the Qur'an show this clearly:

*O you who believe, Eat of the lawful things that We have provided you with, and be grateful to Allah, if it is indeed He Whom you worship. (2: 172).*

**Third:** All capable members of the society are urged to earn and work to fulfil their own basic needs and those of their dependents and should refrain from showing their needs to others or begging which is highly discouraged. If individuals are unable to earn and fulfil their needs due to mental or physical disability and destitution, Sharia obliges their fellow beings, such as relatives and neighbours, to support them in satisfying their basic needs. If there is no one to support such people, Islam obliges the state to be responsible

for their support. In this sense, Prophet Muhammad encouraged earning money to provide for aged parents and small children and considered this activity one of the good deeds. A number of verses of the Qur'an and traditions of the Prophet reveal the individual obligation to earn and use the wealth so as to develop the economy for the betterment of society.

### **2.2.3 Legislative Grounds**

The Islamic faith is not only confined to morality recommendations as made by other religions. It completed and supported that with legislative principles that regulate financial relations, identify rights, and enforce obligations (Ayub, 2007). Islamic economics claims to be not only a normative system indicating how people should behave but also a positive system describing and predicting how people actually behave. It differs from conventional positive economics by showing how the obligatory laws derived from the Qur'an and *Sunnah*<sup>9</sup> are supported by psychological and convictional motives and bases that generate in humans internal incentives to apply these rules (Al-Mubarak, 1974: 30). Moreover, it awakens inside them their consciences and responsibility toward their financial duties.

A comparable conception of Islamic economics, which is mentioned by the International Association of Islamic Banks (1996), includes ownership, justice, wealth distribution, and the prohibition of interest as fundamental principles. Kwon (2007) states similar basic concepts of Islamic economics: (i) Protection of human life, (ii) Protection of human intellect e.g. prohibition of intoxication, (iii) Protection of human property, for instance avoid misdealing and gambling with one's wealth, (iv) Protection of human honour, (v) Protection of human conscience e.g. freedom of religion and worship. Chapra (2000) states that the Islamic perspective toward economics places emphasis on the socio-economic dimension, where the goals include not only economic well-being but also human brotherhood and socio-economic justice, holiness of life, prosperity, individual honour, mental peace and happiness, and family as well as social harmony. Maximizing wealth and consumption is not the only ambition in the life of an individual since there are still social responsibilities to fulfil. According to Islamic teaching, a society may achieve only a short period of economic prosperity if it neglects the importance of individuals' morals which are essential in forming positive norms within

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<sup>9</sup> Refer to section 2 which discussed the main sources of Islamic values and beliefs.

the society and influencing consumer behaviour. Equilibrium between earning and spending and mutual benefit for the whole community should be achieved as Islamic economics also prohibits the use of unlawful resources for acquiring wealth.

## **2.3 Economic Scenario in the Neoclassical Framework**

The widely known economic systems throughout the world can be classified, overlooking the fractional differences between them, into three models: Capitalism, Communism and the Islamic system (Al-Mawdudi, 1970). These economic systems will be discussed briefly as follows:

### **2.3.1 Capitalism**

The theory of Capitalism is based on the principle that the individual is the sole owner for what he earns and others have no right in his possessions. Furthermore, the individual has the authority to act freely toward his belongings, plus he has the right to hold a monopoly over what his hand can reach of the production income. For example, a producer will change production to produce what is most profitable to his business. From an economic standpoint, this theory imposes disequilibrium in wealth distribution between individuals due to the accumulation of the production income by a group that become wealthier in comparison with others. As a result, the society divides into dual classes: the capitalists (wealthy) and the poor. As a result, the wealth of the community becomes forfeit due to the expansion of the capitalists fortune. On the other hand, the poor suffer from attaining only a small share of the community's wealth. This system erodes the social values of sympathy, equality and solidarity values as rich members become richer and the poor become poorer, leading to social breakdown (Al-Mawdudi, 1970).

Undoubtedly, in the capitalism system, people have a strong tendency toward accumulating money and spending it in fruitful ways such as establishing insurance companies, cooperative societies, stock companies, and banks. All mentioned establishments carry out one arrangement which is "acquiring money with money" whether done through permitted practises or with the involvement of usury. The economic growth experienced by capitalism has been balanced by a growth in its destructive tendencies, in terms of wars, mass slaughter and heavy losses on the global economy (Al-Mawdudi, 1970).

### **2.3.2 Communism**

Communism is considered as an opposite economic system to capitalism. The theory of this economic system is based on the principle that the means of production are all shared between the individuals and the society. Moreover, the individuals have no right, as individuality, to own, enjoy solely and have authority over the production income. A reward gets to be paid to individuals due to their service for the society welfare. The community as a result facilitates public utilities to the individuals and the latter execute their work in return.

The communism theory regulates the economy in a way that differs substantially from the capitalism system. Private ownership does not exist in communism along with money accumulation and investment. These major differences in the theory and principles of the two systems created distinction to their approaches. Hence, the capitalist system in practice cannot last without banks, insurance companies, stock companies, and other financial services. In contrast, there is no necessity to such financial services in the communism system and its economic affairs. Likewise, practises that involve usury are not approved of in the nature of the communism system<sup>10</sup>. Due to the imbalance resulted from communism, it had to collapse in less than a century. On the other hand, many economists argues that neocapitalism has taken a longer time cycle, but it could fall down at any time causing heavy damages on the global economy. The greediness of human being has been blamed for the world economy downturn and the creator of the gap between the haves and the have-nots (Ayub, 2007, and Campbell, 2010). Many concerns have resulted from the economic scenario toward mankind. For instance, lack of care for the weak and the subjugated classes, nonexistence of justice, human dignity nor rights and encouragement of self-interest.

### **2.3.3 The Islamic System**

The Islamic system stays between those two extreme economic systems; capitalism and communism. The more significant principle and belief of this moderate system is to give the individual his natural and personal rights in a way that do not imbalance the wealth distribution. From one side the Islamic system grants the individual his right in ownership and gives him the authority to act freely toward his possessions. From the other side, it sets bounds to every right through moral and legal restrictions in terms of

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<sup>10</sup> It was noticed prior to the Soviet Union collapse in the late 1980s and early 1990s that people who earn more than their sufficient need, tend to accumulate the excess, deposit it in banks and obtain interest on it.

avoiding the accumulation of massive wealth in one area, but continues to exchange and circulate among different individuals to the degree that every person gets his fair and legitimate share. Please refer back to section 2.2 for more details.

## **2.4 The Philosophy and Features of Islamic Finance**

In Islam Sharia, which is the religious law, covers not only rituals, prayers, fasting, charity and pilgrimage, but also every aspect of life. Islam makes no distinction between religion when practised through rituals or practised through social relations and economic transactions. Islamic Sharia as discussed in section 2.1.2 is derived from the Qur'an and *Sunnah*; the prophet's sayings and traditions. Consequently, Islamic finance features have derived from Sharia which basically revolves around do's as well as do-not's. The focus here is on three major do-not's, as they are more relevant to this research. The following are prohibited: the prohibition of *Riba* or interest, the prohibition of *Gharar* or uncertainty and the prohibition of *Maisir* or gambling. These are discussed in a greater detail later on in sub-section 2.4.2.

### **2.4.1 The Foundation of Islamic Finance**

Wealth in Islam is looked at as life sustaining which has to be used efficiently. Islam provides a sound basis for a positive attitude towards wealth creation which can be summarised in the following points with the support of the Qur'an.

- Private ownership is accepted as mean of a trust:  
*Believe in Allah and His Messenger and spend out of that in which He has made you successors. For those who have believed among you and spent, there will be a great reward. (57: 7).*
- Islam encourages business enterprise, efforts to create wealth, which has been characterised as Allah's bounty:  
*And when the prayer has been concluded, disperse within the land and seek from the bounty of Allah, and remember Allah often that you may succeed. (62: 10).*
- Muslims are obligated to fulfil contracts and keep their promises:  
*Believers, stand by your contracts (and obligations). Of all animals, cattle has been made lawful for you as food with certain exceptions. Hunting is not lawful for you*

during ihram (a part of the rituals during pilgrimage). God decrees as He wills. (5: 1).

And do not approach the property of an orphan, except in the way that is best, until he reaches maturity. And fulfill [every] commitment. **Indeed, the commitment is ever [that about which one will be] questioned.** (17: 34).

- All exchange should be with willing approval of the parties concerned:  
*O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent. And do not kill yourselves [or one another]. Indeed, Allah is to you ever Merciful.* (4: 29).
- Make use of wealth and freedom of enterprise is controlled by the obligation not to harm others. The Prophet states 'No injury, and no inflicting of injury'. (Ibn Majah, 1895-1954).
- paying *Zakat*; alms giving or poor tax which reflect the spirit of a cooperative, helpful behaviour as ordered by the Islamic view on life being a test:  
*Who created death and life, that He might try you which of you is fairest in works; and He is the All-mighty, the All-forgiving.* (67: 2).

## 2.4.2 The Principles of Islamic finance

The three major principles of Islamic finance are *Riba* prohibition, *Gharar* prohibition and *Maisir* prohibition which are explained in detail in the following section starting with *Riba*.

### 2.4.2.1 Riba

#### 2.4.2.1.2 The Definition of Riba

##### *Riba in Language*

Originally *Riba* in Arabic language refers to: growth, development, increase and superiority (Al-Ashqar, 1984). Arabic uses, in formal register, the word *Riba* in accordance to the above meanings to describe the height of a place and the growth of the wheat etc. (Ibn Faris, 1946). Also it can be used as a verb, noun, adjective or adverb. Qur'an used the word *Riba*<sup>11</sup> in its common meaning in Arab language as follows:

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<sup>11</sup> The highlighted words show the location of the usage of the word *Riba* and reflect its meaning.



*And among His Signs (in this), that you see the earth barren; but when We send down water (rain) to it, it is stirred to life and **growth** (of vegetations). Verily, He Who gives it life, surely, is Able to give life to the dead (on the Day of Resurrection). Indeed He is Able to do all things. (41: 39)*

*And they disobeyed their Lord's Messenger, so He seized them with a **strong** punishment. (69: 10)<sup>12</sup>*

*And be not like a woman who breaks into untwisted strands the yarn which she has spun, after it has become strong. Nor take your oaths to practise deception between yourselves, lest one party should be more **numerous** than another: for God will test you by this; and on the Day of Judgment He will certainly make clear to you (the truth of) that wherein ye disagree. (16: 92)<sup>13</sup>*

### **Riba in Technical Term**

The *Imam* Ahmad Bin Hanbal<sup>14</sup> had once been asked about the meaning of *Riba* in its technical sense, and said: it is when a lender asks the borrower at a mutually agreed time to pay back the loan on the spot or return it with an extra amount over the lent sum in another stipulated time (Ibn Al-Qayyim, 1969: 2). This type of *Riba* existed in *Ahl Al-Jahiliya*<sup>15</sup>. Ibn Al-Arabi says (1967) “Ahl Al-Jahiliya used to have sale transactions that involve *Riba*. *Riba* was known then, for instance a man sells certain good to a man for a deferred payment, when the time of payment is due, the seller asks the buyer: Do you want to pay at once or exceed the price amount and pay it in another stipulated time? Hence Allah prohibited *Riba* in terms of excess”.

Moreover, Ibn Taymmiya says “The man from *Ahl Thaqif* that were mentioned in Qura’n, used to come to the borrower and ask: Would you settle the debt or exceed over the old amount? If the borrower didn’t pay back, the loan gets doubled for a delayed payment” (Ibn Taymmiya, 2007). Al-Razi says in his interpretation that *riba Al-Nasiah*<sup>16</sup> or *riba Al-Jahiliya* was very common in *Al-Jahiliya* which carried very close meaning to what mentioned above (1807). All four Sunni jurists defined *Riba* with same

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<sup>12</sup> The word *Riba* here means: severe, great and destructive.

<sup>13</sup> The word *Riba* here means: more in quantity.

<sup>14</sup> Ahmad Bin Hanbal is the founder of Hanbali School of fiqh.

<sup>15</sup> This term used when referring to Arab people in pre-Islamic times.

<sup>16</sup> This term relates to loan transactions and *Nasiah* means delay or delaying the delivery of a commodity in a contract. Hence *Riba Al-Nasiah* means the benefit or excess that arises from the delay of counter value in an exchange based on loans or sales.

definitions and all came to the conclusion that *Riba* is the excess above the exchanged good/asset with no equivalent to that increase (Al-Juzairy, 2008: 536). As an equivalent approach Muslim scholars identified *Riba* as an Arabic word which means any increase or growth in a loan that must be paid by the debtor to the lender, regardless of whether the increase is large or small (Al-Jarhi and Iqbal, 2001, and Siddiqi, 2004). Furthermore, *Riba* is translated to mean ‘Usury’ which literally means an excess or accumulation above the principal lent (Metwally, 2006: 17).

#### **2.4.2.1.2 General View on the Rule of Riba in Other Societies**

Before discussing the rule of *Riba* in Islam, I would like to bring to light its rule in some other societies, which will be divided into three discussions. The first discussion includes usury or interest in ancient Greece and Rome, the second usury in Judaism, and the third usury in Christianity.

##### ***Usury or Interest in Ancient Greece and Rome***

The financial transactions in ancient Greece were free from usury or interest. Solon, Athen’s lawmaker, forbade interest. The Greek philosopher Aristotle dispraised and defected interest with strong words, also he considered interest as an unnatural and inequitable income. For instance, he said (Al-Ashqar, 1984: 29) “money does not give birth to money” and he compared money with a sterile chicken, and clarified that there is one reason for money usage which is to facilitate exchange and fulfil mankind’s needs. Similarly, Plato objected to interest and in his writings encouraged the prevention of lending money at interest (Al-Ashqar, 1984 and Daraz, 1951).

The most sophisticated discussion of usury in the ancient Greek world came from Aristotle. In his book *Politics* he states (Aristotle, 1962: 17):

*There are two sorts of wealth-getting, as I have said; one is a part of household management, the other is retail trade: the former necessary and honorable, while that which consists in exchange is justly censured; for it is unnatural, and a mode by which men gain from one another. The most hated sort, and with the greatest reason, is usury, which makes a gain out of money itself, and not from the natural object of it. For money was intended to be used in exchange, but not to increase at interest. And this term interest, which means the birth of money from money, is applied to the breeding of money*

*because the offspring resembles the parent. Wherefore of all modes of getting wealth this is the most unnatural.*

### ***Usury in Judaism***

The extensive examinations by many scholars and researchers indicate that Usury in Judaism was definitely prohibited. The prohibition of usury was declared also in the Jewish/Old Testament Torah and later sections of the Hebrew Bible (Schoon, 2008, Maurer and Larson, 2006, Presley and Session, 1994). The Talmud states *“He has lent on usury; he has taken interest; he shall surely not live, having done all these abominations”*; on the words with which the prohibition of usury in Lev. xxv. 36 closes: *“Thou shalt be afraid of thy God”*; and on the further words in which Ezekiel (l.c.) refers to the usurer: *“He shall surely suffer death; his blood is upon him”*; hence the lender on interest is compared to the shedder of blood”. (B. M. 61b) dwells on Ezek. xviii. 13 (Hebr). In addition, Qur’an shows this clearly as follows:

*For the wrong-doing of the Jews, We made unlawful for them certain good foods which had been lawful for them- and for their hindering many from Allah’s Way; And their taking of Riba (usury) though they were forbidden from taking it and their devouring of men’s substance wrongfully (bribery). And We have prepared for the disbelievers among them a painful torment. (4: 160-161)*

Usury prohibition was restricted on transactions between the Jews in terms of permitting usury in transactions with non-Jews. The book of Deuteronomy supports the latter issue with this statement: *‘Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything that is lent upon usury: (23:20) Unto a stranger thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury: that the LORD thy God may bless thee in all that thou settest thine hand to in the land whither thou goest to possess It (23:19)’*. The Jewish rabbis approved this and they made it obligatory to lend non-Jews with usury. Moreover, the Talmud encouraged and obliged in several places to lend the strangers (non-Jewish) with usury (Khan, 2002). Jewish practised usury in a highly skilful way, and consequently they had earned through it enormous amounts of money.

### ***Usury in Christianity***

The Old Testament decrees showed the negative views and prohibition of usury. The New Testament had vilified the practise of usury and states that whoever practises usury do not deserve to be buried when they pass away (Al-Ashqar, 1984). Likewise, the church fought usury and stood against the usury dealers. The Church had by the fourth century AD prohibited the taking of interest which this was extended to the fifth century. In the eighth century it was pressed further and declared usury to be a general criminal offence. This anti-usury movement continued to gain power during the early middle Ages and reached its high point in 1311 when Pope Clement V made the ban on usury absolute and affirmed all secular legislation in its favour, unacceptable and void (Birnie, 1958). The Third Lateran Council had renewed the prohibition of usury in 1179, and decided that those who practise usury openly do not join the Lord's Supper, and if they die on this guilt they do not be buried as Christians, and their charity is not to be accepted by the priest (Al-Ashqar, 1984: 39).

The priest Ambrose states that usury is defined as 'All the money that added to the capital rate of interest' and this principle had made its way into the law of priesthood which was followed by the church (Al-Hawali, 2007). Durant says (Durant, 1963: 338):

*Throughout all the land unto all the inhabitants thereof: it shall be a Jubilee unto you; and ye shall return every man unto his possession, and ye shall return every man unto his family. ““ 101 We have no evidence that this fine edict was obeyed, but we must give credit to the priests for leaving no lesson in charity untaught. “If there be among you a poor man of one of thy brethren. thou shalt open thine hand wide unto him, and shalt surely lend him sufficient for his need”; and “take thou no usury” (i.e., interest) “of him.”*

The Pope Gregory IX says 'Usury is all what people earn in return for a loan'. This view remained the law of the Roman Catholic Church until 1917, and Catholics believed for many centuries that lenders that practised usury were behaving like Jews (Al-Hawali, 2007, Al-Ashqar, 1984). Aho says (2005: 46) 'whatever the argument, any person who participates in usury is, in the words of Bernardino of Siena, (worthy of eternal death)'. Government law remained a long time supporting the position of the Church in this viewpoint. Furthermore, the religious courts then forbidden usury, but the trade necessities have more powerful impact than the fear of jail or hell. After 1400, most

European countries revoked the prohibition of usury, the Church laws on usury being ignored by most people.

Increasingly after that, and despite numerous succeeding prohibitions by Popes and civil legislators, the church and its feudalist<sup>17</sup> allies in the Middle Ages feeling that there was a threat to their safety and their power due to the growth of capitalism, the pro usury counter-movement began to grow. The rise of Protestantism and its pro-capitalism influence is also associated with this change (McGrath, 1990). The noticed disapproval of usury indicated that the existence of resources of production and exchange began to undermine the foundations of the feudal system. Moreover, medieval economy could not escape following the Church's teachings, which were part of the Christian moral order, as it was - at the same time - subject to the Feudalism norms, and therefore it had to collapse due to the collapse of Feudalism (Al-Hawali, 2007).

Luther and Calvin expressed some reservations about the practise of usury despite their belief that it could not be universally agreed. Calvin, for instance, named seven crucial instances in which interest remained "sinful", but these have been generally ignored and his stance taken as an extensive permitting of interest (Birnie, 1952). As a result of all these influences, around 1620, according to theologian Ruston (1993: 173-4) 'usury passed from being an offence against public morality which a Christian government was expected to suppress to being a matter of private conscience and a new generation of Christian moralists redefined usury as excessive interest'.

This position has remained continual through to present-day philosophy of the Church, as the indicative views of the Church of Scotland (1988) suggest when it declares in its study report on the ethics of investment and banking: 'We accept that the practise of charging interest for business and personal loans is not, in itself, incompatible with Christian ethics. What is more difficult to determine is whether the interest rate charged is fair or excessive'. Equally, it is illustrative that, in contrast to the clear moral command against usury still expressed by the Church in Pope Leo XIII's 1891 *Rerum Novarum* as 'voracious usury an evil condemned frequently by the Church but nevertheless still practised in deceptive ways by avaricious men' (Visser and McIntosh, 1998: 175).

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<sup>17</sup> Feudalism refers to the Medieval European political system composed of a set of mutual legal and military obligations among the warrior nobility, revolving around the three key concepts of lords, vassals; person who was granted possession of the land by the lord, and fiefs; the land.

Usury became widely accepted in the Christian abbeys and as Pope Innocent III made public that if all usurers get expelled from the church as it is required by the church law, then all churches should be shut (Al-Ashqar, 1984: 47).

## 2.4.3 Prohibition of Riba in Islam

### 2.4.3.1 The Position of Qur'an and Prophetic Sayings 'Hadith'

The prohibition of *Riba* was firmly clear and direct in the Qur'an. This can be seen clearly in some of the Qur'anic verses as follows:

*Those who devour usury will not stand except as stands one whom the Evil One by his touch Hath driven to madness. That is because they say: "Trade is like usury," but God hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for God (to judge); but those who repeat (the offence) are Companions of the Fire: They will abide therein (forever). (2: 275)*

The believers of Islam were commanded to give up the remaining of 'Al-Moa'malat Al-Rabawiya' or the usurious transactions which were common then (Al-Ashqar, 1984, and Al-Mawdudi, 1970). The Qur'an states:

*O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye indeed are believers. (2: 278)*

Allah threatened those who did not conform to the prohibition of *Riba* to be fought by Him and His Messenger as shown below:

*If ye do not, take notice of war from Allah and His Messenger: but if ye turn back, ye shall have your capital sums; deal not unjustly, and ye shall not be dealt with unjustly. (2: 279)*

The believers were banned from devouring *Riba* and were commanded to follow 'Al-Taqwa' which is to fear God. The Qur'an says:

*O ye who believe! Devour not usury, doubled and multiplied; but fear God; that ye may (really) prosper. Fear the Fire, which is repaired for those who reject Faith: And obey God and the Apostle; that ye may obtain mercy. (3: 130-132)*

Allah informed the usurers about the dreadful and painful destiny that awaits them. Also He threatened that those who return to practicing *Riba* after its prohibition would remain in the hellfire. This is stated clearly below:

***Those who devour usury will not stand except as stands one whom the Evil One by his touch Hath driven to madness. That is because they say: "Trade is like usury," but God hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for God (to judge); but those who repeat (the offence) are Companions of the Fire: They will abide therein (forever). (2: 275)***

Allah has also declared that the outcome of *Riba* is smallness and insignificance and this is only one effect of Allah's war on *Riba* devourers. Allah states in the Holy Qur'an:

*God will deprive usury of all blessing, but will give increase for deeds of charity: For He loveth not creatures ungrateful and wicked. (2: 276)*

Allah has vilified the Jews who were asked not to practise usury but they did not conform to that and He reproved them but they did not hold back. As a result, Allah punished them by prohibiting goods that were permitted then, and prepared to them painful torture in the hereafter. Please refer to the Qur'anic verses (4: 160-161) in sub-section 2.4.2.1.2.

The Prophet Muhammad considered *Riba* as one of the seven major sins whose practise leads to destruction. It is reported on the authority of Abu Huraira that the Messenger of Allah observed:

*Avoid the seven noxious things. It was said (by the hearers): What are they, Messenger of Allah? He (the Holy Prophet) replied: Associating anything with Allah, magic, killing of one whom God has declared inviolate without a just cause, consuming the property of an orphan, and consuming of usury, turning back when the army advances, and slandering chaste women who are believers, but unwary. (Sahih Muslim: 1: 161).*

The Prophet Muhammad revealed the greatness of the *Riba* offence through comparing it with the adultery offence. Most Muslims believe that adultery is one of the greatest sins.

*Nor come nigh to adultery: for it is a shameful (deed) and an evil way. (17: 32)*

However, Allah considers *Riba* greater than adultery. This can be shown in the following Hadith:

*One dirham of Riba that a man devours, while knowing it is Riba, is more severe (in crime) than thirty-six acts of fornication (or adultery). (Ahmad and Ibn Majah: 2825).*

The Prophet Muhammad also says in the case of *Riba* prohibition:

*Muslim narrated that Jaabir said: The Messenger of Allaah (peace and blessings of Allaah be upon him) cursed the one who consumes riba, the one who pays it, the one who writes it down and the two who witness it, and he said: "They are all the same." (1598)*

It is worth noting that many parts of the Qur'an and the sayings of Prophet Muhammad (Hadith) shows the prohibition of *Riba*, its great offence and the severe punishment awaiting its participators.

#### **2.4.3.2 The Position of Ijmaa'**

It is agreed unanimously by the Islamic jurists and scholars that *Riba* is strictly prohibited in Islam without any noted disagreement and it is universal and not restricted merely on transactions between Muslims in Islamic and non-Islamic countries, but goes further -on the same level of prohibition- to transactions with non-Muslims in Islamic and non-Islamic countries as well (Al-Nawawi, 1970: 9-391). Ibn Taymiyyah (2003: 550-645) says: 'Usury is forbidden in Qur'an, *Sunnah* and *Ijmaa'*'. Al-Imam Al-Shafi'e had been asked regarding the consensus of *Riba* prohibition and replied positively and firmly 'Yes', there is wide agreement on this case. He elaborated that it is impossible to find a Muslim scholar that does not agree to the *Riba* prohibition as the agreement for example on The *Dhuhr* prayer. (Al-Shafi'e, 2009: 257 and Al-Shafi'e, 1990: 205-534).



In contrast, Al-Ashqar (1984: 55-66) and Al-Juzairi (2008: 537-538) state that a number of the Companions of the Prophet Muhammad disagreed with the consensus of *Riba* prohibition. Islamic jurists and scholars clarified this case and said that the mentioned and prohibited *Riba* in Qur'an is *Riba Al-Nasi'ah*, and this type of *Riba* has not been contradicted or permitted by any Muslim scholar. Some of the Companions of the Prophet Muhammad initially denied that *Riba Al-Fadl*<sup>18</sup> was prohibited, until the Prophet told them that it was. When the Companions heard the provisions on *Riba Al-Fadl*, they adhered to them and put these provisions into immediate practise. This shows how *Riba* cases are complicated and Ibn Kathir (1966: 581/2) says:

*The subject of Riba is a difficult subject for many scholars. We should mention that the Leader of the Faithful, `Umar bin Al-Khattab, said, "I wished that the Messenger of Allah had made three matters clearer for us, so that we could refer to his decision: the grandfather (regarding inheriting from his grandchildren), the Kalalah (those who leave neither descendants nor ascendants as heirs) and some types of Riba. `Umar was referring to the types of transactions where it is not clear whether they involve Riba or not.*

Al-Ashqar (1984: 74) says that some Muslims try to find ways that make *Riba* permissible for the sake of their benefit and that they claim that *Riba* is a necessity 'daroura' that cannot be avoided. For instance, the trader uses *Riba* to expand his business and the manufacturer practises *Riba* to enlarge his industry. However necessity as clarified by many Muslim scholars does not apply on unnecessary situations but it applies on essential ones such as a person who cannot find anything to eat. Therefore, *Riba* in the case of expanding a business or industry is not considered in Islam as a necessity. Many Muslim scholars argue that the necessity which allows any prohibited situation should be studied and evaluated by Islamic scholars at first.

The Islamic Research Academy (IRA) in its Second Conference in 1965<sup>19</sup>, responded considerably regarding the raised suspicions on the prohibition of *Riba* and issued the following Fatwa with the consensus of all scholars (*Ijmaa'*):

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<sup>18</sup> *Riba Al-Fadl* is the involvement of *Riba* in sales contracts and other exchange transactions and it occurs when goods of similar kinds are exchanged with an inequality between them.

<sup>19</sup> This conference was attended by representatives of thirty-five Muslim countries and a total of 150 Islamic scholars.

*Interest on all types of loans is Riba Muharram or prohibited Riba and there is no difference between the so-called consumer loan, and the so-called production loans whether the interest amount in these cases are large or small. Riba based- loan is Haram or unlawful and necessity does not make Riba condoned or permissible. Riba sin does not get eliminated unless a necessity is needed which has to be assessed and valued according to the Islamic teaching.*

*Banking current accounts, cheques, and the transaction between merchants and banks are allowable. Likewise, everything taken in a match of such acts is not considered as Riba (Al-Ashqar, 1985: 74-75).*

#### **2.4.4 The Rationale for Allowing Interest: Conventional Economics Perspective**

Is charging interest on loans a reasonable practise? This question could be answered through considering the rationales of supporters of a conventional economic perspective, who see no harm in practicing usury. If it can be demonstrated that usury is something reasonable, the case against usury becomes much weaker. The economics literature has proposed the following major justifications for charging interest.

##### ***First Justification:***

Money, as capital, is an economic factor of production, like land and labour. The person who lends money to others is: exposing his money to danger, fulfilling others need and giving what have could benefit him instead. If the debtor had borrowed the money to fulfil his needs, then he should pay its ‘rent’ as the case in paying the house rent, hiring a car or paying the wages of workers. However, if the debtor borrowed the money to employ it in a fruitful business or to expand his business, then the creditor has the right to ask the borrower for usury on the loan. The justification behind this is that the debtor would not expand his business if not because of the loan.

##### ***Second Justification:***

Some people may say the reason for allowing usury is the given opportunity for utilization or benefit. Therefore, the creditor gets to have the right for gaining an equivalent profit if the debtor’s business is successful (Al-Mawdudi, 1970: 14).

**Third Justification:**

Lenders need to be compensated for waiting. In particular, some Muslim scholars see the postponement of paying up the loan increases the value of the borrowed financial sum in accordance with the length of the period. For instance, if a creditor agrees to give the borrower more time to pay back the loan, then the debtor will have the advantage of making more use of the borrowed money for a longer period of time. (This is basically what is referred to as *riba al-jahiliyya*).

**Fourth Justification:**

Charging interest is necessary to direct investment to its most productive use, which would reflect positively on economic welfare growth. Zarlenga (2002) states that ‘As economies became more dynamic, with real growth possibilities, it became clear that charging interest on business loans where the borrowing merchant prospered, couldn’t be condemned as greed or lack of charity and by 1516 the idea of a lending institution charging interest for its services had been overwhelmingly accepted’.

**Fifth Justification:**

Some scholars argue that if the borrowers have voluntarily entered into the usury contract then usury became a right for the lender.

**2.4.5 The Rationale of Riba Prohibition**

Al-Mawdudi (1970) states that ‘the actual or genuine reason of *Riba* prohibition is that it is something definitely damaging which causes extremely severe damages to mankind from several standpoints’ (p. 40). Many researchers (e.g. Al-Ashqar, 1983, Al-Mawdudi, 1970, Abdo, 1969, and Daraz 1951) had classified the damages of *Riba* into three main aspects: 1- The spiritual and moral aspect, 2- The social aspect, 3- The economic aspect.

**2.4.5.1 The Spiritual and Moral Aspects**

It is claimed by Al-Mawdudi that morals and spirit are the essence of humanity (1970: 40). He continues his argument by stating that everything that harms us in the core of this essence, is best to be rejected and not to be accepted even if it offers many benefits from any other aspect (Al-Mawdudi, 1970: 40).

Al-Mawdudi (1970: 41) argues that accumulation of money through *Riba* is likely to bring out personal characteristics that Islam regards as negative, for example greed, stinginess, impatience, narrow-mindedness, and money slavery (see also Al-Ashqar, 1983: 106-110). These characteristics become deep-rooted with the success of one's usurious trade. In contrast, positive personal characteristics are associated with paying Zakat and *Sadaqah* (charity) i.e. generosity, selflessness, compassion, and open-mindedness.

#### 2.4.5.2 The Social Aspect

Al-Mawdudi (1970: 41-42) stresses that a society in which individuals have a tendency to greed and selfishness between one another, offers support or help only if they expect a benefit in return, takes advantage of the needy and the poor, and considers this as an opportunity for investment. Therefore, this type of society will not be built on strong foundations and it is likely to fall apart.

On the other hand, a society, which is based on cooperation, solidarity (the literal meaning of *Takaful*), faithfulness, and generosity, encourages equality of opportunities and living standards between its members (Daraz 1951: 34-35). The remarkable view of the Qur'an is to prevent the favouritism of money at the expense of the needy and disadvantaged:

*'Whatever God grants to His Messenger (out of the property) of the people of the towns, belongs to God, the Messenger, the kinsfolk, the orphans, the destitute and to those who may become needy while on a journey, so that it will not circulate only in the hands of rich ones among them. Take only what the Messenger gives to you and desist from what he forbids you. Have fear of God; God is severe in His retribution.'*  
(59: 7)

This argument can be applied on a bigger scale by measuring the international relations between nations. For example, if nation 'A' treats a neighbour nation 'B' with generosity and compassion whenever a misfortune occurs, it receives equal treatment from nation 'B' in return. Conversely, if nation 'A' treats its neighbour nation 'B' with cruelty and greediness and takes advantage of its misfortune, which results in large financial benefit to nation 'A', nation 'B' will have no mean of friendship, trust and faithfulness with

nation 'A'. It is interesting to mention the example of the Bretton Woods Agreement when Britain asked the U.S. after World War II for a huge interest-free loan to rebuild its domestic production and to finance its international trade. However, the United States did not agree to lend to Britain unless the loan would be repaid with interest. Britain accepted this condition reluctantly due to its urgent need for this loan. This agreement had a strong adverse effect on sentiment in Britain: for example, Keynes, the chief international economist of the British Treasury, expressed in the House of Lords his grief and sadness over the U.S treatment of Britain (Al-Mawdudi, 1970: 43). This is an example that reflects how interest or *Riba* socially affects nations and individuals.

#### 2.4.5.3 The Economic Aspect

Scholars often likened the effect of *Riba* on the economy to cancer. As doctors failed to cure the damages caused by cancer on human body, politicians and economists failed too to treat the problems, misfortunes and troubles caused by *Riba*. In a similar spirit, Murad<sup>20</sup> (2008) describes *Riba* as 'a vampire that sucks the blood of the weak'. He continued by describing the current financial system as a wobbly skyscraper. Al-Razzi (1807: 363) says '*Despite the fact that usury is an increase [in terms of measurement], however it is a decrease in reality*'. The following discussion will highlight *riba*'s negative effect on the economy:

**Disrupt peoples' capabilities:** *Riba* disables people's productive abilities and energies, and encourages them to be lazy and neglect work. For instance, the usurer who finds a huge chance to increase his money through *Riba*, will ease his earning for securing his living. Consequently, the usurer will get used to laziness and dislike work. According to Al-Ashqar (1984: 126) *Riba* disrupts labourers and businessmen capability and leads them to fall into difficult economic problems.

**Disrupt money:** *Riba* disrupts money from being operated. For example, the usurer does not pay out his money to serviceable and useful projects nor to economical businesses unless he is certain of his money return with huge increase to it. In this sense, he locks his money when danger is felt or when the greed arises in order to make higher rate of

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<sup>20</sup> Shaykh Abdal Hakim Murad is better known as Dr T J Winter, Lecturer in Islamic Religion at Cambridge University.

interest in the future. Al-Ashqar (1984: 127) describes the picture of money non-circulation as artery blockage that lead to big misfortune.

**Inflation:** Inflation is known when the prices of most goods and services continue to creep upward. It is measured by the Consumer Price Index. Inflation can be caused by many factors and one factor to this is *Riba*. This is caused when the usurer impose high rate of interest which force services and products owners to increases their prices. As a result, this will displease many people especially those who depends on fixed wages e.g. labourer and employees (Al-Ashqar, 1984). Once the prices have highly risen, people will stop purchasing expensive goods either for being not able to pay their prices or because the prices of these goods will tire out their budgets. People's prevention of buying expensive goods will lead to the depression of goods in stores and warehouses. In this case, companies and factories will make percentage of their staff redundant.

**The encouragement of risk and excessive expenditure:** Due to the fact the *Riba* is easy and facilitated, inexperienced people tend to follow the human nature 'greed' and take loans with interest and risk their money in business that might fail. This type of businesses affects the economy. The usurer on the other hand, does not care of how these people invest their money. In fact, his attention is on the return of his money with interest. The facilitated interest based loans encourage excessive expenditure in useless and unprofitable ways (Al-Ashqar, 1984).

#### **2.4.6 Prohibition of Gharar**

*Gharar* an Arabic word literally means uncertainty, risk or hazard. Most *Fiqh* scholars define *Gharar* as a combination of the unknown and the doubtful (Ahmad, 2009: 48). For instance, *Hanbali* jurist Ibn Taymiyya (2003: 29: 22) defines *Gharar* 'as something of unknown outcome or result'. El- Gamal (2006: 59) states 'the best literal and juristic translation *Bay' Al- Gharar* is trading in risk'. *Gharar* in practise was widely defined by many scholars. It is notable that most definitions were similar in meaning but differ in wording which is shown in the following examples: Malik (1985: 422) defines *Gharar* as 'The sale of an object which is not present and thus whose quality of being good or bad is not known to the buyer'. Al Zarqa (1998) defines it as the sale of probable items whose existence or characteristics are not certain, due to the risky nature which makes the trade similar to gambling. Maali, Casson and Napier (2006) define *Gharar* as transactions that

contain elements of excessive risk. Ayub's (2007: 58) definition 'The sale of a thing which is not present at hand or the sale of a thing whose consequence is not known or a sale involving hazard in which one does not know whether it will come to be or not e.g. the sale of a fish in water, or a bird in the air'. In another context Maali and Napier identify *Gharar* as 'Lack of specificity in contract terms' (Maali and Napier, 2009: 2).

It can be interpreted from the suggested definitions that *Gharar* exists in contracts and transactions when the subject matter of exchange concerns probable items whose existence or characteristics are doubtful or not certain. For example, a sale or deal that lacks fixation of price, quantity, quality, or delivery date or time. Furthermore, *Gharar* can result from accepting speculative risk. For instance, contracts in conventional insurance involve agreements on matters that may or may not happen, but the insured pays for buying the insurance policy anyway. If the insured is subject to misfortune or the event that deserves getting indemnification, the insurance company covers the loss or peril, otherwise it gains whatever is paid by the insured.

*Gharar* is considered as the second major prohibited element in the Islamic law of transactions. Unlike *Riba*, *Gharar* is not being explicitly mentioned in the Qura'n also it is not as strongly and firmly prohibited as *Riba* (Khorshid, 2004: 39 and Obaidullah, 2005). However, *Gharar* prohibition can be interpreted from Qura'nic verses that forbidden unlawful and unfair transfer of wealth between Muslims as shown in the following verse:

*And do not consume one another's wealth unjustly or send it [in bribery] to the rulers in order that [they might aid] you [to] consume a portion of the wealth of the people in sin, while you know [it is unlawful]. (2: 188).*

*O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent. And do not kill yourselves [or one another]. Indeed, Allah is to you ever Merciful. (4: 29).*

*O you who have believed, indeed many of the scholars and the monks devour the wealth of people unjustly and avert [them] from the way of Allah. And those who hoard gold and silver and spend it not in the way of Allah - give them tidings of a painful punishment. (9: 34).*

In contrast, the prohibition of *Gharar* is evidently mentioned in *Sunnah* in a number of the Prophet's Hadith or sayings where he clearly condemns transactions with aspects of *Gharar*. Two of these sayings are mentioned as follows:

*'The Prophet peace be upon him has forbidden sales by throwing stones<sup>21</sup> and sales involving uncertainty'* (Muslim, 1513: Hadith 4).

*'The Prophet peace be upon him prohibited two deals in one'* (Ibn Hanbal, 1986: 1: 398).

It can be learned from the first Hadith that the subject of contracts and transactions has to be precisely determined and available for immediate delivery. In the second Hadith the focus is on the prohibition of conditional contracts that lead to the invalidity of transactions that contain two different contracts e.g. if one says, 'I will sell you my house if you sell me yours' (Korshid, 2004: 39). *Gharar* or uncertainty prohibition here is not limited to sales only but goes further to transactions that involve more than one proposed contract.

Ayub (2007: 61) extracts several general principles for avoiding *Gharar* in sales transactions. First, the contract must be free from excessive uncertainty about the subject matter and its counter value in exchange. Second, the commodity must be defined, determined and deliverable and clearly known to the contracting parties. Third, quality and quantity must be set. Fourth, a contract must not be doubtful or uncertain so far as the rights and obligations of the contracting parties are concerned. Finally, there should be no *Jahl* (ignorance) or uncertainty about availability, existence and deliverability of goods and the parties should know the actual state of the goods.

#### **2.4.7 Prohibition of Maisir**

*Maisir* is a synonym to the word *Qimar* which are both originated from the Arabic language. *Maisir* is derived from the meaning of ease and convenience as it is considered as effortless earning of money and wealth. In other words and as Ayub (2007: 62-63) defines *Maisir* 'easily available wealth or acquisition of wealth by chance, whether or not

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<sup>21</sup>This refers to pre-Islamic transactions whereby the sale is concluded by the throwing of a stone. This transaction is a kind of *Gharar* as throwing of a stone might mean one of the following: 1) Selling items of what a stone laid upon. 2) The buyer has the chance to refuse or accept the deal before the seller throws the stone. 3) The buyer can fix the price of the wanting items by throwing a stone on it, e.g. the buyer says if I throw the stone on this dress I would buy it for .... (a specified price).



it deprives the other's right'. Billah (2001) defines *Maisir* as 'A game of haphazard in all matters – particularly a game of chance by means of divinatory arrows'. Many scholars define *Maisir* as gambling or speculation.

Islamic Sharia is against any kind of business that relies on practises that involve gambling or are similar to it. Similarly, Iqbal (2005: 21-22) argues 'Gambling is against the basic principle of justice, equity, fairness, ethics and morality which are obligatory values within Islam'. The prohibition of *Maisir* or gambling can be seen clearly from the following Qur'anic verses:

*O you who believe! Intoxicants (all kinds of alcoholic drinks), **gambling**, AlAnsab, and AlAzlam (arrows for seeking luck or decision) are an abomination of Shaitan's (Satan) handiwork. So avoid (strictly all) that (abomination) in order that you may be successful. (5: 90).*

*The Shaitan only desires to cause enmity and hatred to spring in your midst by means of intoxicants and **games of chance**, and to keep you off from the remembrance of Allah and from prayer. Will you then desist?. (5: 91).*

*They ask you about wine and **gambling**. Say, "In them is great sin and [yet, some] benefit for people. But their sin is greater than their benefit." And they ask you what they should spend. Say, "The excess [beyond needs]." Thus Allah makes clear to you the verses [of revelation] that you might give thought. (2: 219).*

Aside from the Holy Qur'an, the prohibition on gambling is also declared in various sayings of the Prophet:

*'Whosoever plays backgammon is as if he dyes his hands with the flesh of swine and its blood.'* (Al-Bukhari and Muslim).

*'Whosoever says to his Companion: Come let us play a game of haphazard, should give alms (as an atonement)'* (Al-Bukhari and Muslim).

*Maisir* is a form of *Gharar* and that due to the gambling or *Maisir* is ignorant of the result of the gamble (Ayub, 2007). It is worth mentioning that the main reason for *Maisir* prohibition is that money should be earned by way of work and effort and not by simply pure chance (Billah, 2001 and Rosly, 2008).

#### **2.4.7.1 Insurance Contract versus Gambling Contract in Britain**

It is widely argued that insurance and gambling are not the same. However, the distinction between those both objects is not entirely clear. Swadener (1964) is one of many scholars that discussed this issue and in his article ‘Gambling and Insurance Distinguished’ he presented a simple analysis of such distinction and provided many examples to clear the differences between insurance and gambling. Swadener suggests (1964: 468) ‘Gambling is the transfer of the decision maker from a state of certainty to one of participation in a lottery, which is a risk situation by definition. Insurance, on the other hand, is a method of transferring the decision maker from the situation of participation in a lottery to a state of certainty, the lottery involved being one in which there is at least one possible outcome with a negative payoff’. Pfeffer’s (1956: 53) defines insurance as “‘a device for the reduction of the uncertainty of one party, called the insured, through the transfer of particular risks to another party, called the insurer, who offers the restoration, at least in part, of economic loss suffered by the insured’. In this definition, Pfeffer suggests that insurance is employed by the insured to transfer out of a lottery rather than into a lottery (Swadener, 1964: 468).

The Law Commission (2010) states ‘in order for an insurance policy to be valid, the policyholder must have a sufficient interest in the subject matter of the insurance. Broadly speaking, the doctrine requires that a policyholder must gain a benefit from the preservation of the subject matter of the insurance or suffer a disadvantage should it be lost’. Gambling, on the other hand, appears to be widely accepted, for instance, there has been a National Lottery in the UK since November 1994. Through courts, gambling contracts became enforceable and that when The Gambling Act 2005<sup>22</sup> repealed the Gaming Act 1845. As a result, gambling became no longer preventable by public policy – instead public policy is its regulator. The Law Commission and Scottish Law Commission indicates’ Before the Gambling Act 2005, all forms of gambling were considered undesirable, but some forms were thought to be particularly pernicious. Thus the Life Assurance Act 1774<sup>23</sup> described taking out insurance on the lives of strangers as “a mischievous kind of gaming”, which might encourage murder (The Law Commission, 2010).

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<sup>22</sup> Indicate the enforceability of gambling contract.

<sup>23</sup> An Act for regulating Insurances upon Lives, and for prohibiting all such Insurances except in cases where the Persons insuring shall have an Interest in the Life or Death of the Persons insured (The Law Commission and Scottish Law Commission, 2010).

## 2.5 Criticism of Islamic Finance

At the end of this chapter, it is necessary to go through the major criticisms of Islamic finance discussed earlier. The main goal of modern Islamic finance is to provide Sharia-compliant financial products so as to enable pious Muslims to undertake financial transactions that would otherwise not be possible. Haniffa and Hudaib (2011: 5) state ‘Owing to the need to comply with Shariah principles as a strategic option, the objectives, operations and reporting practices of such organisations should be different from their conventional counterparts’. A secondary goal, though important in the view of some commentators, is to help in providing a foundation for a genuinely Islamic economy. However, critics claim that Islamic financial transactions are artificial or, in other words, not that different from the conventional financial transactions. To make the latter argument clearer, an illustration of Islamic financing, *Murabaha* or cost plus profit contract, is now examined. *Murabaha* is a form of short-term financing. Essentially it involves the Islamic financial institution at the request and on behalf of the client in purchasing specified goods from a third party and then selling the goods to the client at the purchase price plus an agreed fixed profit margin (El-Gamal, 2005b: 9, Hamoudi, 2007a: 612, Saleem, 2005: 23). The whole idea of this transaction is that the Islamic financial institution will purchase the goods at one price, take legal possession of the goods for a period of time and then sell the goods at a higher price to the client. Saleem (2005: 23) in his book *Islamic Banking- A \$300 Billion Deception* argues ‘In theory it [Murabaha] sounds reasonable and appears to be consistent with the principles of Sharia. Certainly structure of these transactions meet[s] the letter of law. However, whether they meet the spirit of Sharia is another matter’. Hamoudi (2007a: 612) expresses the same argument as Saleem’s in different words: ‘While the *murabaha* seems harmless, it can easily be manipulated to function for all intents and purposes as an interest-based transaction which would otherwise be banned under the doctrine of *riba*’. On the same grounds El-Gamal states (2005b: 4) ‘One of the earliest manifestations of this transaction as substitute for bank loans was first envisioned by Sami Humud in his above-cited book [*Tatwir al-A`mal al-Masrifiyya bi-ma Yattaflu wa al-Sharī`a al-Islamiyya*<sup>24</sup>] (based on his Ph.D. dissertation). Over the years, a number of additional alterations have been added to make the contract as close to an interest-based loan as possible’. For example, an Islamic financial institution could not simply lend £1000 to a borrower. However, under the *Murabaha* transaction, an Islamic financial institution could purchase £1000 of

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<sup>24</sup> Development of Banking Operations to Accommodate the Islamic Sharia.

metal (often one traded on commodity markets) at its market value and in matter of a few seconds sell the metal to a buyer, with the buyer promising to pay for it at a higher price on a later date. Let us assume that the buyer promises to pay £1100 in one year's time. Saleem (2005: 23-24) argues:

*'There are additional problems with the Murabaha mode of financing:*

*1) The Islamic banks in determining and calculating their "profits" on Murabaha transactions operate within the framework of conventional banking benchmarks such as LIBOR<sup>25</sup> etc with the result that at the end of the day, the net result for the client (borrower) is the same as in a conventional banking borrowing.*

*2) Murabaha historically was a crude trading practise designed for transactions between real sellers and real buyers involving physical goods, mostly commodities. Banks are not trading organizations; they take deposits from the public and either lend or invest such funds as custodians.*

*3) Islamic finance proponents claim that in the conventional banking transaction the customers are saddled with all the risk of the business, with the banks taking none of the risk. This of course is patently false, because the conventional banks see many of their loans go bad, or un-paid and that is why they set aside a percentage of net income to offset against doubtful or bad loans. That said Islamic finance is supposed to be handled on risk sharing basis with the banks' clients. Yet virtually all Islamic financial transactions using the instrument Murabaha are fully secured and collateralised by goods, land, shares etc. As a matter of fact most Islamic banks only lend 80-90 % of the value of the assets'.*

More recently, a practise known as Tawarruq or monetization of a commodity has become popular in retail Islamic finance which is practised primarily in GCC countries. Basically, the Islamic bank sells a commodity on credit to the customer, and then arranges for the customer to sell it back for cash, thus obtaining the desired credit (El-Gamal, 2005a: 5). The same example mentioned above of buying and selling the metal can be structured as Tawarruq. In a Tawarruq transaction, the bank may also arrange for

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<sup>25</sup> London Interbank Offered Rate.

the buyer to immediately sell the metal back into the commodities market for the current market price of £1000. In this sense no party will have ever taken physical possession of the metal they owned even for a fraction of a second (Al-Sadr, 2003). As a result, the metal will have been bought and sold back into the market, and what remains after this set of transactions is £1000 in the possession of the buyer, and a promise on the buyer's part to pay the bank £1100 in one year's time. Hamoudi (2007b: 613) asserts that no one can disagree that the £100 mark-up is in substance interest.

The well-known Islamic finance critic Saleem (2005: 56) states that an honest analysis of lending practises of Islamic banks would confirm that over 95% of the mode of financing employed by these banks entails interest and their practises only differ cosmetically from those of conventional banks. The difference between charging interest in most Islamic financial institutions and conventional financial institutions is that the Islamic ones use other terms for interest such as commission, fee, profit, or mark up, while conventional financial institutions act in a transparent manner when charging interest (El-Gamal, 2005b).

Moreover, critics suggest that, at a structural level, Islamic finance neglects expectations of consumers but is pushed by banks to generate money. An idea presented by El-Diwany is that Islamic finance should really be aimed at the "micro" level, and that the huge transactions being arranged by international banks are simply using the name "Islamic finance" as an excuse for charging high fees. El-Diwany (2008) states in an interview with the *Islamic Finance Today* 'If a bank wishes to trade cars, let it become a car dealer. If it wishes to rent property, let it become a landlord. And if it wishes to lend money for a profit, let it not use the word 'Islamic' to describe the process'. El-Gamal (2005a: 1) argues that through Sharia arbitrage 'the Islamic financial providers [will] remain profitable'. El-Gamal (2005a: 4) defines Sharia arbitrage as 'a particular form of regulatory arbitrage: A captive market of pious Muslims voluntarily choose not to use certain financial products. Lawyers, in partnership with bankers and jurists, strive to provide them a re-engineered version of those products. Conventional financial products are used as building blocks for the reengineered Islamic products approved by jurists'. He (2005a: 1) proposes that 'focusing on the spirit of Islamic law may allow Islamic finance to develop into good finance, which would allow it to abandon the "Islamic" brand-name'.

Moreover, Saleem (2005: 23) argues that Islamic finance is still not achieving social justice. For instance, Islamic finance should seek to promote social justice by banning exploitative practises such as paying interest, gambling involvement, and investing in firms that involve haram elements. However, critics suggest that Islamic finance is not in fact entirely Islamic, and accordingly it cannot be expected to achieve the objectives of social justice and fairness. Hamoudi (2007b: 1) argues that ‘Islamic finance as a practise has failed to meet these objectives’.

Haniffa and Hudaib (2007a: 111) stress on the need of Managers of Islamic Banks ‘to communicate more effectively and avoid ambiguous styles of communication, as these have important religious implications as well as implications for corporate image and reputation’. This conclusion was reached through measuring the existence of any discrepancy between the communicated (based on information disclosed in the annual reports) and ideal (disclosure of information deemed vital based on the Islamic ethical business framework) ethical identities of Islamic banks in the Arabian Gulf region (2007a: 97). The communication of such dimensions is crucial in reflecting accountability and justice to society and above all obeying Allah’s orders.

In another study, Haniffa and Hudaib (2011) urge Islamic financial institutions (IFIs) to fulfil maqasid al-Sharia and not only focusing on maximizing shareholders return on equity. In their article, the fulfilling of maqasid al-Sharia was related to implementing strategies that will help to contribute to social justice and promote sustainable development projects. As a result of this requirement, Haniffa and Hudaib (2011: 6) state ‘IFIs need a more sophisticated information system to enable the leadership to ensure that the religiosity element is integrated when setting strategies on types of products to offer, types of customers that will benefit from the various products on offer, the pricing of the various products on offer and the reward system for employees’.

On the other hand, once Islamic finance outgrows its current mode and form of operation, and assumes a new identity based on substantive and ethical religious rules, it will no longer need to hide behind the “Islamic” brand name as described by El-Gamal (2009: 191). Then it will only need to stand out as a good financial system with effective products and to sell the products at a fair price. This seems to underlie the idea that rather than using the expression “Islamic finance”, terms like “ethical” or “non-interest” finance would indicate that the products are relevant to all consumers, not just Muslims.

The critical literature on Islamic finance raises a central question: to what extent is the structure of any Islamic financial product derived from general principles of halal and haram, and to what extent is it the product of “financial engineering”, where an existing conventional product is “tweaked” to make it Sharia-compliant. This question can be asked with reference to insurance – to what extent is Takaful, as the Shariah-compliant version of insurance, actually distinctive from conventional insurance? To answer this question, it will be necessary to consider the underlying concept of Takaful and how Takaful operates in practice.

## 2.6 Summary

This chapter introduced the essence of Islam and the main sources of Islamic values and beliefs. This was followed by a historic examination of the Islamic economic system in great detail starting from Prophet Muhammad’s mission of spreading Islam to the spreading of Medieval Islamic economic ideology from East to West. Islamic Socio-economic Principles alongside with economic scenario in the neoclassical framework were examined. The principles, features and philosophy upon which Islamic finance operates were discussed in detail, especially the strict ban on *Riba*. Spiritual, social and economic grounds are clearly the reasons for the prohibition on *Riba* in Islamic Sharia. In addition, interest is not only prohibited in the religion of Islam, however, it goes back to the old Christian and Jewish beliefs. The prohibition of *Gharar* and *Maisir* were examined. Also this chapter highlighted the differences between gambling and insurance contract in English Law. Finally, this chapter provided a discussion on the criticism of Islamic finance. This chapter’s critical insight on Islamic finance paves the way for Chapter Three deeper presentation and discussions of Takaful concepts and operational issues.

# CHAPTER THREE: CONCEPTUAL AND OPERATIONAL DIFFERENCES BETWEEN TAKAFUL AND CONVENTIONAL GENERAL INSURANCE

## 3.0 Introduction: What is Insurance and Takaful?

Muller (1981) states that, in textbooks and other writings on insurance, much effort has been spent to develop elaborate and comprehensive definitions of insurance. For example, Pfeffer and Klock ([1974]: 3) offer a definition of the term: ‘Insurance is a device for the reduction of uncertainty of one party, called the insured, through the transfer of particular risks to another party, called the insurer, who offers a restoration, at least in part, of economic losses suffered by the insured.’ This characterization of insurance stresses a major aspect which can be found implicitly or explicitly in most other definitions, namely the reduction of risk through some transfer mechanism. In fact, Trowbridge (1975: 1) sees risk transfer to be ‘at the very heart of the typical insurance arrangement’. This shows the key feature of risk transfer.

Takaful on the other hand is the practice whereby individuals in the community jointly guarantee themselves against loss or damage. As mentioned in the Qur’an:

*And help one another in righteousness and piety and do not help one another in evil deeds and enmity (5: 2).*

Takaful word originates from the Arabic *kafala*, which means to guarantee. Therefore Takaful literally means mutual guarantee. In this context, Saudi Arabia’s Takaful Act 1984 (2008) defines Takaful 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’. Additionally, it also states ‘Takaful business means business of Takaful whose aims and operations do not involve any element which is not approved by the Sharia’.

The main characteristic of Takaful is *Al-Musharakah*, which means sharing. Islamic insurance embraces the concept of mutual protection and shared responsibility, which was seen in the practise of paying blood money ‘*diyah*’ under the Arab tribal custom.



This was accepted into Islamic practice on the verdict of the Prophet. It therefore shows the sincerity and willingness of the group to help and assist anyone among them in times of need. Takaful shows many similarities to co-operative or mutual insurance (Ahmad, 2009). In Takaful there are no policyholders; there are contributors who participate jointly in a fund for their mutual benefit. They are owners of the fund and the Takaful company manages the fund on their behalf. Thus, if the company makes a profit this is shared between the contributors, and if any of the contributors were to suffer financial loss they are paid from the Takaful fund (Ahmad, 2009).

The *Tabarru'* or donation system is the main heart of the Takaful system making it free from ambiguity and gambling (European Council for Fatwa and Research, 2009). Islamic insurance was established in the early second century of the Islamic era when Muslim Arabs expanding trade into Asia communally agreed to contribute to a fund to cover anyone in the group that incurred accidents or robberies along the various sea voyages (marine insurance). Theoretically, Takaful is perceived as cooperative insurance, where members contribute a certain amount of money to a common pool to uphold the principle of "bear ye one another's burden" and not for the purpose of profit. Muslim jurists conclude that insurance in Islam should be based on principles of mutuality and cooperation that encompass the elements of shared responsibility, joint security, common interest and shared aims (European Council for Fatwa and Research, 2009). In other words, each participant must show sincere intention to donate to other participants faced with difficulties. Practically this can be described through contributing sufficient amounts into a fund that is used to support one another and to cover expected claims.

There are several principles of Takaful insurance: 1) Policyholders cooperate among themselves for their good. 2) Every policyholder pays his contribution to help those that need assistance. 3) Losses are divided and liabilities distributed according to the community pooling system. 4) Uncertainty is eliminated in respect of contribution and compensation. 5) No-one profits unfairly at the cost of others (European Council for Fatwa and Research, 2009).

In this thesis, I use the term conventional insurance as is defined by contrast to Islamic insurance. It is interesting to note that only people who write about Islamic insurance use this term. Basically, the term conventional insurance refers to non-Islamic insurance. The European Council for Fatwa and Research, 2009 states that conventional insurance in

Islam is unlawful due to the existence of contradictory elements to Sharia law. ‘Conventional’ on the other hand, is a term which the Islamic finance specialists use for non-Islamic financial services such as banking and insurance (Maurer, 2002: 651), highly supported. As a result, conventional insurance is the alternative of non-Islamic insurance and this expression will be used throughout this dissertation.

The objective of this chapter is to examine the conceptual and operational differences between Takaful and conventional general insurance. The chapter starts with introducing insurance and Takaful. Section 3.1 clarifies the concept of insurance and investigates whether it is acceptable in Islam. Section 3.2 summarise of the historic development of conventional insurance. Section 3.3 provides an overview of the history of Takaful. Section 3.4 examines the mechanism of conventional insurance. This is followed by section 3.5, which examines the characteristics and features of Takaful. Section 3.6 observes relevant contracts for Takaful. Section 3.7 briefly discusses reinsurance and reTakaful. Section 3.8 Touches on the differences between insurance and hedging. Finally, a summary is provided in section 3.9.

### **3.1 The Concept of Insurance: is it acceptable in Islam?**

Insurance has attracted many Muslim writers particularly in discussing the fact whether it is permissible or not in Islam. This issue have been dealt with through *Fiqh*, conferences and academies, and the result of the majority of *Fuqaha* (Muslim jurists) consensus is that conventional insurance is not compliant with Islamic laws or Sharia. Minority of *Fuqaha* who are not against conventional insurance, thought that there can be no possible Islamic alternative to insurance besides its benefits to all modern societies (Ahmed, 2009). Ahmed (2009: 29) states ‘Lots of confusion that had arisen among a minority of *Fuqaha* who showed no objection to conventional insurance and still raised from time to time, is due to mixing up between the practise of insurance, i.e. the insurance business, and the concept of insurance in itself’.

Breaking down the concept of insurance helps finding and understanding is insurance acceptable or unacceptable in Islam. Initially insurance involves willingness to save from harm or to secure one’s own interests against likely or probable accidents, misfortune, loss or peril of wealth that may occur unexpectedly in future (Ahmed, 2009: 30). This willingness is usually shared naturally with other people in the same family, tribe,

community or society under a social system. Cooperation becomes invented among people if they are willing to secure their interests and wealth against possible losses. Ibn Khaldun (1981) explains and asserts centuries ago ‘cooperation is behind the benefits of division of labour’. Ahmed (2009: 30) states ‘Humans are social creatures by nature. Everyone in a group would be naturally willing and ready to co-operate with other parties in order to gain what is impossible to have if he stands alone by himself or herself’. When realizing the fact that no one alone can be able to arrange for suitable actions to protect his/her own wealth against accidents all the time, the need for becoming a part of a group arises. Two concepts mentioned in this argument; the willingness to secure one’s own wealth and social cooperation. Having said that, both meanings cannot be based on irrational fear of the unknown. Hence, the basis of the insurance concept rests on rational individual behaviour and social cooperation (Bisani, 2011, and Ahmed, 2009). Ahmed (2009: 30) summarises the concept of insurance as ‘means cooperation among a group of people to reciprocally guarantee each other. It means giving surety to each other or holding responsibility to help each other in case of unexpected or untimely accidents or events that cannot be met financially by any one individual separately’.

As follows evidence which support the concept of insurance in Islam. First, the word *Roshd*<sup>26</sup> and its importance appear several times in the Qur’an for example:

*There is no compulsion in religion. Verily, **the Right Path** has become distinct from the wrong path. Whoever disbelieves in Taghut and believes in Allah, then he has grasped the most trustworthy handhold that will never break. And Allah is All-Hearer, All-Knower. (2: 256).*

*And try orphans (as regards their intelligence) until they reach the age of marriage; if then you find **sound judgment** in them, release their property to them, but consume it not wastefully, and hastily fearing that they should grow up, and whoever amongst guardians is rich, he should take no wages, but if he is poor, let him have for himself what is just and reasonable (according to his work). And when you release their property to them, take witness in their presence; and Allah is All Sufficient in taking account. (4: 6).*

*And his people came rushing towards him, and they had been long in the habit of practicing abominations. He said: “O my people! Here are my daughters: they are*

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<sup>26</sup> An Arabic word means rationality.

*purser for you (if ye marry)! Now fear Allah, and cover me not with shame about my guests! Is there not among you a single **right-minded man**?’” (11: 78).*

*Roshd* as can be seen in the previous Qur’anic versus was translated as the right path, sound judgment, and right-minded. Ahmed states ‘*Roshd* as an Islamic economic norm can be defined as sound judgment, which is guided by consciousness to the right path’ (Ahmed, 30: 2009). According to Islamic rules, *Roshd* should guide Muslims to secure their interests and families against probable accidents or peril in future. This argument supports one of the insurance cornerstones which is rational behaviour.

Second, cooperation is highly recommended in Islam and that for its various benefits. For instance, any person who cannot stand up individually against a possible accident knows that it would be easier to take if supported by many people. This help and cooperation would be appreciated by the sufferer and would help in learning and appreciating more the value of helping any individual against a serious accident e.g. fire, robbery, sudden death or financial loss. The Qur’an made very clear the ethics of cooperation among people within the spirit of brotherhood and awareness of the common good and wellbeing.

*O you who have believed, do not violate the rites of Allah or [the sanctity of] the sacred month or [neglect the marking of] the sacrificial animals and garlanding [them] or [violate the safety of] those coming to the Sacred House seeking bounty from their Lord and [His] approval. But when you come out of ihram, then [you may] hunt. And do not let the hatred of a people for having obstructed you from al-Masjid al-haram lead you to transgress. **And cooperate in righteousness and piety, but do not cooperate in sin and aggression.** And fear Allah; indeed, Allah is severe in penalty. (5: 2)*

Third, the general meaning of *Takaful*; surety or solidarity, results from the concept of cooperation among a group of people (Ahmed, 32: 2009). This meaning of *Takaful* in Islam is well established as a principle in *Zakat*<sup>27</sup>. This can be seen when Muslim people cooperate voluntarily for the support of the needy when effected by some exceptional circumstances, care for protecting themselves and securing their financial interests. This

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<sup>27</sup> One of the five pillars of Islam which is an obligatory charity imposed on every wealthy Muslim. This is an assessment of 2.5% of a person’s wealth, to be used to support the poor and needy in the *Ummah*.

is considered as real Takaful (Ahmed, 33: 2009). *Sunnah* emphasised this sense of social solidarity that goes beyond cooperation as stated in the following Hadiths:

*According to Prophet Muhammad Pbuh: 'The true believers in their mutual feeling of affection and mercy prevailing among them resembles just like one body, whenever any part of this body is afflicted with pain, all other parts will share and feel this pain'* (Narrated by Imam Al-Bukari and Imam Muslim).

*A believer is like a brick for another believer, the one supporting the other* (Narrated by Imam Al-Bukari and Imam Muslim).

*The example of one believer to another believer is just like a building whereby every part in it strengthens the other parts* (Narrated by Imam Al-Bukari and Imam Muslim).

*Allah SW will always help his servant for as long as he helps others* (Narrated by Imam Ahmad and Imam Abu Dawood).

Ahmed states 'for more than fourteenth centuries more than one form of Takaful was practised by Muslims' (Ahmed, 33: 2009). One form is *Diya* or blood money or wergild; a form of compensation<sup>28</sup> paid by a person who has committed mistakenly the crime of killing or wounded another, including injuries in traffic accidents to the injured person or to his family in case of killing. This arrangement shows a great deal of Takaful and social indemnification in Islam. Please refer to section 3.3 for further details.

*Tawakul* or relying on Allah and accepting destiny are considered as an obstacle to many Muslim people to accept the principle of an Islamic insurance. Despite the fact that a believing Muslim is required to accept destiny or pre-ordainment which can incorporate misfortune, she/he is not a passive victim of circumstances (Fisher, 2000). On the other hand, the believer is encouraged by the order of the Qur'an to take precautions at all times in order to minimise potential misfortune, losses, injury or peril from unfortunate situations or events<sup>29</sup>. This can be seen in a Hadith to the owner of the camel to first tie your camel then rely upon the destiny ordained by Allah. (Al-Tirmidhi: 668).

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<sup>28</sup> The compensation is equivalent of hundred camels.

<sup>29</sup> Some related examples are mentioned later on in this Chapter.

The discussed argument shows that the concept of insurance can be fully supported by Islamic evidence from the Qur'an, *Sunnah* and Islamic history. Furthermore, Bank AlJazira declares 'the majority viewpoint by contemporary Islamic scholars is that Takaful is fully consistent with Sharia principles. This perspective is upheld by numerous meetings and resolutions' as shown below (Bank AlJazira, 2003):

- Council of Saudi Ulama (1397 Ah/1977 CE) resolution.
- Fiqh Council of Muslim World League (1398/1978) resolution.
- Fiqh council of Organization of Islamic Conference (1405/1985).
- Islamic Fiqh Week Conference, Damascus 1961.
- Second Conference of Muslim Scholars, Cairo 1965.
- Symposium on Islamic Jurisprudence, Libya 1972.
- First International Conference on Islamic Economics, Makkah, February 1976.
- The Islamic Conference, Makkah, October 1976.

According to the International Cooperative and Mutual Insurance Federation (ICMIF) (2012) the elements that exist in conventional insurance contract are:

- Uncertainty due to: whether the payment will be accepted as promised, the amount to be paid is not known as well as the time it will occur. In addition, when a claim is not made, the insurance company may acquire all the profits whilst the participant may not gain any profit at all. The loss of premiums on cancellation for instance of a life insurance policy by the policyholder, or the condition of charging a customary short period in general insurance, whereas only a proportional refund is made if the insurance company terminates the cover<sup>30</sup>.
- Gambling: The participant contributes a small amount of premium expecting to gain a large sum, the participant loses the money paid for the premium when the insured incident does not occur and the company will be in debit if claims are higher than contributions.

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<sup>30</sup> Likewise, McSweeney refers to the existence of uncertainty as one of the fundamental problems leading to the failure of financial markets (2009a: 4).

- Usury (Interest): As the insured, on his death, is entitled to get much more than he has paid. Furthermore, insurance funds invested in financial instruments such as bonds and stocks contain an element of interest.

### **3.2 Historical Development of Conventional Insurance**

Before exploring the historic development of conventional insurance it is felt essential to gain a brief insight on the history of financial industry. The financial industry has historically at all times played an important role in the economy of every society, banks for instance, manage funds from investors and apply them to investments in trade and business. The history of banking is long and diverse, with the financial system it directly descended from Florentine bankers of the 14th-17th century (Schoon, 2009: 3). As Schoon (2009: 3) states ‘the word bank is derived from the Italian word Banco (desk or bench), which refers to the desks covered with a green table cloth used by the Florentines to conduct their transactions’. Additionally, historically safekeeping of valuables was another way of banking which was qualified to religious temples for protection purposes. Valuables would consist of grain, cattle, agricultural implements and gold plates and bars. The code of Hammurabi shows an existence of early money lending around 1760 BCE. It includes laws governing banking operations and modern concepts of corporate responsibility in ancient Mesopotamia. The code was considered by many scholars to be the oldest and best conserved laws established (Schoon, 2009: 3). After that period the Roman Empire showed tremendous money transactions in the form of lending. This financial service was only done in the middle of enclosed courtyards and simply converted any currency into the currency of Rome; the only legal tender in the city. In contrast, ancient Greek bankers did not merely convert currency but also invested, which was no longer restricted to temples (Kindleberger, 2006: 34).

Recognition of banking extended in the Mediterranean world from the 4th century BCE. In the late 11th century CE the Crusades along with the expansion of European trade and commerce gave rise to an increase in the demand for financial services. Crusades were expensive and the contributors often had to lend money by mortgaging land and buildings (Schoon, 2009: 6). Mortgaging was more advantageous to the lender than to the borrower, as a result the demand for mortgages declined over time. Schoon (2009: 6) states ‘Financial contracts of this time were largely governed by Christian beliefs which prohibited interest on the basis that would be a sin to pay back more or less than what

was borrowed'. Likewise, the prohibition of interest or usury was applied by the Jewish/Old Testament (Maurer and Larson, 2006: 10, Presley and Session, 1994: 584). The development from an interest-free to an interest based banking system did not happen suddenly, but was based on a number of factors such as the change from agricultural to commercial economies, decentralization of the church and the recognition of money (Maurer and Larson, 2006: 6). Charging interest became legalised in the European countries starting with Valencia in 1217 and Florence in 1403 (p.6).

In 1565, The Royal Exchange was launched in London as a centre of commerce and some of the banking business moved there as well. In the early part of the 17th century, Amsterdam started to grow into a key trade centre and became the financial hub of the world until the Industrial Revolution in the late 18th/early 19th century which encountered the economic bubble, Tulip Mania (Frankel, 2000). As a result of the Industrial Revolution, America and the UK were firmly recognised in the international finance map and the banks of these countries progressively obtained importance over the time. London and New York became the major financial centres, followed by Hong Kong, Tokyo and Singapore. Lebanon was the financial centre of the Middle East until it was ruined by the war in 1982 and the banks then moved to Bahrain and later Dubai. The internationalization in commerce, trade and manufacturing has increased in banks, which has led to offering various financial services, establishing new branches and acquisitions. Today the current event of the economic crisis is largely considered to be an American problem which originated in Anglo-American countries. However it has infected other economies which meant that it became a global crisis (McSweeney, 2009b). This housing bubble led to huge mortgage defaults, also it had exposed enormous levels of other 'toxic' assets as described by McSweeney such as huge overvalued complex composites of insecure mortgages, credit card and store loans, and other existing credit (2009b: 1). To every action is a reaction and the reaction to the problem above takes the form of enormous losses by financial institutions in many countries, not just in the US but in a number of European countries.

Insurance origin and history goes back to the Babylonian era. Insurance contracts, providing protection against loss from certain risk, first saw the light in a development of trading by agents through the Euphrates valley: this contract was known since as Commenda of Islam (Trenerry, 2009: 5). This ancient insurance was largely limited to marine insurance. The Chinese and Egyptians are the first nations who introduced



insurance. The Babylonian traders introduced contract writing to the Hindus and the Indians became the next insurance contract writers (2009: 47). The emergence of property (fire/theft) insurance and life insurance was in 600 BCE (Franklin, 2001: 259). Moreover, much of the history is really about short-term insurance of trading ventures. Platteau (1997) refers to the form of conventional insurance as the mechanism through which agents seek at covering themselves aligned with the harmful consequences of a risky event through risk pooling arrangements. In the 4<sup>th</sup> century BCE Greeks were well known of writing a contract through the introduction of the Babylonian. An example of mutuality existed in ancient Greece and Rome is the Roman burial club. This club is a form of friendly society that constituted for the purpose of providing by voluntary subscriptions, for insuring money to be paid on the death of a member, or for the funeral expenses of the husband, wife or child of a member, or of the widow of a deceased member (Carroll, 2011: 45–46). Each member paid an entrance fee and a monthly subscription, and a funeral grant was made to his beneficiary upon death in order to bury him in the burying-place of a certain institution such as a college, or if they were too poor to construct one of their own, to secure burial in a public storage that built underground which is called ‘columbarium’. This type of burial club is an example of non-profit societies (Wilken, 2003: 31–47).

Romans understood and practised methods for providing marine and other risks in the 600AD. Moreover, they have dealt as well with property and life insurance. The Chamber of Insurance was established at Bruges in the 13th century CE (Trenerry, 2009: 262). As Trenerry (2009: 33) mentions ‘insurance has been derived mainly from a development of: (A) the gild of Mempisc, Flanders etc., which were the outcomes of the family group system of the Flemings and Germans, and (B) of certain forms of capitalist insurance practise by the Flemings as early as the 13<sup>th</sup> century. Since that period the knowledge of insurance has spread to Western Europe and to the rest of the world gradually. In the 17<sup>th</sup> century the demand for insurance had expanded rapidly and this was due to the great fire of London (Bernstein, 1996: 90). In his book (1996: 90), he states that ‘The gambling spirit of the prosperous era fostered rapid innovation in the London insurance industry. Underwriters were willing to write insurance policies against almost any kind of risk, including, according to one history, house-breaking, highway robbery, death by gin-drinking, the death of horses, and ‘assurance of female chastity’-of which all but the last are still insurable’. In the 18<sup>th</sup> century insurance achieved its full development but as Bernstein states that ‘the business of insurance dates back beyond the

eighteenth century BC' (1996: 92). The first fire insurance company was established in England in 1681 by Nicholas Barbon, and eleven associates which insured initially, 5,000 homes. The company name was 'Insurance Office for Houses'. The first insurance company in the United State that was owned by stockholders was the Insurance Company of North America in Philadelphia which issued the first life-insurance policies in America along with fire and marine policies (Bernstein, 1996: 92). Conventional institutions are spread worldwide in Islamic and non-Islamic countries. Insurance varies across its various types which include: automobile insurance, home insurance, health insurance, disability insurance, casualty insurance, life insurance, property insurance, liability insurance, credit insurance, and many other types. A common basic advantageous feature in all types of insurance for customers seems to be mitigating the risks associated with the negative financial impacts of a loss or danger.

An early use of insurance in the Islamic world was mainly reflected in the various schemes of mutual help and assistance whenever a calamity or misfortune struck a person. For instance, it was an arrangement of compensating for the criminal actions of a member of group or tribe by all the other members, or by an individual rich member who volunteered to do so, 'Insurance' was therefore, not a business for profit-making but a means to help the needy on a voluntary gratuitous basis. *Aqila* and *Diya* represent the existence of the meaning of mutual insurance (Joseph, 1983: 186). These terms are explained in section 3.3. Another type that represents insurance in the Islamic world is *Daman Khatr Al-Tariq* which is surety for hazards on highway (Al-Zarqa, 1962). This type of insurance represents when person 'A' takes the suggestion and recommendation of person 'B' to take a particular route and that the route is safe. Then person 'B' stands surety to person 'A' for any loss incurred by person 'A' as a consequence of following to recommended route (Al-Zarqa, 1962).

### 3.3 The History of Takaful

By digging deep into Islamic history, it is found that previous writers have suggested that a form of Takaful was sustained nearly a thousand years<sup>31</sup> through the practise of wergild which has some similar characteristics of insurance. These similarities can be seen in the element of compensation (and possible sharing of liability for compensation). This practise worked as a provision against danger, and it was used for plundered property as

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<sup>31</sup> The relics of these practises still exist in Saudi Arabia today. Especially for motorists who cause injury or death are obliged to pay a wergild or compensation to the victim's family.

well as compensation for the loss of life to avoid feud and unchecked destruction as discussed earlier in this chapter. *Diya* and some other related customs were authorised by the Prophet Muhammad during the emergence of Islam (623-670 CE). He said ‘the virtues of the *Jahiliyya* (the pre-Islamic period) are acted upon in Islam’. As a result these customs became part of the *Sunnah* as shown below:

*Two ladies had a fight and one of them hit the other with a stone on the abdomen and caused her to abort. The Prophet judged that the victim be given either a slave or a female slave (as blood-money). Narrated Ibn Shihab: Said bin Al-Musayyab said, “Allah’s apostle judged that in case of child killed in the womb of its mother, the offender should give the mother a slave or a female slave in recompense. The offender said, “How can I be fined for killing one who neither ate nor drank, neither spoke nor cried: a case like that should be denied.” On that Allah’s Apostle said “He is one of the brothers of the foretellers.” (Abu Hurairah: 654-655).*

The ruling in this case was that the Prophet decided that the second woman’s family connections would pay a penalty to the woman who had an abortion (*Aqila*), in accordance with established custom. It is worth mentioning that the Prophet Muhammad further clarified this point in the first Constitution written in Madinah (622 C.E.) which contained three aspects directly relating to insurance. First: Provision for social insurance affecting the Jews, Ansar (Madinah local believers) and the Christians. Second: Article 3 which included ‘the immigrants among the *Quraish* shall be responsible for their word and shall pay their blood money in mutual collaboration’. Last: Provision for *Fidya*; ransom, whereby payment is made to rescue the life of a prisoner and through the *Aqila* system the relatives could cooperate to free him. The process of dividing the amount of *Diya* among the extended family or tribe members and paying it to the nearest relative/s of the deceased person is called *Qasama*.

Lessons of how Muslims should manage the risks were not neglected through the history of the Prophet. Many examples could relate to this subject. However, I will suffice with mentioning the following. The first set of examples show how the Prophet Muhammad tackles and reduces the risk of rejection of Islam in his early phase of spreading Islam. He initiated his sacred mission right from home and then moved to the people closely associated with him. He called into Islam those who he thought would attest Allah’s message. Also he used to meet and teach the new converts the religion in privacy at the

time when the call to Islam was still running on an individual basis. The following example gives us other lessons on how the Prophet managed the risk. The night of the Prophet's migration to Madinah, he asked Ali to sleep in his bed to reduce the risk of getting killed by *Quraish*. It was reported that as night advanced, *Quraish* ordered assassins to surround the Prophet's house. Hence, they kept vigil all night long waiting to kill him and peeping now and then through a hole in the door to make sure that he was still lying in his bed.

The word Takaful does not appear in the Qur'an as the case in *Sunnah*, however it is derived from the term *Ta'awun* or mutual assistance which consists the same meaning. The following Qur'anic verse exhorts the individual to help others:

*And **help one another** in righteousness and piety and do not help one another in evil deeds and enmity. (5: 2).*

Given the Qur'anic stimulation to 'help one another' and the words of the Prophet Muhammad regarding mutual assistance, Fisher and Taylor (2000) state 'Takaful may be understood as an imperative upon Muslim believers as: a system based on solidarity, peace of mind and mutual protection which provides mutual financial and other forms of aid to members (of the group) in case of specific need, whereby members mutually agree to contribute monies to support this common goal'.

It is noteworthy that mutual assistance amongst members of a tribe was not originally a commercial transaction and contained no profit or gain at the expense of others. However, mutual assistance developed as a social institution to lessen the burden of an individual by dividing it among his fellow members or tribe (Fisher and Taylor, 2000). This practise represents a feature of Takaful (Islamic insurance) which is the involvement of compensation for actual losses upon occurrence by dividing them among the group.

Similarly, in Islamic financial planning Abouzaid (2007) states 'Takaful is a way to reduce the financial risk of loss due to accident and misfortunes. Takaful literally means mutually guarantee and solidarity. Thus, it is a financial transaction of a mutual co-operation between two parties to protect one of them from unexpected future material risk.

According to the modern history of Takaful, it is believed that modern 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. The first reTakaful operator was launched in 1985. The Expansion phase of Takaful was seen in Malaysia and Far East countries in 1984 to date. Today Takaful has operators and products offered in 85 countries around the world and Takaful industry is growing by 15% annually in Malaysia (Ahmad, 2009). This recent developments followed the increase in oil prices and the Islamic finance boom (Abouzaid, 2007). However Takaful has been covered less in the literature on Islamic finance (Ahmed, 2009, Wahab, Lewis and Hassan, 2007: 371).

### 3.4 The Mechanism of Conventional Insurance

Conventional insurance is basically a contract of exchange in the form of a sale and purchase agreement, between the insurers or company who sells and the insured or policyholder. Conventional insurance supposes the separation of ownership from management in the company form (Berle and Means, 1932, and Maurer, 1999). The source of law and regulations in conventional insurance are set by the state and are thus man-made. The insurance company accepts premiums from the insured; in exchange for indemnity against risks that may not occur, at a level which it predicts will cover claims and result in a definite profit. What important to know, is the company engages in non-restricted investments and in any industries that derive their income from interest (Ernst and Young, 2009). Additionally, the contract creates an explicit linkage between the input and return of capital and the manager is left free to choose the individually most favourable level of effort in each condition, dependent on the specified level of investment.

Conventional insurance companies aim to maximise profits for its shareholders. There are five ways that a conventional risk-sharing/insurance operation makes money and profits which cover the full range of insurance. (1) **Bearing risk** - acceptance of risk exposures on behalf of or alongside policyholders and keeping the result from premium revenues less underwriting losses less operating expenses. This is central to insurance; (2) **Managing a spread** - surplus/profit comes from the difference between the cost of funds and the uses to which they can be put. This applies more to investment/savings products, but is still relevant in terms of investing premiums until cash is needed to settle claims; (3) **Processing information** - processing transactions, administering financial

products and programs for a fee. Insurers can make gains from superior knowledge, for example of risk probabilities and distributions. (4) **Aggregating money** - funds under management long term without acceptance of investment risk, where the level of funds magnifies the management fees and/or the performance fees as a share of positive returns. This is more relevant to investment/savings products, but there can still be benefits for other forms of insurance; and (5) **Distribution** - selling financial services at a mark-up or brokerage fee. However, this is not core to insurance in general but may be a by-product of insurance activities.

Some consideration of agency issues is that the separation of ownership from management funds debars the shareholders from access to the same and latest information about the operations of the corporation as the managers (Maurer, 2002: 653-656). A form of uncertainty and ambiguity regarding this separation may arise due to many factors. One factor is the existence of some managers who take advantage of this condition and act in their own interests rather than those of the shareholders (Freeman, et al. 2004: 366). Other factors are the role of stock options and performance linked to stock market performance.

On the other hand, insurance has sometimes been used as a vehicle for long-term savings which may at various times have been tax-efficient. Morduch (1999), who was looking into evidence about helping households cope with large natural disasters, suggested that governments need to encourage flexible private interventions. Morduch (1999: 202) states ‘Concern has arisen about whether public action will crowd out private informal insurance mechanisms. To the contrary, well designed public action can strengthen and broaden the capacity of households to act independen[tly] through informal mechanisms’. He basically thinks that basic insurance programs are all promising ways to help households help themselves in the face of adversity. However, the negative sides are that informal insurance is often very limited, and the crowding out of some private actions can have valuable social benefits (Morduch, 1999: 202).

Antolin *et al.* (2004: 31) state that ‘In some cases, it is only recently that tax-favoured pension plans have either been introduced or made more broadly accessible, explaining in part the small proportion of accumulated asset’. They continue to argue ‘[this is] the case of most Central [and Western] European countries which have made the development of fully-funded private pensions a key element of the reforms of their social

security systems during the second half of the 1990s'. In Germany for instance, life insurance was largely the only means for individuals to fund long-term saving on a private and voluntary basis. The tax relief for both occupational and individual pension schemes were introduced in the pension reform of 2001. In France and Austria, life insurance represents a more flexible form of long-term saving, has also been the favourite long-term private saving vehicle (Antolin et al., 2004: 31).

There are two major divisions of the insurance industry: 1) General (Property Casualty) insurance e.g. physical damage, liability, health, disability, motor etc. and 2) Life Insurance e.g. annuities, health, disability etc. General insurance is a relatively short in duration in other words; premium payment and coverage last for period 1 to 2 years. However, claims may occur many years after insurance period ends, asset investments tend to be short term in nature and the investments tend to be more in equities than bonds, emphasis on corporate securities. On the other hand, life insurance is relatively long premium paying of periods 30 years or longer (group coverage for individuals can be 5 or 10 years in length). Claims generally occur after many years while the insurance contract is in force. The asset investment allocation tends to be long term with emphasis on government bonds, high grade corporate bonds, and securitised mortgage obligation. Thompson (2008) explains risk management process as 'It is a total quality management process, designed to identify, handle, review and upgrade the treatment of risks faced by an organization or individual. The steps to the risk management process are quite similar to the Deming process<sup>32</sup> to incorporate all levels of an organization in the process of reducing the consequences of risk'. Thompson (2008) proposes the following steps to the risk management plan: 1. Define what constitutes a significant risk to the organization. 2. Identify all relevant risks to the organization. 3. Determine what methods might be effectively employed to deal with each particular risk. 4. Implement the risk technique that effectively addresses each identified risk [i.e., implement risk technique determined in 3) to the risks found in 2). 5. Evaluate the risk management process, collect information on the treated risks, identify areas for improvement and then update the risk management plan beginning with step 1. It is interesting to note that Takaful operators basically face the same operational issues.

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<sup>32</sup> W. Edwards Deming in the 1950's proposed that business processes should be analysed and measured to identify sources of variations that cause products to deviate from customer requirements.

### 3.5 The Characteristics and Features of Takaful

Ayub (2007: 421) states that ‘The Takaful system [is considered] as an alternative to conventional insurance. [It] embodies the elements of shared responsibility, common benefit and mutual solidarity’. The Malaysian Takaful Act 1984 states ‘Takaful business means a business of Takaful whose aims and operations do not involve by any element which is not approved by the Sharia’. The characteristics and features of Takaful were discussed and described by many Muslim and non-Muslim scholars. Ahmed divided the main features of Takaful into three elements: first, cooperative risk-sharing, by using charitable donations to eliminate *Gharar* and *Riba*; second, clear financial segregation between the interests of the Participants (insured/insurer) and the Operator (insurance company); and third, Sharia-compliant underwriting policies and investment strategies (Ahmed, 2009: 67). Khorshid (2004: 421) enlarges on the second element, stating that ‘A Takaful company serves as a trustee or a manager on the basis of *Wakala* or *Mudaraba* to operate the business’. Most scholars have the same opinion on the features of Takaful, although some of the scholars use different wordings when describing the features.

Some writers (Ahmad, 2009: 68 and Farooq, et al. 2010: 55-58) argue that cooperative risk-sharing is the core of Takaful but they suggest that this cannot alone create an Islamic insurance operation. Takaful is based on more than one contractual relationship: the first relationship is a mutual insurance contract between policyholders (contributors). The second relationship is between policyholders and shareholders (the company). Policyholders pay premiums to a cooperative fund with the intention of it being a donation or *Tabarru*’ to those who will suffer losses. Rahman (2010: 5) states:

*‘The concept of Tabarru’ is unique in Islamic Insurance System. “Tabarru” means to donate, to contribute. The participants of the Takaful contract agree to relinquish as Donations, made in accordance with the concept of “Tabarru”, certain portions of their Takaful installments or Takaful contributions in order to fulfill the obligations of mutual help and joint guarantee as embodied in the concept of Takaful. Therefore, the purpose of “Tabarru” as stipulated in the contract is to enable the participants to perform their deeds in sincerely assisting fellow participants who might suffer a loss or damage due to occurrence of insured perils’.*



Accordingly, the clause of Tabarru' is incorporated in the contract (Farooq, et al, 2010: 58). As mentioned the policyholders pay premiums to assist and indemnify each other and they share the profits earned from business conducted by the company with the subscribed funds. On the other hand, the Takaful company divides the contributions into two parts, i.e. one part as donations for meeting 'moral liability' or losses of the fellow policyholders and the other part for investment (Farooq, et al, 2010: 58). The contributed amount which is divided between the two accounts is based on a sound technical basis of 'moral tables' and other actuarial requirements (Farooq, et al, 2010: 58). Both accounts are used for investment and the returns on these investments are distributed on the Mudaraba principle (if this model is used) between the participants and the Takaful operator. Farooq et al. (2010: 58) state that 'A Takaful contract comprise clauses for either protection or savings/investments or both the benefits of protection as well as savings and investment'. This clause is mentioned in Chapter 7.

Under Islamic insurance the Takaful company manages the portfolio and invests the insurance contributions for and on behalf of the participants. The Takaful Company maintains the participants' accounts and the shareholders' accounts clearly separate. The shareholders' account is credited with the income earned from investing the share capital. The surplus accrued after meeting the share of the shareholders' current expense etc. is distributed amongst the shareholders according to their shareholding. The policyholders are entitled to receive any surplus resulting from the operation of the cooperative insurance fund, normally at the end of the policy term but in some cases before that (if required by a policyholder). Moreover, the policyholders are liable to make up any deficit that results from the operation of the cooperative insurance fund. The amount of contribution or premium differs from one participant to another because it is based on the degree of risk relating to the individual participant in general insurance and on actuarial principles in life insurance (Ahmed, 2009: 68). Four different models are in operation: 1) Mudaraba, 2) Wakala, 3) Hybrid model (Mudaraba-Wakala) and 4) Pure cooperative model.<sup>33</sup>

All the activities of an Islamic insurance entity must conform to Sharia principles and rules. In order to achieve this it is necessary to avoid areas that are considered Haram (prohibited) by Sharia in both underwriting and investment (Ahmad, 2009: 75).

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<sup>33</sup> These models were discussed earlier in this Chapter.

Examples of prohibited business areas are:

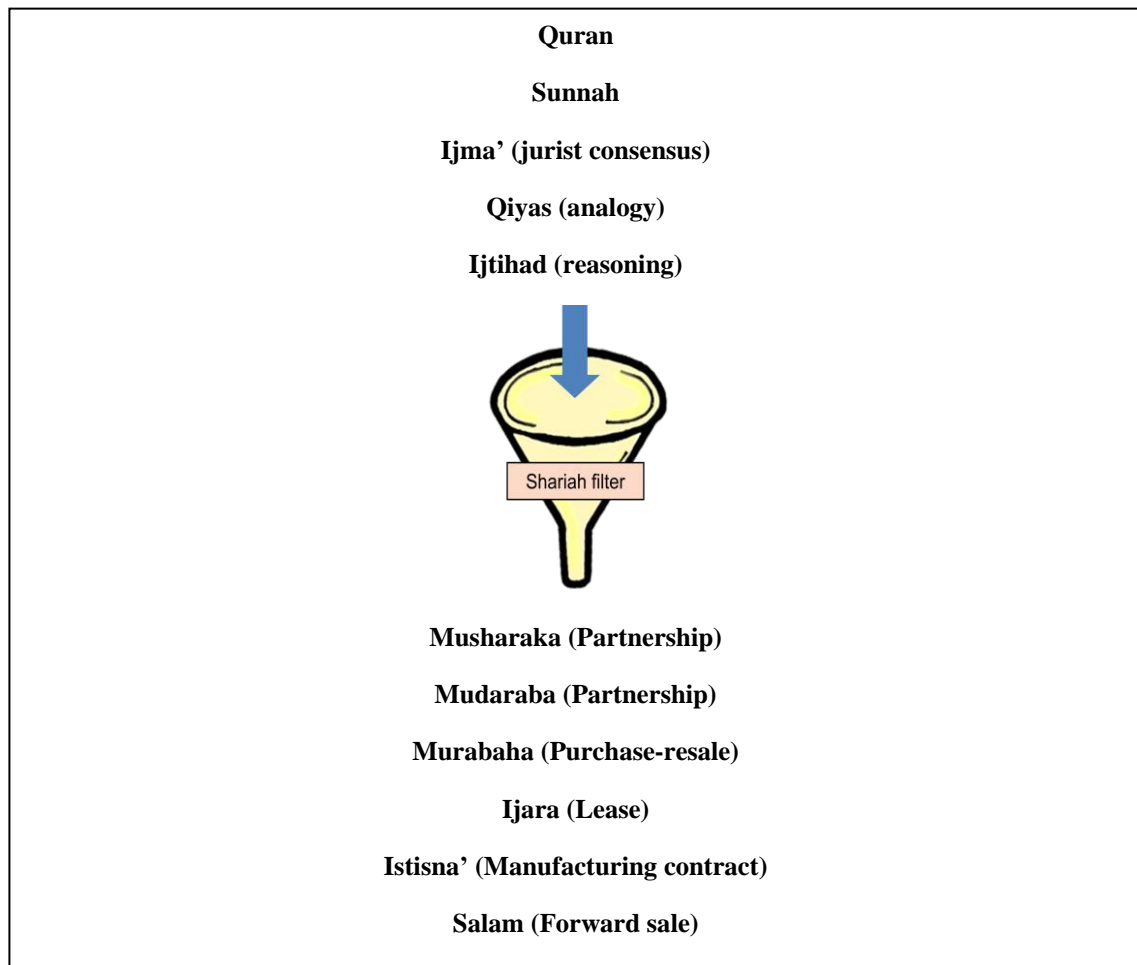
- Alcohol and drugs related trades and industries. Therefore, it is impossible to cover or insure alcohol manufacturers, shops, transportation processes, and hotels that sell alcoholic beverages.
- Prostitution. Islam strongly condemns prostitution and Takaful companies accordingly must not deal with such business even though prostitution is legally permitted in some countries.
- Dealing in prohibited goods such as exporting, manufacturing or trading in pork or pornography.
- Any transactions involving *Gharar*, *Riba*, *Maisar*, fraud are strictly prohibited (Ahmed, 2009: 76). Takaful must only invest its fund in interest free sectors according to Sharia principles.

Under Islamic law any transaction that has or involves the above-mentioned activities would make the insurance contract void. Clearly, the contract of insurance under Islamic law would not be valid unless it was free from such elements and activities. The jurists therefore resolved that the system of insurance which falls within the boundaries of Islamic framework, founded on the concept of Al-Takaful, must respect these prohibitions (Billah, 2001: 1). To ensure this, there must be a Sharia Supervisory Board (SSB) in an Islamic Insurance Company. Generally, the SSB is composed of Jurists who are qualified in Islamic transaction jurisprudence and have a suitable background and experience in insurance operations and concepts. Specifically, at least one member of the SSB should be an insurance expert. The SSB's role is to ensure that all dealings are strictly compliant with Sharia (Ahmad, 2009: 81).

### **3.6 Relevant Contracts for Takaful**

The various contracts that are used in Islamic finance are derived from the basic sources of Sharia: the Qur'an, the *Sunnah*, *Ijma'*, *Qiyas* and *Ijtihad* (see Chapter 2). Figure 3.1 shows the basic sources of Sharia producing products and instruments of Islamic finance.

**Figure 3.1 Islamic Finance Instruments through Shariah Filter**



### **3.6.1 Musharaka**

Musharaka is an Arabic word which generally means sharing (Islamic Banker, 2009). More specifically, Musharaka means partnership in the context of business and commerce (Ahmad, 2009). Ahmad (2009: 50) generally defines Musharaka as ‘Partnership of two persons, or more, to mix wealth, funds, labour or profession, in different or equal shares, and jointly carry trade, business, or any economic activity for purpose of achieving profit within boundaries of Islamic Shariah’. Dhumale and Sapcanin (1999: 4) claim that ‘There is no doubt that the Musharaka contract is one of the most popular financial tools for the idealist in Islamic finance industry’. The distinguishing features of Musharaka or an equity participation contract are the nature of the business activity and the duration of the growth period for the business. The contract can be summarised as follows: a) Two or more partners contribute to the capital and expertise of an investment and these contributions can be in equal or unequal proportions. b) Both parties are allowed to charge a fee or wage for any management or

other labour put into the project. c) Profits and losses are shared according to the amounts of capital invested. d) Period and terms of contract termination and type of Musharaka are specified and included in the contract (Ahmad, 2009, Khan, 2009, 2003, and Dhumale and Sapcanin, 1999).

Musharaka may be classified mainly as two types: 1) *Shirkat Al-Melk* or non-contractual Musharaka and *Shirkat Al-Uqud* or contractual Musharaka. Both types have variants (Sarker, 1999), which are not considered here. Sarkar (1999) notes that ‘Although all Shariah scholars were on the general consensus that the Musharaka as a principle is legitimate from the point of view of Shariah, they differ in their opinions with regard to the legitimacy of the different types of Musharaka’.

The *Islamic Banker* (2009), a magazine and website, states in favour of the Musharaka contract, in comparison with a more conventional loan-based form of business finance:

*‘Musharaka avoids two of the main “sicknesses” of the conventional economy, namely: interest rates and income inequality. Interest is a predetermined fixed rate on a loan, charged irrespective of profit earned or loss suffered by the borrower. Indeed, during the recent credit crisis, just when things got more difficult for borrowers, many banks increased their mortgage rates and repossessions of houses hit record levels. The Musharaka contract aims to avoid this by cementing the relationship of the lender and borrower, with return based on the profit earned. In terms of income inequality, it is interesting to note the payoff in a conventional borrower-lender relationship. In such a scenario assume an industrialist borrows \$10 million from the bank. If the industrialist makes a profit of 20% the return to the depositor is fixed (generally to single digit figures). We can note two points with a Musharaka. Firstly, the “lender” and “borrower” become partners and share the benefits at an equitable level. Secondly, the bank is obligated to pay a tax of 2.5% (known as Zakat), where proceeds go to help the poor in society’.*

### **3.6.2 Mudaraba**

*Daribun* is the Arabic root word for Mudaraba which means journey seeking trade or work (Gafoor, 1999). Gafoor (1999: 44) describes the Mudaraba contract as ‘A close

cousin of Musharaka contract, where one partner (*Rab-ul-mal*<sup>34</sup>) invests in a commercial enterprise managed by another partner (*Mudareb*<sup>35</sup>). This concept is based on the old Makkah practise of *Mudaraba* which had been adopted by Islam (Ahmed, 2002). Ahmed defines *Mudaraba* as ‘A partnership between two parties where one party provides capital (Capital owner or *Rab-ul-mal*) and the other undertakes necessary labour or management (*Mudareb*) seeking profit for the company by investing the capital’ (Ahmad, 2009: 52-53). Gafoor (1999: 77) states that ‘*Mudaraba* is essentially an agreement between a financier and an entrepreneur. A similar definition by Ahmed and Hassan states that ‘In the main form of *Mudaraba* there are two partners: the entrepreneur and the financier. The entrepreneur has the knowledge and necessary skills to undertake an enterprise and the financier has the funds. The entrepreneur has full control of the enterprise; the financier provides only the funds. The net profit of the enterprise is shared by the two parties equally or in a prearranged fashion. When there is a loss, however, the total loss is borne only by the financier’ (Hassan, 2010: 5, and Ahmed, 2002).

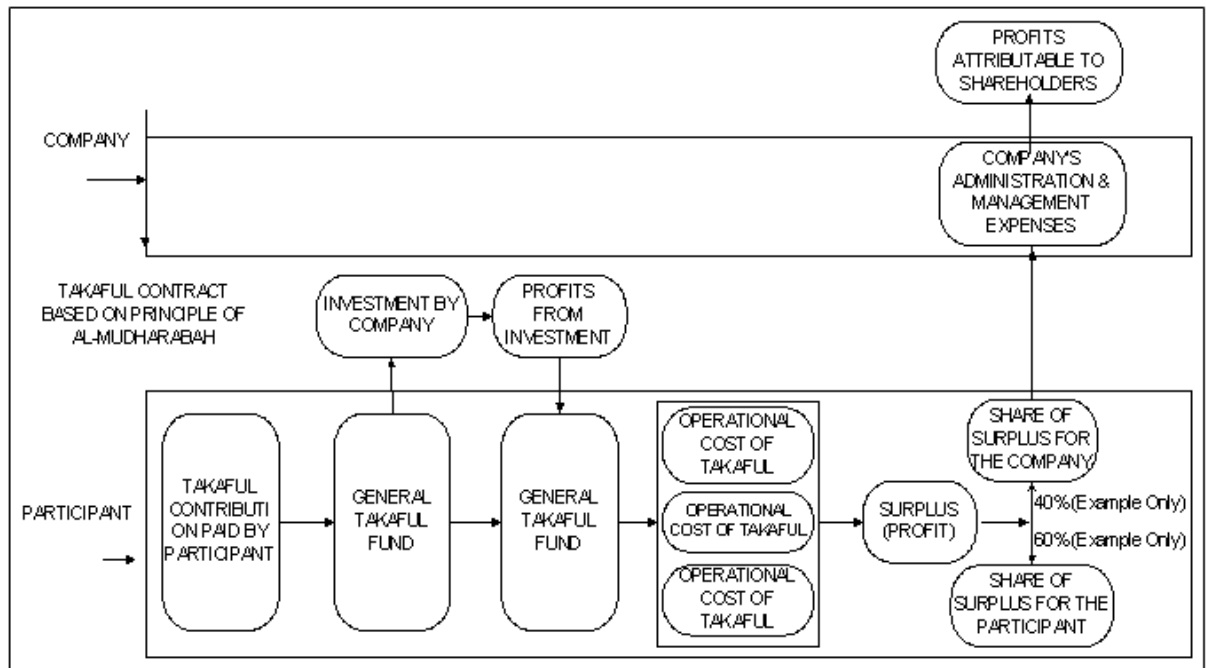
In theory *Mudaraba* contract to an Islamic insurance operator is a form of partnership technique in which the participant contributes a specific amount to the *Mudarib* who invests it on the condition that profits generated will be shared on the basis of pre-set proportions. The *Mudarib* acts according to the customary practise of any participant, and must comply with the terms of the contract e.g. investment options. The liability for loss falls totally upon the participant, unless it occurs due to a breach of trust by the *Mudarib*. Authorization of the participant must be obtained regarding the financial liabilities and contribution before the *Takaful* operator enters into any commitment (Vogel and Hayes, 1998, Butt, 2002, Maurer, 2002). In the literature there is a corresponding classification of the *Mudaraba* model for *Takaful* which is illustrated in Figure 3.2 below:

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<sup>34</sup> Capital owner.

<sup>35</sup> The person who undertakes necessary labour or management. This word is usually transliterated as ‘*Mudarib*’.

**Figure 3.2 Mudaraba Model of Takaful Operations**



Source: Yusof, Ismail and Naaim, 2011.

This model is defined as a principal-manager arrangement used between the policyholders (*Rab-ul-mal*) and the Takaful operator (Mudarib or entrepreneur) for both underwriting and investment activities (Ernst & Young, 2009). The Mudaraba model, which is used in Takaful operations, follows certain criteria (Lim, Idris and Carissa, 2010: 10-11, Ahmad, 2009: 72, and Yusof, 2001):

- (1) The insurance company is totally owned by the shareholders.
- (2) Insurance funds (premiums) are provided by the policyholders who are considered as *Rab-ul-mal*.
- (3) Shareholders manage the insurance funds and invest surplus and they pay all management expenses from the shareholders' funds or their share of the profit.
- (4) All claims and technical reserves are paid out of the Mudaraba fund.
- (5) In the case of any surplus being available after paying out all technical liabilities, it will be shared as per the agreement between shareholders and participants.
- (6) In the case of any deficit, the policyholders must bear the deficit, and policyholders are obliged to pay additional premiums. Shareholders will only be liable in the case of negligence in managing the portfolio.

- (7) Policyholders share in the profit to be added to their account.

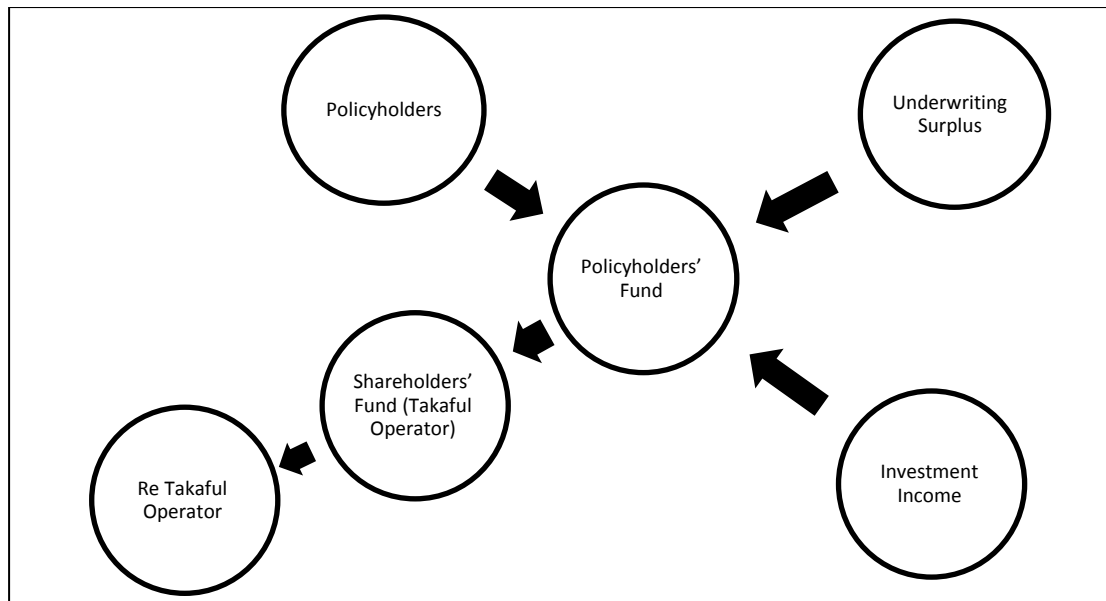
Presley and Sessions (1994: 587) describe Mudaraba, in the context of principal-manager relations, as ‘an efficient revelation device’. They argue that the structure of the Mudaraba contract provides a built-in mechanism for encouraging managerial effort and for policing the contract. Furthermore, it creates an explicit mapping between the premium of capital and the outcome of the plan. Mudaraba model seeks returns from the business of investing the policyholder funds in an agreed ratio such as 50:50, 60:40, or 70:30. Moreover, Mudaraba investment accounts carry no promise of return and claims settled by surrender or death.

Although Mudaraba is similar to Musharaka in some particulars, there are three main differences between these contracts. First, in Mudaraba, only the Rab-ul-mal injects the capital, whereas in Musharaka the capital input comes from all partners. Secondly, the management of the project in a Musharaka contract is shared (i.e. all partners can manage the project), whereas in Mudaraba management is the prerogative of the Mudarib. In addition, in Musharaka profits and losses are shared, while in Mudaraba the Mudarib bears no losses (unless negligence is proven) (Gafoor, 1999: 44-77).

### **3.6.3 Wakala**

Wakala can be defined as a fee-driven model. In addition, it is defined as a principal-agent agreement that is used between the policyholders and Takaful operator for both underwriting and investment activities (Ernst & Young, 2009). Basically both Mudaraba and Wakala contracts follow the same principles under the concept of profit sharing between participants and operators. However, there is a structural difference in the way such profit is determined. Unlike Mudaraba, the operator under a Wakala contract has the right to use part of the fund to cover its management costs. In addition, any underwriting surplus from the Takaful fund should be returned only to the participants’ fund: this is based on the principle that the funds actually belong to the participants (Yusof, 2001). Figure 3.3 shows a general illustration of Wakala operation.

**Figure 3.3 Wakala Model of Takaful Operations**



Note: Adapted from Ernst & Young, 2009.

The operation of a Takaful company under the Wakala model can be summarised along these lines (Ahmed, 2009: 72):

- (1) A company is set up to manage the Takaful arrangement. Shareholders are the owners of the company as an organization. The company enters into a Wakala contract with policyholders to manage the insurance operations and receives in return a specified fee to be determined at the beginning of the underwriting year for managing the investment and insurance portfolio.
- (2) Shareholders pay for all management expenses of the company at all levels out of fees earned by the company.
- (3) Both the surplus and investment return are distributed by the company to the policyholders, who are a separate group from the shareholders in the company.
- (4) Shareholders are entitled to additional performance fees in the event of achieving good results.

Wilson argues that a Wakala contract is based on trust (Wilson, 2007: 191). Under the Wakala contract, premiums are treated as *Tabarru'* or donations into a common pool, with the proceeds from the pool used to cover valid claims of those participants who experience actual losses and damages (Wilson, 2007: 191). The Takaful operator performs as the *Wakil* or agent of the policyholders and is consequently entitled to a fee



for the services provided. The Takaful operator invests the policyholders' fund in Sharia compliant instruments in its capacity as Wakil or agent. Any underwriting surplus is given back to the policyholders and the policyholders are required to make additional payments in the event of a deficit (Lim, Idris and Carissa, 2010: 11-12).

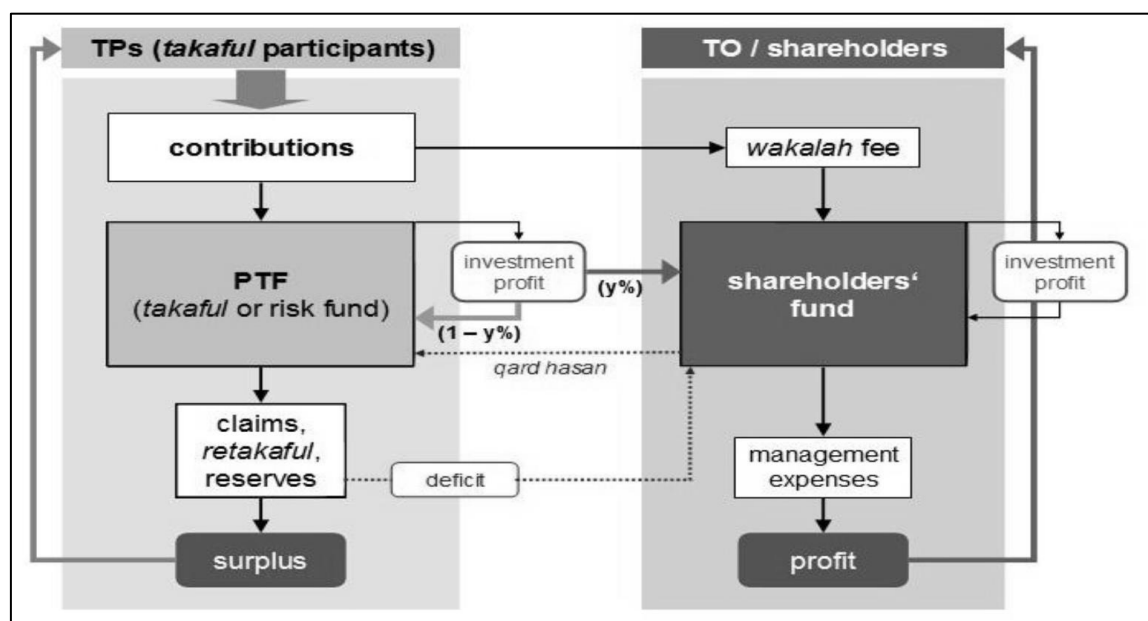
### 3.6.4 Mudaraba-Wakala (Hybrid Model)

Under this model an insurance company enters into two types of contracts with policyholders:

- 1) Wakala contract: on a fee-driven basis to manage the insurance portfolio (underwriting, claims, reinsurance arrangements, etc.). Under this contract, the insurance company is entitled to receive fees regardless of the portfolio result. These fees will be taken out of the insurance fund (premiums or contributions).
- 2) Mudaraba contract: on a profit-sharing basis to invest the policyholders' money. Under this contract the insurance company is entitled to receive a profit-share (based on Mudaraba rules), out of the investment income.

There has been a recent move towards using this model in the Arabian Gulf (Ahmed, 2009: 75). The widely used Takaful models are Mudaraba, Wakala and the Hybrid model (M. Khan, 2008), and Musharaka is relatively rare in practise.

**Figure 3.4 Hybrid Model of Takaful Operations**



Source: Bisani, 2011.

### 3.7 Reinsurance and ReTakaful

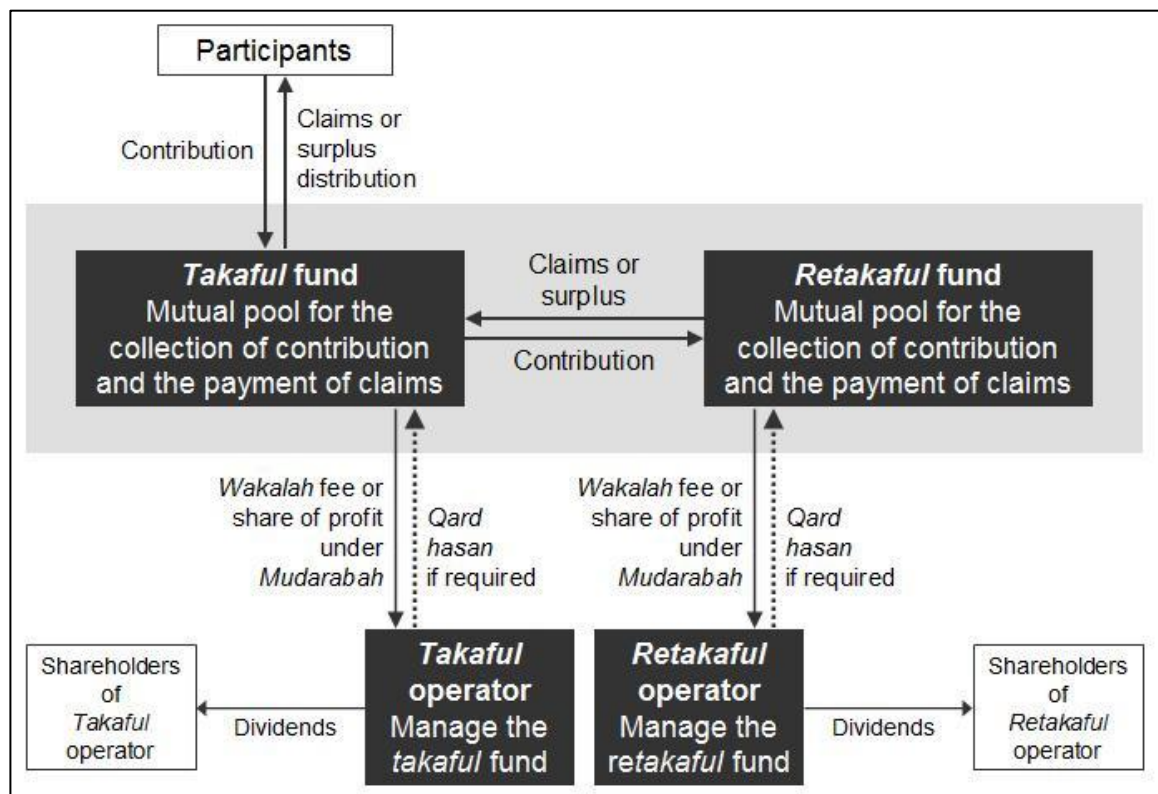
Reinsurance is the process of transferring risk exposures from a primary insurance carrier to another insurer for purposes of: 1) risk diversification and/or 2) preservation of limited capital; small insurer lacking in capital will reinsure with a larger carrier to allow them to continue to grow their business. Similarly, reinsurance is a form of insurance whereby an insurance company can transfer to another insurer; the reinsurer, all or part of its liabilities in respect of claims arising under the contracts of insurance that it writes. Any insurance company can face issues and risks similar to those faced by individuals (Archer, et al. 2011: 144). Hence, reinsurance enables an insurance company to protect itself against the risk that might eliminate its profits, or even cause it to be insolvent. Archer, Karim and Nienhaus state that “Reinsurance can simply be defined as “insurance of insurance” (Archer, et al. 2011: 144). There are several types of reinsurance arrangements: 1) Facultative versus automatic insurance agreements, and 2) Proportional versus stop-loss contracts.

Reinsurance of Takaful business is known as reTakaful. Reinsurance is a form of insurance whereby an insurance company can transfer to another insurer; the reinsurer, all or part of its liabilities in respect of claims arising under the contracts of insurance that it writes. Any insurance company can face issues and risks similar to those faced by individuals (Archer, et al. 2009: 144). Hence, reinsurance enables an insurance company to protect itself against the risk that might eliminate its profits, or even cause it to be insolvent. Archer, et al. (2009: 144) state that “Reinsurance can simply be defined as “insurance of insurance”. While the definition of reTakaful is “Takaful of Takaful”, the reTakaful contract is essentially a contract of Takaful, so that all basic principles of Takaful must also be followed (Archer, et al. 2009: 154). Archer, et al. (2009: 154) argue that “A *retakaful* pool of risk is managed by a *retakaful* operator [and it] is a real implementation of *Tabarru'*/solidarity among *takaful* pools of risk”. Furthermore, most of the technical functions of conventional reinsurance apply to reTakaful.

The method of Retakaful is actually similar to method of conventional reinsurance. Furthermore, reTakaful answers the same purposes as reinsurance, although the reinsurance contract, for Islamic companies, must be contracted in conformity with the Sharia as it is the case with Takaful contracts. In principle, a contract of reTakaful can be considered as a Takaful agreement which, in turn, implies that all Takaful principles

must be applied as well (Bisani, 2001: 34). What is surprising to note is that there is a tremendous need and shortage of reTakaful companies worldwide in comparison with the number of Takaful operators (Archer, et al. 2009: 154). This has resulted in Takaful companies having to reinsure on a conventional basis, contrary to the preferred option of seeking cover on Islamic principles. Therefore, a large proportion of risk is placed with international reinsurance companies that operate on a conventional basis. As there is currently a shortage of reTakaful capacity and the lack of companies in the market at present, Sharia scholars have allowed Takaful operators to reinsure conventionally when there is no reTakaful alternative is available with respect to the necessity concept. Consequently, this exemption is only applicable as long as there is no suitable reTakaful supply.

**Figure 3.5: Basic Model of ReTakaful**



Source: Archer et al. 2009.

There are seven reTakaful companies in the world today as fully independent companies which can be illustrated in Table 3.1 (Khan M., 2009, Hodgins and Jaffar, 2009). However Ernst and Young 2008 report listed the first five operators as existing current Takaful operators:

**Table 3.1 Fully Independent ReTakaful Companies**

<b>ReTakaful Company</b>	<b>Location</b>
<b>1) Tokio Marine-MILLE RE.</b>	<b>Singapore</b>
<b>2) ARIL</b>	<b>Malaysia/Southeast Asia</b>
<b>3) Takaful RE.</b>	<b>UAE</b>
<b>4) Hannover Retakaful.</b>	<b>Bahrain</b>
<b>5) MNRB Retakaful.</b>	<b>Malaysia</b>
<b>6) Alfajer Retakaful Insurance Company.</b>	<b>Kuwait</b>
<b>7) Best Re.</b>	<b>Tunisia</b>
<b>8) Islamic Takaful and Retakaful Company.</b>	<b>Saudi Arabia</b>

The International Cooperative and Mutual Insurance Federation (ICMIF), 2012 have listed 33 reTakaful companies without mentioning whether these companies are fully independent or not. In addition to the fully independent reTakaful companies, there are reTakaful windows within conventional reinsurers (Khan, M. 2009): Swiss Re; Scottish Re; Labuan Re; ReINDO and Nasional Re; and Munich Re.

### **3.8 Insurance and Hedging Compared**

Hedging is widely seen to be different from insurance although both serve similar purposes. Insurance as it has been discussed earlier in this thesis is considered generally an action or a risk management strategy taken to offset the impact of a negative event such as theft, fire car accident etc. Hedging on the other hand, is an investment strategy you can use to protect yourself from losses. By hedging, you eliminate the risk of loss by giving up the potential for gain. When you insure, you pay a premium to eliminate the risk of loss and retain the potential for gain. Here is an example to show this difference between hedging and insurance: person A is planning a trip from London to Riyadh a year from now. He starts now by making his flight reservations, and the airline reservation clerk tells him that he can either lock in a price of £1000 now, or he can pay whatever the price turns out to be on the day of his flight. If this person decides to lock in the £1000 price, he has hedged against the risk of loss. It costs him nothing to do so, but he has given up the possibility of paying less than £1000 for his flight a year from now. Alternatively, the airline may offer him the possibility of paying £15 now for the right to purchase his ticket a year from now at a price of £1000. By buying this right he has insured that he will pay no more than £1000 to fly to Riyadh. If the price should turn out to be more than £1000 a year from now, he will exercise this right; otherwise he will let

it expire. By paying £15 he has purchased insurance against the risk that he will have to pay more than £1000 for the ticket and, thus, he has insured that the total cost to him will not exceed £1,015 (£1000 for the ticket plus £15 for the insurance).

Smith, and Rene (1985: 392) propose a definition of hedging: ‘A firm can hedge by trading in a particular futures, forward, or option market even though it has no identifiable cash position in the underlying commodity. Furthermore, a firm can hedge by altering real operating decisions; for instance, a merger can produce effects similar to those of hedging through financial contracts. Thus, we adopt a fairly general definition of hedging in terms of the market value of the firm. Let  $V(S)$  be the value of a firm if it does not hedge, where  $S$  is a vector of state variables. Consider two firms  $a$  and  $b$ , that differ from the firm with value  $V(S)$  only in their hedging policies. We say that firm  $a$  hedges more with respect to state variable  $i$  than firm  $b$  if the absolute value of the covariance of the value of firm  $a$  with state variable  $i$  is less than or equal to that of firm  $b$ . Therefore, hedging reduces the dependence of firm value on changes in the state variable. Alternatively, we say that firm  $a$  hedges more than firm  $b$  if the absolute value of the covariance of the value of firm  $a$  with the value of an unhedged firm with the same production policy and capital structure is less than or equal to that of firm  $b$ ’.

This leads us to the question, What is the Islamic finance attitude to hedging? Presumably paying a fixed price today for the future delivery of a commodity is not problematic, but paying for an “option” is a problem because this involves both *gharar* and two contracts in one (the option contract and the future sale contract). Obaidullah (2005: 176) notes, ‘the provision of hedging facility is hardly an adequate rationale for tolerating *qimar* and *maysir*. The Sharia does not disapprove of hedging, since it brings in some *maslaha*. It is the zero-sum nature of the game that the Sharia finds objectionable, as in it lie the roots of social disharmony and discord’. Al-Suwailem (2006: 84) states, ‘hedging is valuable and consistent with Islamic economic objectives. However, conventional instruments, mainly derivatives, cannot separate hedging from speculation. They are used indistinguishably for both purposes, but mostly, 97% for speculation’.

Research on how to realise the value of hedging and risk management without incurring the increasing costs of speculation has been strengthened in recent years. Muslim scholars are producing sound researches on outlining some principles and strategies of

Islamic finance engineering. The Islamic industry needs to review applied strategies for developing hedging strategies for Islamic instruments.

### 3.9 Summary

The discussion in this chapter has shown that there are, at least in principle, conceptual and operational differences between Takaful and conventional general insurance. However, the literature provides mixed views on actual practice, where substantive differences are not so apparent. Furthermore, from reviewing the literature it appears that much is known about the principles of Takaful but little is known about the differences in practice between conventional and Takaful insurance, from both producers' and consumers' perspective.

The general concept of insurance is fully supported by Islamic evidence from the Qur'an, *Sunnah* and Islamic history. In Islam, there are evidences that support the concept of insurance. First, Islamic rules *Roshd* should guide Muslims to secure their interests and families against probable accidents or peril in future. Second, Qur'an made very clear the ethics of cooperation among people within the spirit of unity and awareness of the common good and wellbeing. Third, is solidarity; that is the general meaning of Takaful, which is represented and well established in the principle of Zakat. The Takaful system embodies the elements of shared responsibility, common benefit and mutual solidarity. It is basically the willingness to secure one's own wealth and social cooperation. In addition, the basis of the insurance concept rests on rational individual behaviour and social cooperation. Furthermore, the *Tabarru'* or donation system is considered the main heart of the Takaful system.

On the other hand, laws and regulations in conventional insurance are set by the state and are thus man-made. The insurance company accepts premiums from the insured; in exchange for indemnity against risks that may not occur, at a level that it predicts will cover claims and result in a definite profit. This characterization of insurance stresses a major aspect that can be found implicitly or explicitly in most other definitions, namely the reduction of risk through some transfer mechanism.

Operationally, the main features of Takaful could be summed up into three elements: first, cooperative risk-sharing, by using charitable donations, based on the concept of

*Tabarru'*, to eliminate *Gharar* and *Riba*; second, clear financial segregation between the interests of the Participants (insured/insurer) and the Operator (insurance company); and third, Sharia-compliant underwriting policies and investment strategies. Most scholars have the same opinion on the features of Takaful, although some of the scholars use different wordings when describing the features. Under Islamic law any transaction that has or involves prohibited activities according to Sharia principles and rules would make the insurance contract void. The various contracts for Takaful are: Musharaka, Mudaraba, Wakala and Hybrid Model.

While conventional insurance is basically a contract of exchange in the form of a sale and purchase agreement, between the insurers or company who sells and the insured or policyholder. In other words, insurance is a financial product sold by insurance companies to safeguard you and / or your property against the risk of loss, damage or theft. Conventional insurance supposes the separation of ownership from management in the company form. A common basic advantageous feature in all types of insurance for customers seems to be mitigating the risks associated with the negative financial impacts of a loss or danger.

The contract creates an explicit linkage between the input and return of capital and the manager is left free to choose the individually most favourable level of effort in each condition, dependent on the specified level of investment. In an insurance policy premiums are paid to the insurer. If a claim is needed and requested, the insurer pays out for the loss that is covered under the policy policyholders' premiums. If a claim is not made, premiums are pooled with the premiums of other policyholders. Insurers use risk data to calculate the likelihood of the event of the person are insuring against happening. This information is used to work out the cost of premium. The more likely the event the person is insuring against is to occur, the higher the risk to the insurer and, as a result, the higher the cost of premium. All insurance policies have common standard policy conditions e.g. losses must not be deliberate.

As discussed in Chapter Two, there are arguments stating that the reality of Islamic finance in practice is a clone of conventional finance. The current Islamic financial products are not focusing on the spirit of Islamic law, but it is represented by an Islamic brand name (El-Gamal, 2005). Other argues that Islamic finance is still not achieving social justice by banning exploitative practises such as paying interest, gambling

involvement, and investing in firms that involve haram elements (Saleem, 2005: 23). Other critics suggest that Islamic finance is not in fact entirely Islamic, and accordingly it cannot be expected to achieve the objectives of social justice and fairness. Hamoudi argues that ‘Islamic finance as a practise has failed to meet these objectives’ (Hamoudi, 2007b: 1). On the same note, Haniffa and Hudaib (2010: 85) ‘Maqasid al-shari’ah (purposes of the law) has been unduly used to justify the innovation of financial products to compete and converge with conventional banking’. Moreover, critics suggest that, at a structural level, Islamic finance neglects expectations of consumers but is pushed by banks to generate money. Some suggested that Islamic finance should really be aimed at the “micro” level, and that the huge transactions being arranged by international banks are simply using the name “Islamic finance” as an excuse for charging high fees (El-Diwany, 2008). Ahmed states ‘Lots of confusion that had arisen among a minority of Fuqaha who showed no objection to conventional insurance and still raised from time to time, is due to mixing up between the practise of insurance, i.e. the insurance business, and the concept of insurance in itself’ (Ahmed, 2009: 29).

This implies that there is a research gap relating to the extent to which producers – providers of Takaful insurance – perceive Takaful to be different in both principle and practice from conventional insurance. Thus, one of this research objectives is to identify the conceptual and operational differences between Takaful and conventional general insurance. In order to achieve this objective two sub-objectives are formulated: 1) Evaluate critically both insurance models and frameworks. Sharia compliance is the basis for evaluation. 2) Investigate the extent to which Takaful products are distinctive in substance from conventional insurance products.



## CHAPTER FOUR: RELIGION, RELIGIOSITY AND MUSLIMS

### 4.0 Introduction

The objectives of this chapter are to address and review the literature concerning religion and religiosity in the context of consumer behaviour. Section 4.1 discusses religion as an object of study, followed by the meaning of religion as defined in the social sciences literature. Section 4.2 studies Religion in the social sciences context and delivers an example of how religion has been studied in a social sciences context, namely accounting for religious organisations. Section 4.3 introduces Religion as a sensible explanatory variable in the context of social sciences. This latter section gives rise to the problem of operationalizing religiosity and lays the way to expand the discussion of the concept of religiosity which is presented in Section 4.4. Section 4.5 discusses and reviews prior research involving Islamic religiosity in the context of consumer behaviour studies. This is followed by section 4.6, which critically examines existing measures of Islamic religiosity. Section 4.7 discusses the background on Muslims and Islam in UK and KSA. Section 4.8 looks into key differences that might lead to differences in perceptions and choices regarding insurance. Section 4.9 identifies degree of religiosity as potentially a key factor that could explain differences. This chapter concludes with a summary in section 4.10.

### 4.1 Religion as an Object of Study

Since ancient times, religion in its various forms has had a major influence on human behaviour within society. The values that religion seeds, equality and compassion, can have profound implications for distribution of welfare in society. Hence, the scriptures and teachings of religions provide instruction for the management of human relations and exchanges in everyday affairs. If we take Islam as an example of a religion, many of such instructions relate to the treatment of money and wealth, moral conduct in commercial exchange, ideology on greed, which results in *riba*, and risk-taking, as well as undertaking of charity and *zakat*, among others. As a result, the Islamic Banking concept contains all of these themes to provide a context in which religiosity, economic self-interest and marketing can meet (Yap, 2011: 226).

A book edited by Hill, Lippy and Wilson (2005) is a publication provides a pool of articles in the field of Religion, namely religion in the southern region of the USA. One

of the articles titled '*Literature and Religion*' (2005: 461) explains that 'Religion serves to connect ordinary events with an extraordinary or divine power and to provide significance, a pattern of meaning of life'. By which the article means that religion tries to establish or make an order for what otherwise appear to be illogical human actions and random natural occurrences. As it (2005: 461) continues to argue that 'Religion and literature have both played conspicuous roles in the creation, reflection, and interpretation of that order'. The study particularly focuses on the effect of religion on the southern region of the USA. However, it very much agrees that this applies to all other regions. Also it believes that through the power of story the germ of religious reflection and literature creation merge and is granted perspective. And an examination of both religion and literature together tells much about the region in the study research context was the southern region (2005: 468).

Within any society are certain values that help to guide how people behave. A cultural phenomenon that has considerable influence on people's values, habits and attitudes is religion (Belzen, 1999). The values are transmitted from one generation to the next through the process of learning and interacting with one's environment, rather than through the genetic process (Ferraro, 1994). As a result, these learned values influence the members of the society to behave and act in a specific way considered socially acceptable by the other members in the group (Slowikowski and Jarratt, 1997 and Mokhlis, 2006). Mokhlis (2006: 16) states 'Religion in its cultural context is credited with being the unified system of beliefs and practices that pervades the value structure of a society, which, in turn, forms a central part of the cognitive or ideological elements of a country's culture'. For instance, religion is a major cohesive force, if not the only one, in some societies such as in Israel, Iran, and Saudi Arabia. Because religion is sacred, its value system is accepted unquestioningly by all members of the society and becomes part of all aspects of life, from family to education to the workplace to government (Berkman, Lindquist and Sirgy, 1997). Hence religion is seen as a subsystem of culture and a value in itself, and is regarded as a way of life that encourages people to strive for other values (Schwartz and Huisman, 1995). Although theorists differ with regard to the specific values they link to religion, almost all agree that religions exercise influence over its adherents' value systems through socialisation processes by promulgating religious creeds, norms, moral prescriptions, ritual requirements and taboos (Wulff, 1997 and Berkman et al., 1997). Such sacred values shape the behaviour and practises of institutions and members of cultures.

#### 4.1.1 Definition of Religion

The search for a generally accepted theory or definition faces enormous difficulties in the case of religion (Clarke and Byrne, 1993). Hill et al. (2000: 56) argue that 'Scholars identify at least three historical designations of the term: (1) a supernatural power to which individuals must respond; (2) a feeling present in the individual who conceives such a power; and (3) the ritual acts carried out in respect of that power'. Such designations have defied social scientific consensus and thus 'it is hard to make any generalisation [regarding religion] that is universally valid' (Peterson 2001: 6). As a result, we could find different theories and definitions of religion are often used in the literature.

Among others definition of religion, Mokhlis (2006: 20) has managed to provide a sufficient collection of how religion has been defined:

*'A belief in God accompanied by a commitment to follow principles believed to be set forth by God'* (McDaniel and Burnett, 1990: 110).

*'A socially shared set of beliefs, ideas and actions that relate to a reality that cannot be verified empirically yet is believed to affect the course of natural and human events'* (Terpstra and David, 1991: 73).

*'An organised system of beliefs, practises, rituals and symbols designed (a) to facilitate closeness to the sacred or transcendent (God, higher power or ultimate truth/reality), and (b) to foster an understanding of one's relation and responsibility to others in living together in a community'* (Koenig, McCullough and Larson, 2000: 18).

*'A social arrangement designed to provide a shared, collective way of dealing with the unknown and un-knowable aspects of human life, with the mysteries of life, death and the different dilemmas that arise in the process of making moral decisions'* (Johnson, 2000: 259).

*'A cultural subsystem that refers to a unified system of beliefs and practises relative to a sacred ultimate reality or deity'* (Arnould, Price and Zikhan, 2004: 517-518).

*'A system of beliefs about the supernatural and spiritual world, about God, and about how humans, as God's creatures, are supposed to behave on this earth'* (Sheth and Mittal, 2004: 65).

Vinten (2006: 8) quotes the Swiss psychoanalyst's, Carl Gustav Jung (1984: 282), definition of religion which is considered to be wide, and supportive of the continuation of the religious stream within the world of business. This definition was written originally in 1933: *'The living spirit grows and even outgrows its earlier forms of expression; it freely chooses the men in whom it lives and who proclaim it. This living spirit is eternally renewed and pursues its goal in manifold and inconceivable ways throughout the history of mankind'* (Vinten, 2006: 8).

Fordham (1953: 71) defines religion as *'A peculiar attitude of mind which could be formulated in accordance with the original use of the word religion, which means a careful consideration and observation of certain dynamic factors, that are conceived as 'powers': spirits, demons, gods, laws, ideals, or whatever name man has given to such factors in his world as he has found powerful, dangerous, or helpful enough to be taken into careful consideration, or grand, beautiful, and meaningful enough to be devoutly worshipped and loved'*. This definition suggests that religious myth and representation will be continuing.

Rehman and Shabbir (2010: 65) have also generally defined religion as 'a strong belief in a supernormal power that controls human destiny or an institution to express belief in a divine power'. They continue (2010: 63) to state that 'Religious commitment plays an important role in people's lives through shaping their beliefs, knowledge, and attitudes'. Different religious groups have differing beliefs, and awareness of these beliefs, and how they differ across religions, cannot be avoided when a society is analysed (Fam et al., 2002). These religious commitments and beliefs influence the feelings and attitude of people towards all their practises, including consumption (Rehman and Shabbir, 2010). For example, in England, the consumption pattern of the Indian society as compared to the indigenous white British society is different due to commitment to specific communal or religious groups (Lindridge, 2005: 144). Furthermore, religion may influence the consumer's consumption decision to the extent that it specifies prohibited and non-prohibited things. For example, consumption of beef is prohibited in Hinduism while in Islam it is not forbidden. The consumption of pork is prohibited in both Islam and

Judaism but it is allowed in Christianity. In effect, religion influences what consumers believe, what they like, and what they dislike (Fam et al., 2002). In practise, where there is no specific requirement or prohibition, it may be difficult to distinguish the influence of religion on consumption from the influence of other aspects of culture. For example, a preference for dates may be the result of growing up in a particular area, such as the Middle East, where palm trees are common, but a preference for dates may also be a sign that the consumer is a Muslim.

## **4.2 Studying Religion in the Social Sciences**

There are various “contexts” relating to studying religion in the social sciences such as accounting, anthropology, economics, history, marketing, philosophy, politics, psychology, sociology. Here I am more interested in the study of religion in the context of consumer behaviour, for example, “do religious people behave differently from non-religious people?” and “do religious organisations differ from non-religious organisations?” Subsidiary issues relate to whether followers of different religions behave differently. These questions raise methodological issues, for example how to determine whether someone is religious or not, which is operationalised by the concept of religiosity that is visited in section 5.4. In other words, this chapter moves from a general statement of the importance of religion in research (section 5.1) down to the review of existing measurements of religiosity discussed in section 5.6.

Fagan (1996) who is described on-line as a “conservative commentator” argues that ‘There is a tension between practitioners of social science and religious belief’. He continues to argue that ‘that tension arises from the effort of the social sciences to contain religion within the canons of the social sciences. However the canons of religion transcend these canons, and therefore cannot be reduced to the dimensions of any of the social sciences, though every social science can describe some facets of religious behaviour’<sup>36</sup>. Thomas and Henry (1985: 369-370) state that ‘from the work of Freud and others, much of the early history of the social sciences is characterised by the expectation that involvement in and reliance upon the religious institution will be associated with people who have a low sense of personal well-being’.

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<sup>36</sup> The Heritage Organization, which published this item, is a well-known conservative think-tank.

Durkheim, Marx, and Weber are very famous scholars in the field of sociology of religion. They had presented very complex and developed theories about the nature and effects of religion. Religion was considered to be an extremely important social variable in the work of all three. Christiano (2008: 124) states 'Marx was the product of the Enlightenment, embracing its call to replace faith by reason and religion by science'.

Levy and Razin (2012) paper focus on religious beliefs that connect rewards and punishments to social behaviour. They (2012: 121) state that 'Religious beliefs and religious practise are clearly two important and possibly inseparable features of religious organizations and the link between them is yet to be fully understood'. Levy and Razin have proposed a simple model of religious organizations which relies on the ability of such organizations to alter the beliefs of individuals about the relation between their social actions and shocks to their utility. The model ties together the three most observed aspects of religious organizations: beliefs, social behaviour, and rituals. They (2012: 123) state that 'our model implies a positive relation between religious beliefs and cooperative behaviour, which may enhance economic growth'. In their paper they show why rituals have to be costly, and therefore why religious participation might negatively affect growth.

Corcoran's (2012) paper tests the micro-level hypothesis that religious human capital (i.e., religious knowledge and skills) increases religious participation. The data used in this research is drawn from Christianity, both Protestantism and Catholicism in Canada. Corcoran (2012: 341) critically argues that 'The religious economies theory proposes that individuals make religious choices like they make other choices—rationally. This assumption has sparked many theoretical propositions on both the macro- and micro-levels. However, most empirical research has focused on testing the macro-level propositions'. She (2012: 343) states that 'Previous research typically operationalised religious human capital indirectly through proxy measures, which makes it difficult to separate the effect of religious human capital from the effects of other variables such as religious beliefs, preferences, and religious social capital. As a result, findings from previous studies may support theories other than religious human capital theory'. As a result of this argument the author separates different causal effects by using a direct measure of religious human capital (biblical knowledge as a measure of RHC), while controlling for other variables deemed important by the literature. Overall, the results provide support for RHC (religious human capital) theory. Corcoran (2012: 369)

concludes that ‘It is important to note that RHC exhibited significant positive effects on religious participation, controlling for denominational affiliation, a religious belief measure, and parental religiosity/attendance’.

Cutler (1992) reviewed the academic marketing literature from 1978 to 1989 for the reason of determining what has been published concerning religion and marketing. The researcher found for the 30 year period from 1956 to 1989 thirty five marketing articles related to religion were identified with nearly 80% of these articles published in the 1980s. The researcher grouped these articles into six different themes. Of these, only six were specifically identified as articles within the consumer behaviour discipline. I am providing here the list of authors of the reviewed articles of the theme religion and consumer behaviour: Engel (1976), Hirschman (1983), Wilkes et al. (1986), La Barbera (1987), Delener & Schiffman (1988), and Delener (1989). The purposes of study/subjects of these articles consecutively are: 1) Empirical study contrasting psychographic profiles of denominations in Brazil, 2) Religious affiliation influences consumer behaviour, 3) Discusses measurement of religiosity, 4) The Born Again Christianity movement and consumer behaviour, 5) Empirical study of religion’s effect on family decision making, and 6) Relationship between religious background and information.

Following Cutler’s work, Cutler and Winans (1999) found 17 articles on marketing issues that appeared in the religion literature for the 20 year period from 1976 to 1995. The researchers have reviewed these articles and classified them into four themes: 1) Utilising or analysing marketing techniques, 2) The usefulness of marketing techniques, 3) The impact of marketing on religion, 4) Relation of church and culture.

Mokhlis (2009: 76) states ‘to date, few studies have investigated religion as a predictor of consumption patterns even though there have been calls for such research in the literature’. Section 5.5 reviews the prior literature of Islamic religion and consumer behaviour, as investigating the relationship between acquiring a Takaful policy and the depth of religiosity among Muslims is one of the thesis objectives.

#### **4.2.1 The Religious Organizations**

This section provides a sort of “case study” of social sciences research involving religion. This following example examines how religion has been studied in a social sciences

context, namely accounting, and particularly I will be looking at religion at the organisational level. Providing an example of the study of religion in a social sciences context was felt appropriate in order to show that religion can make a difference, and that it is a sensible variable in social sciences research.

Laughlin's (1988) seminal study of the Church of England introduced into accounting literature the idea of a sacred secular divide in religious organisations. Laughlin's paper is one of the first studies of accounting within a religious context and considered important as the theoretical model that emerged from his study seems to have become the standard perspective for many subsequent analyses (Booth, 1993, Lightbody, 2000, and Parker, 2001, 2002). The aim of this critical analysis is to open up the analysis of accounting within religious organisations and the theorisation of accounting more generally to new and potentially insightful theological perspectives.

McPhail, Gorringer and Gray (2005) have introduced and reviewed the following three papers. All appear to be concerned with the tendency to see accounting as part of the secular in opposition to the sacred within religious organisations. The papers outline and critique both the sacred secular divide and its underlying theoretical basis and offer ways of taking the analysis of accounting within religious organisations further (2005: 185). The reason for doing so is to encourage interdisciplinary research in accounting that draws specifically on theological insights. McPhail, Gorringer and Gray (2005: 188) state 'With more papers still to come [from] this project (Berry, n.d.) it certainly seems that we have touched on an area of latent concern for many accounting academics. We look forward to further theoretical and practical insights from this neglected area of scholarship'.

The reviewed papers are by Jacobs (2005), Irvine (2005) and Hardy and Ballis (2005). Starting with Jacobs' paper that commences with Laughlin's (1988) argument that accounting embodies the secular as opposed to the sacred and as such is antithetical to religious values. However, Jacobs suggests that there is a possibility that subsequent researchers have misunderstood Laughlin (1988). He also suggests that some of the generalisations in that study may have led to such misunderstanding. Jacobs's formations of arguments are informed by narratives collected from staff at the Church of Scotland head office in Edinburgh, Scotland. As a result, of these viewpoints the key concern for



Jacobs then becomes the way, in which accounting is perceived and understood by different individuals within different contexts (McPhail, Gorringer and Gray, 2005: 186).

Irvine's (2005) paper studies the budgeting system in her local church. Her aim is to investigate the relationship between the church's accounting system and its spiritual goals (McPhail, Gorringer and Gray, 2005: 186). Irvine critiques the idea of the dichotomy suggested by Durkheim. She starts by arguing the nature of the sacred and the secular are constantly being redefined and moves to arguing that understanding how accounting is conceptualised within religious organisations will be significantly influenced by theological differences within different denominations. McPhail, Gorringer and Gray (2005: 186) state that 'Irvine challenges the way, in which the sacred secular divide is often presented as a generalisation and calls for greater sensitivity, when studying accounting within specific religious settings, to the disparate theological stances taken by different denominations. Irvine suggests that 'denominational differences may have an impact on the division between accountants and clergy within religious organisations as well as conceptualisations of accounting and accountability'. It can be observed that Irvine's paper is an extension to Jacob's observations by indicating how accounting systems can be used and incorporated to further the church's mission in a pragmatic way.

Hardy and Ballis (2005) paper outline what they perceive to be the main characteristics of the sacred secular divide. They strongly suggest taking the religious beliefs of the community seriously and not reducing them to sociological phenomena. McPhail, Gorringer and Gray (2005: 187) state that 'It can be concluded as a result of this review that these scholars seem wary of conceptualising accounting as either sacred or secular. Instead, they hint towards the need for a broader, more sophisticated, both conceptual and perspective'. Hardy and Ballis concluded their argument by drawing on Niebuhr's five point typology of Social Action as a way of accessing how the different theological perspectives of different denominations might result in different attitudes towards apparently secular practises like accounting.

On a different note, Carmona and Ezzamel (2006: 117) critically state that 'Research on the relationship between accounting and religion or religious institutions is in short supply'. Carmona and Ezzamel describe that 'Ironically, this area seems to have attracted more, and earlier, interest from practitioners than academics'. Examples of excellent

summary of practitioner literature are Hewitt, 1958; and Booth, 1993. Their research particularly focuses on the auditing, internal control, accounting and management of religious institutions. Carmona and Ezzamel described the lack of academic interest in studying accounting in religious institutions as ‘rather perplexing’ since such institutions are considered spiritually and economically important in most societies (2006: 117). Carmona and Ezzamel’s paper focus on the scholarly literature that has been published up to now and assess its contribution to the knowledge of the relationship between accounting and religion. They first begin their research with a historical focus, then they move on to examining research on accounting in contemporary religious institutions (2006: 117).

Haniffa and Hudaib (2002) paper main aim is to propose a conceptual framework for Sharia and its application to the Islamic perspective of accounting (IPA). They have elaborate reference to the Holy Qur’an, Hadiths and made use of related literatures of available accounting written in traditional and Islamic perspective. They have provided a concise introduction to Islamic accounting and its contrast to its conventional counterpart which the authors have referred to as ‘Western Accounting’. Also they have extensively touched on the basic features, objectives and concepts of Islamic accounting. By examining the problems in western financial accounting the authors have encouraged and justified the need for the development of a separate accounting system for the Islamic Organizations that could attain the Islamic socio-economic objective of *falah*.<sup>37</sup>

Napier (2009) paper explores both the emerging historical literature about accounting in Islamic settings and the more recent literature of Islamic accounting. The paper (2009: 122) also considers the issues of the definition of Islamic accounting, and explores the extent to which future historical studies will be able to help in developing a critical understanding of modern Islamic accounting. Napier used and reviewed extensively the literature on Islamic accounting and more specifically the research that seeks to document accounting ideas and practises in the Muslim world of both the past and the present. Napier (2009: 135) states ‘Clearly, there is scope for much more research into accounting ideas and practises in countries with dominant Muslim populations in the pre-colonial, colonial and post-colonial periods, especially in areas geographically on the periphery such as Islamic Spain on one side and Malaysia and Indonesia on the other’. The modern literature of Islamic accounting offers extensive prescriptions for financial

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<sup>37</sup> An Arabic word that means: success in the present life and the afterlife.

and management accounting in accordance with Sharia, however, it has less impact in practice. Therefore, Napier (2009: 136) suggests that this 'may be due to the need for Islamic financial institutions to operate within a global financial market dominated by western accounting norms'. He concludes that Islamic accounting history is only now beginning to emerge from the shadows of western accounting history.

Maali and Napier (2010) examine the cultural factors that shaped the creation of one of the earliest Islamic banks, and discuss the tensions that arise between religious and economic aims. This paper is considered the first detailed academic study of the creation of an Islamic financial institution (2010: 2). The authors obtained interviews with participants, reviewed archived documents, and observation. In order to provide theoretical structure for the analysis, the authors employ Edgar Schein's theory of organizational culture and leadership. It can be concluded that this paper is a key contribution to the ongoing debate about whether it is possible to establish genuinely Islamic businesses within a conventional economy.

The role of accounting in Islamic organizations is an area, among others, that requires further development. Therefore, literature-based studies could be used to investigate how a distinctive Islamic notion of accountability has developed through time. Furthermore, getting hold of existing studies in this area of accounting in Islamic organization and more generally in Islamic accounting history that is familiar to an audience who lack the advantage of facility with languages such as Arabic and Turkish would help assessing Islamic accounting with more confidence (Napier, 2009: 136).

A first step in achieving this goal a book edited by Napier and Haniffa (2011) is a recent publication in the field of Islamic accounting which provides a pool of leading articles in the field of Islamic accounting. It includes 33 articles, dating from 1981 to 2007. It starts by covering the path defining contribution of Abdel-Majid in 1981 to the most important articles by Rifaat Ahmed Abdel Karim, founder of AAOIFI and former Secretary General of the IFSB. The book covers six major themes of Islamic accounting: the conceptual framework, accounting ethics and social responsibility, corporate reporting, accounting practise and zakat, auditing and the Islamic history of accounting. It can be concluded that this book is a substantial English language contributions to the literature on Islamic accounting.

There are general lessons from this section. The research shows that religion can make a difference, so it is a sensible variable in social sciences research, but there remains the level of analysis issue. This section looked at religion at the organisational level, but the effects of religion can also be studied at the individual level - how does membership of a religion make a difference? But is religion a simple “yes/no” variable, or does the degree or level or depth of religion matter? Much research on individual behaviour, for example, with respect to consumer choice, argues that depth of religion (conceptualised as “religiosity”) does matter, but this gives rise to the problem of operationalizing religiosity. This is introduced in section 5.3, and expanded in section 5.4, prior research involving religiosity is discussed in section 5.5, and measurements of religiosity are discussed in section 5.6. My own conceptualisation of religiosity is discussed in chapter Six.

### **4.3 Introduction to Religion as an Explanatory Variable**

This section is a logical extension to the sub-section 5.2.1 and it looks at religion as a sensible explanatory variable in the accounting context. Religion as an explanatory variable is introduced through three brief examples: First) discussion of accounting and the sacred secular divide, Second) discussion of accounting and auditing standards within Islamic studies, and Third) religion at the individual level. The first example discusses the effects of religion at the organisational level. The second example shifts the discussion towards the effects of Islam, which is represented through Sharia, on accounting and auditing standards within Islamic organisations. The third example looks into how Islam affects Muslims’ daily life.

Accounting, Auditing & Accountability Journal (AAAJ) in its special issue called “Theological perspectives in accounting” (McPhail, Gorringer and Gray, 2004) drew the attention to the negligence of religion research and particularly Christianity into accounting. Therefore, AAAJ aims to explore whether a theological approach to accounting was possible and assess the insights that might be rejected from a Judeo-Christian reading of accounting (Vinten and Gray, 2006: 3).

Vinten and Gray (2006: 3) state that ‘Accounting did not seem the best way to explore theology, since it is a largely technical discipline which may, theologically, reflect God’s creation, but may not directly be that creation. In the dichotomy of God and Man,

accounting seems to be more of Man than of God! It is hardly surprising when the AAAJ people reflect upon the lack of coverage or, indeed, interest, in the topic. Most contributors to AAAJ before and after the special issue discuss accounting within churches. This is an entirely different matter, since it is self-evident that accounting will have relevance within churches. For one thing, it is a legal requirement to have it. This, however, is a long way from artificially constructing a theology of it.

Here is a brief review of scholars who touched on this issue. Jacobs and Walker (2004) challenge the assumption that accounting has no role in a religious or sacred setting. Booth (1993) finds that religious beliefs tend to create resistance to accounting with organizational members and occupational groups, such as the clergy and accountants, in the construction and opposition of such processes of resistance. Irvine (2005) studies attitudes to budgeting in a local church. It is her opinion that academic accounting research has under-estimated the significance of religion in life in an 'academic blind spot'. Jacobs (2005) evaluates the sacred-secular thesis developed by Richard Laughlin and Peter Booth, which is that accounting is antithetical to religious values, encapsulating the secular rather than the sacred. Hardy and Ballis (2005) agree. Vinten and Gray (2006: 4) argue that 'The divide has been used to highlight the ambiguous roles of accountants and accounting practises within religious organizations. However, accountants and accounting practises are not by virtue of their secularity antithetical to the values of religious organizations, they argue. Often, secular activities, such as accounting, co-exist, promote and support religions'. Gallhofer and Haslam (2004) argue from liberation theology for a more emancipatory accounting with new insights and inspiration.

As we have seen the effects of religion, mainly Christianity, at the organisational level through examples from the accounting and the sacred secular divide. Here we look at the effect of Islam at the organisational level. I have chosen here examples of accounting and auditing Standards within Islamic context. Malaysian Accounting Standard Board (MASB, 2004) provides an accounting standard for presenting the financial statements of Islamic financial institutions. The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), an accounting and auditing standards setting body in Bahrain, has been active in developing and promoting Islamic accounting, auditing, and Sharia standards, and the Malaysian Standard acknowledges a debt of gratitude. Vinten (2006: 4) states that 'The Standard is only concerned with Islamic financial institutions, and it is no surprise that this should recognise religious principles. The Standard is

isolated – there is no other ‘religious’ Standard about general company accounting and auditing. So this is exactly the same as found within Christianity’. Tayeb (1997) refers in his paper to the differing manifestations of Islamic values within countries which may impact differentially on human resource management (HRM). Abbe Le Pelley in Vinten (2006: 5) writes from the Dubai Ethics Resource Centre (DERC)<sup>38</sup>, ‘It is our aim to promote awareness in and an understanding of corporate responsibility, including social, environmental, governance and ethical issues in the area of business both in the Emirate and wider Middle East region. We work through various channels such as program development, training, consulting and research’. This shows us how religion is playing a role in business, which can be witnessed by the growth of Islamic finance, both locally and internationally.

Does religion has its effects at the individual level? How does membership of a religion make a difference? Here I look at Islam and its affects and power in Muslims daily life. When you look around you in an Islamic country or in a heavily populated Muslim area, you see Islam everywhere. One way of distinguishing Muslims in the street by their unique way of greeting each other with *Assalamu Alaikum*; Peace be upon you (Fealy, 2008: 15). Also by looking around you Islamic themes could be easily notified such as mosques, dress codes and even restaurants that has *halal* certificates. As a result to this, Muslim people living in these heavily populated Muslims countries/areas, expects Islam to be the centre of their everyday life. This expectation goes far to normality and believes this is the way how it should be (Fealy, 2008). Fealy (2008: 15) states that ‘The role of religion in the contemporary globalised world is changing rapidly. New technology and accelerated information flows combined with urbanisation and growing prosperity have led to new forms of religious expression, in Indonesia [Saudi, United Kingdom] and elsewhere. For instance, Islam has much greater presence in social, cultural, political life than before. Also I can see the spread of mosques and popularity of Islamic dress and the use of Islamic symbols and language in the media and in public spaces such as Halal, Haram, and Islamic financial products etc. The increase is also found in Islamic publication, education, tourism and entrepreneurship and they became innovative ways to promote their religious messages (Fealy, 2008: 16). We can conclude that Islam is penetrating far more deeply in people’s daily life and Muslims can express their faith in a multitude of ways than ever before. Also through the consumption of Islamic products religion has become a defining element in the lives of increasing number of people.

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<sup>38</sup>DERC is a not for profit organization, established under the Chamber of Commerce in Dubai.

Abd-Alla (2004: 35) states that ‘Closeness to God within Islam is not undeveloped or limited to the domain of mysticism; Islamic theological traditions affirm explicitly that God is at once both transcendent and immanent -- temporal opposition does not pertain to the uncreated -- and day-to-day Muslim culture reflects discernible intimacy with God even in mundane affairs’.

The discussion in this section showed how religion has its effects at the organisational and the individual level through three different examples. This leads us to the conclusion that religion can be a variable of relevance to social science studies.

#### **4.3.1 Religiosity-within a Religion**

This sub-section provides some research examples that argue the effects of depth of religion, which is conceptualised as “religiosity”.

A study proposed by Abd-Alla (2004) divided people in two categories: 1) Believer, 2) Worshiper. Abd-Alla (2004: 36) states regarding believers at an empirical level that ‘the religious and the less deeply religious alike, posit their own predicates and have their own compelling or not-so-compelling vision of God’. On the other hand, at the existential level of living faith and inner constructs of belief, he states that ‘the clear-cut lines so essential to unified doctrine and distinctive creeds blur, and the world of faith becomes a kaleidoscope’ (2004: 36). At the category of the worshiper Abd-Alla (2004: 35) states that ‘religious experience has a tendency to seek out its place of origin. Notwithstanding all of religion’s creedal statements and outward dimensions, worship grounds itself at the perceptual level within the heart and mind, where direct apprehension necessarily reveals patterns of infinite individuation’. He describes the ‘worshiped’ as *a creedal formula* that is shared by each person, however, a unique psychological construct for what he or she believes about it.

Noll (2002: 12) offers more concentrated and focused research and interpretation on the connections of Protestants and money, a topic described as being a mountain in which research has reached only to the foothills. Vinten (2006: 10) states ‘Although evidence from this period is sketchy, and becomes more reliable the closer we reach to the present, it appears that the Protestant churches and religious societies, although never an overwhelming force, did exert more influence in the early American economy than later.

If comparison is drawn with the rapidly expanding private sector, then it pales. But compared with government expenditure, albeit smaller in this period than subsequently, then it is highly significant’.

This shows how people’s level and depth of religiosity has its effects on individual behaviour, economy etc. However, this gives rise to the problem of operationalizing religiosity and this expanded in the following section (5.4).

## **4.4 Concept of Religiosity**

Colloquially, in Roget’s Thesaurus (Lewis, 1970), religiosity is found to be synonymous with such terms as religiousness, orthodoxy, faith, belief, piousness, devotion, and holiness (Holdcroft, 2006: 89). Holdcroft (2006: 89) argues that ‘These synonyms reflect what studies of religiosity would term as dimensions of religiosity, rather than terms that are equivalent to religiosity’. She (2006: 89) continues to argue that ‘A theologian would address religiosity from the viewpoint of faith, while religious educators could focus on orthodoxy and belief. [Further] Psychologists might choose to address the dimensions of devotion, holiness, and piousness, whereas sociologists would consider the concept of religiosity to include church membership, church attendance, belief acceptance, doctrinal knowledge, and living the faith’.

Bergan and McConatha (2001: 28) discuss that ‘Religiosity has been examined in relation to life satisfaction, subjective well-being, happiness, health and social involvement’. In their paper, they examine the relationships between religiosity, life satisfaction, age and gender. The authors (2001: 28) argue that ‘Previous social psychological research generally evaluated religiosity as a unidimensional concept focusing primarily on religious attendance. Researchers have noted that reliance on religious attendance as a sole measure of religiosity may be insufficient and lead to incorrect conclusions’. Studies such as (Ellison, Gay and Glass, 1989, Ellison, 1991, and Chumbler, 1996) have explored the relationship between multiple dimensions of religiosity and measures of well-being.

Poloma and Pendleton (1991) focus on religiosity and subjective perceptions of well-being, including items measuring the frequency of prayer, prayer experiences, and different forms of prayer, together with more standard measures of religiosity. They



discuss the findings of a survey taken in 1985 of 560 randomly selected households. They have constructed a factor analysis of 15 prayer activity items that identifies four types of prayer, three of which were verbal and the other meditative which related differently to the well-being measures. Poloma and Pendleton have found that two prayer-related dimensions of religiosity, frequency of prayer and prayer experiences, were among the best predictors of well-being when all other religious measures were controlled. Poloma and Pendleton (1991: 80) conclude 'that prayer, like its parent concept of religiosity, is clearly multidimensional and contributes to a profiling of well-being'.

Bjarnason (2007) looks into the influence that the health care provider's religiosity has on the care they deliver to patients. The author uses Rodger's evolutionary methodology to begin developing an understanding about the definition of religiosity in health care in order to provide a basis for continued exploration of the articulation between patient and provider religiosity, particularly as it relates to nursing. Bjarnason (2007: 351) states that 'This review found that there are many instruments for assessing and measuring religiosity and that they are used in varying ways'. She (2007: 354) also concludes that 'There is considerable consistency related to a definition of religiosity that includes religious affiliation, religious activity, and religious belief'.

Khraim H. et al. (2011: 108) state 'Attempt to put measures of religiosity (or "religiousness," "religious commitment," "religious involvement," as variously called) has started early in the beginning of the present century. Because people can be religious in varying degrees, the most appropriate procedures for measuring religiosity are typically quantitative, yielding scores that can be correlated statistically with a range of other dimensions'. Khraim H. et al. (2011: 108) continue to argue that 'Religiosity is an intricate concept and a variegated human phenomenon, and seems to cover considerable grounds such as behaviours, attitudes, beliefs, feelings and experiences. Religious scholars and sociologists do not agree on whether adequate measures of individual religiosity can be developed. Therefore, such measures are subjectively devised by researchers to fit their research objectives. Thus, the content and number of religious dimensions vary considerably and may depend on the nature of the research, purpose and context'.

This complexity in defining religiosity encourages the study of identifying its dimensions to reach a better understanding of its meaning. Different dimensions of religiosity are discussed in the following sections.

## **4.5 Prior Research of Relevance**

Before discussing measurements of religiosity, it is felt necessary to review prior research of relevance. This section discusses and reviews prior research involving Islamic religiosity in the context of consumer behaviour as empirical objective of the thesis is to investigate the relationship between acquiring a Takaful policy and the depth of religiosity among Muslims.

Little is known about the marketing of Islamic banking and finance and consumer behaviour relating to it, despite Islamic banking rapid market growth and potential contribution to societal welfare (Yap, 2011). Yap (2011: 226) states that ‘The few studies that have examined Islamic banking from a marketing perspective may have provided some practical suggestions on improving customer satisfaction and serve quality at Islamic banks, However these studies have generally not focused on the unique aspects of Islamic banking that differentiates it from conventional counterpart’. Some examples of these studies are: (Gerrard and Cunningham, 1997, Haron et al., 1994, Metawa and Almosawi, 1998, Naser et al., 1999). What is worth noting is that religiosity has not featured prominently in their work, thus, little is still known about how the religious orientation of Muslim consumer or investor influences financial decision making, including the decision to adopt Islamic Banking (Yap, 2011: 226). The lack of knowledge in this area leaves other important questions unanswered. For example, what aspects of Islamic banking and finance call upon the religiosity of Muslims in financial decision making? Do more religious Muslims have greater tendency to adopt Islamic banking and finance products? Do more religious Muslims have greater tendency to purchase Islamic banking and finance products? Does the financial institution also have to be ‘Islamic in character to promote Islamic banking and finance products effectively? Yap argues that ‘The knowledge gap is not confined to Islamic banking alone. An extensive literature review revealed that little is known about the influence of religion on marketing’ (2011: 227).

Mittelstaedt (2002: 6) suggests that ‘scholars need to understand the effects of religion on the kind of issues they face in business and, more important, how these issues are defined, informed, and regulated by religion’. Wilkes et al. (1986)<sup>39</sup> called for more marketing and consumer research on religiosity thirty-five years ago. However, Yap (2011: 227) sadly states ‘[after Wilkes et al. call for more marketing and consumer research on religiosity] alas; undertakings in this area remain sparse’. Yap (2011) study is a first in addressing this knowledge gap. His aim was to review the marketing literature on Islamic banking and attempt to postulate some preliminary conceptual relationships for future evaluation by marketing scholars and managers. He also looks Profit and loss sharing (PLS) arrangements in Islamic banking and its counterparts. Yap (2011: 227) argues that ‘Consumer religiosity in the present discourse makes Islamic banking an appropriate vehicle to advance knowledge relating to the role of religion in marketing and consumer behaviour’. He (2011: 244) also states that ‘PLS arrangements adhere to Islamic ideals more closely but both banks and investors are risk-averse. The PLS arrangements in Islamic banking offer a true and attractive alternative to conventional financing and may even find a niche in the microfinance market’. Yap’s suggestion to the marketing scholars not to continue to avoid the ubiquitous presence, power and authority of religious teachings and their effects and described such research as ‘too important’ (Yap, 2011: 227).

From another angle, there is a growing literature on the factors that influence consumers’ preferences for Islamic banking (see Dusuki and Abdullah (2007) for a survey), but research into preferences regarding Takaful is at present limited. A study by Ab-Rahman et al. (2008) examines Malaysian undergraduates’ perceptions on the differences between auto Takaful and conventional auto insurance. However, so far very little is known about the actual reasons why people participate in Islamic insurance. Another study proposed by Rahim and Amin (2011) have studied factors that may influence the customers of banks in Malaysia to accept Takaful products. Given the extensive promotion of Islamic financial products among the Muslim communities around the world, we expect some awareness of a wide range of Islamic financial products. A recent study by Amin (2012) addresses the previously mentioned gap empirically by purposing two objectives and this was the main aim of this research. Firstly, it attempts to examine the effects of attitude, subjective norm and amount of information on the intention to participate in Islamic insurance. Secondly, it attempts to examine the factors influencing the risk averse and

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<sup>39</sup> Wilkes et al. (1986) paper is considered a key entry point into the religiosity literature.

risk taker nature in individuals through using the theory of reasoned action (TRA) (Amin, 2012: 12). Amin (2012: 18) state that 'Evidently, attitude and subjective norm are found to be the key antecedents in explaining one's willingness to use Islamic insurance products'. Also 'The theory of reasoned action (TRA) is found to be superb in determining one's decision pertaining to the intention to participate in Islamic insurance products'.

Most of the studies of consumers of Islamic financial products start with consumers who are already purchasing such products. These studies investigate why consumers select such products, and how satisfied they are with the products they select. Previous studies have investigated a range of countries, including Jordan (Erol and El-Bdour, 1989; Naser, Jamal and Al-Khatib, 1999), Kuwait (Othman and Owen, 2001), Malaysia (Ahmad and Haron, 2002; Dusuki and Abdullah, 2007), and Singapore (Gerrard and Cunningham, 2001). However, little is known about consumer attitudes in the UK or KSA. Given the growing significance of Islamic finance around the world, I would expect Muslims in all countries to be aware of major Islamic financial products. Many of these products are aimed at commercial clients rather than personal customers, but Takaful is an exception, and so I would predict that the respondents will show awareness of Takaful in particular.

Prior researchers have investigated many potential factors that might enhance the attractiveness of Islamic financial products. Some of these are not specific to Islamic products. Dusuki and Abdullah (2007), in summarising much of the prior literature in this area, mention factors such as returns, costs, service delivery, size and reputation, location, and competence and courtesy of staff ('service-related' factors), as well as advertising and recommendations of family and friends. In addition, they also mention the 'religious' factor – whether products are perceived as complying with Sharia, and whether customers are particularly pious. In their review of prior literature, Dusuki and Abdullah (2007) find that most of the 'service-related' factors are positively associated with customer satisfaction, while the 'religious' factor is more ambiguous: some researchers (including Naser, Jamal and Al-Khatib, 1999) find a positive association, while others (including Erol and El-Bdour, 1989, and Ahmad and Haron, 2002) find a negative association. Moreover, most prior studies of attitudes and perceptions to Islamic financial products have been single-country investigations, usually restricted to Muslim respondents. Although the results of prior research have identified differences in some

responses across countries, the absence of a specific comparative study means that it is not possible to rule out methodological differences as the source of variations in results.

The reviewed studies clearly shows that the notion that Muslims' actions may be influenced by the extent of their religious knowledge and beliefs.

## 4.6 Existing Measures of Islamic Religiosity

Krauss, et al. (2005: 140) argue that 'Most of the empirical studies trying to stipulate the components of religiosity have been within one culture, the United States; and are confined to the Christian community. Although some of the existing religiosity scales used for Christians may contain some concepts and items that could be applicable to Muslims, but as a whole, these scales are culture-bound and unsuitable for measuring religiosity among Muslims'. Many researchers tried to discover the best approaches and tools in measuring Islamic religiosity.

Religiosity indexes were either used and conceived as a uni-dimensional index that has a single number of dimension or as a multidimensional index that leads to number of dimensions.

Glock and Stark (1965) turned scholars' attention towards a multidimensional definition of religiosity. Glock and Stark (1965: 19-20) argue that 'in all religions of the world, in spite of their great variation in details, there are general areas in which religiosity is manifested'. The core dimensions of religiosity were described and considered by their creators as the 'Ideological', the 'Ritualistic', the 'Experimental', the 'Intellectual', and the 'Consequential' dimensions (see also Rehman and Shabbir, 2010: 65, and Krauss, et al., 2005: 137). As follows an explanation of the five dimensions (Glock and Stark, 1965: 20-21):

- The 'Ideological' dimension or religious *belief*, encompasses beliefs that are expected to be held by the followers. For example, beliefs about God, Prophet, fate, etc.
- The 'Ritualistic' dimension or religious *practise*, includes the specific religious practises, such as worship, prayer, participation in special sacraments, fasting, pilgrimage and so on, which are expected to be performed by the believers.

- The ‘Experiential’ dimension or religious *feeling*, refers to feelings, perceptions and sensations of having communication with a divine essence (i.e. with God), ultimate reality or transcendental authority. Basically, it describes the practicality of the religion.
- The ‘Intellectual’ dimension or religious *knowledge* encompasses the basic information and knowledge about the tenets of the faith and its sacred scriptures that are expected to be known by the believers.
- The ‘Consequential’ dimension or religious *effects*, includes the effects of religious belief, practise, experience and knowledge on the believer’s everyday life.

Several studies made use of a measure of Islamic religiosity dimensions among Muslim populations. Serajzadeh, (1998) and Krauss, et al., (2005) have reviewed these studies. Two studies (Pouryousefi 1984; Samandari 1982) included Glock and Stark’s model, while the measurements used in others were ambiguous, arbitrary or sometimes subjective single-item definitions of religiosity (see Hassani 1978, Yahya 1988 (in Serajzadeh, 1998) and Junger and Polder 1993).

Here is a short analysis of the measurement used by Samandari and Pouryousefi. Samandari’s study was based in Babol, a city in the North of Iran. The used measure, which consisted of forty items, was tested by the religious leaders and university professors in Iran for the reason of checking the validity of the scale. Nevertheless, the internal validity and the reliability of the scale, as well as sub-scales, were not reported in her study. What is astonishing is that at the data processing stage, only five items of out of the forty were used, with this short explanation: “due to the extensiveness of the list of items measuring the degree of religiosity, only the responses to a limited number of items were utilised for analysis” (Serajzadeh, 1998 and Krauss, et al., 2005).

On the other hand, Pouryousefi’s used a 31-item Likert scale of Glock and Stark’s model of religiosity, excluding the intellectual dimension. This study was constructed to measure the religiosity of Muslim students studying in the United States. After testing the measurement, he seemed to have constructed and used the scale more precisely. As in Samandari’s study the statistical results of the internal validity and reliability of the scale were not reported either (Serajzadeh 1998, and Krauss, et al., 2005).

Glock and Stark's model was also adapted to the religion of Islam in Wilde and Joseph's study (1997). They have used a 14-item 'Muslim Attitudes Towards Religion Scale' or in short MARS. The scale also contained items adapted from the Francis Attitudes Toward Christianity scale (Francis, 1978, and Francis and Stubbs 1987). Hill and Hood (1999) criticise that 'the Attitude Toward Christianity Scale focuses solely on the people's perception of the Christian religion. The MARS, therefore, is an adapted scale for the Islamic faith' (Hill and Hood, 1999). Interestingly, the used items were developed under the guidance and supervision of the University of Essex Islamic society (Wilde and Joseph 1997: 899, and Krauss, et al., 2005).

Glock and Stark's model of religiosity has been the main model employed either partly or completely in different fields, but it has not gone un-criticised.

For example, Shamsuddin argues that 'the Islamic concept of religion is fundamentally different from the [above mentioned] concept of religion' (Shamsuddin, 1992: 105). He also point out that Muslims, in particular, need a relatively different scale to measure religiosity (Krauss, et al., 2005). Therefore, Shamsuddin proposed a model of Islamic religiosity 'represented by the concept of *taqwa* (God-consciousness) - a multidimensional variable of religiosity that includes knowledge ('*ilm/ ma 'rifah*), belief (*iman*), practise ('*amal*), consequences (*natajah*) and realization of excellence (*ihsan*)'. He also continues that 'the content of the dimensions of the Muslim religiosity vary considerably with the Judeo Christian religious tradition' (Shamsuddin 1992: 105), so, even though Shamsuddin gives substantially the same names to his dimensions as Glock and Stark, what they contain is regarded as quite different.

In regards to the Glock and Stark model, Krauss, *et al* argue that 'there [is] a lack of integration between the unique religious elements that comprise the Islamic *tawhidic* worldview. The Glock and Stark's model does not reflect the Islamic religiosity elements such as the role of the self in religious practise, the different categories of knowledge that comprise religious worldview, e.g., worldly and other-worldly dimensions of knowledge and others that are inherent within the *tawhidic* worldview of Islam' (Krauss, et al., 2005). As a result, Krauss, et al. in their study outlined a measurement model for Muslim religiosity reflective of the *tawhidic* worldview of Islam that included two main religiosity dimensions, Islamic Worldview and Religious Personality. The two dimensions reflect the religious belief/understanding and religious practise or

manifestation of one's religious worldview (Krauss, et al., 2005: 142, and Krauss, et al., 2007: 149).

For measuring Islamic religiosity, Taai (1985) anticipated Krauss, et al. (2005) by developing a scale derived from basic sources of Islamic teaching. This consisted of the following two dimensions: belief and practise dimensions. In this measurement, he did not differentiate between what is recommended and what is obligatory of practises and beliefs. For instance, in the practise dimension, Taai mixes prayer performance and fasting Ramadan, which are obligatory duties, with non-compulsory but desirable practises such as seeking knowledge and voluntary prayer. This could lead to bias in the results, since recommended practises in Islam can be optional in some special cases when the worshipper has an excuse for not being able to perform certain *Ibadah* (for example, certain illnesses may excuse a worshipper from fasting in Ramadan).

In 1988 Albehairi and Demerdash developed a scale to measure intrinsic and extrinsic religious orientation among Muslims. This scale consisted of 34 items. Twenty of those items were adopted from the Allport and Ross (1967) Intrinsic – Extrinsic Religious Orientation Scale, with very slight restatement in some items, which might be due to translation (Khraim, 2010). Khraim (2010: 169) states that '[the used items in this study] does not reflect the real content of Islamic religion, since Islamic teachings are different from other religions, for example in measuring Islamic religiosity, Genia (1993), recommends that the item measuring frequency of worship attendance be dropped, because this item applies only to men, in addition to the lack of internal consistency pertains to the intrinsic items'. As a result, Khraim and Genia describe the used items in this study as 'inappropriate' (Khraim, 2010, and Genia 1993).

In an attempt to overcome the inaccuracy in the previous study, Alsanie (1989) uses the basic Islamic view which combines faith with deeds (or belief with action). In accordance with this view, Alsanie treated belief and practise in his scale as one dimension that measures religiosity in general. Alsanie's treatment of religion as a general concept has been criticised by some researchers since his view may not be warranted. Khraim (2010: 170) argues that 'a person could have good faith and strong belief in the religion but not act upon that belief or practise it. On the other hand, a person could be faithfully practicing what he believes in, but his belief might not be in accordance with the teachings of the religion. So belief and practise, which is considered



a result of belief, are viewed jointly in the Islamic religious system as an indication of good religiosity'. It can be concluded that the belief and practise are not the same and cannot be measured as one component.

Another measurement was introduced for measuring Islamic religiosity. Albelaikhi (1997) used three dimensions; belief, practise and attitude dimensions. The attitude dimension was basically about having positive attitude towards Allah (God), his messengers, and his religion in general. Albelaikhi discusses that 'This dimension is more related to belief dimension, and those who considered as believers must have a positive attitude towards God, his messengers, and religion in general. That means practise is the only dimension which can used in this study' (Albelaikhi, 1997, and Khraim, 2010). Khraim (2010: 170) argues that 'Albelaikhi found many difficulties in interpreting and labeling some components as well as, the items he used failed to represent the identified dimensions. With the lack of attention on practical behaviour, this study shows that it will very troublesome to create a good measurement of Islamic religiosity'.

As an attempt to overcome these problems, Khraim introduces four dimensions which are directed more toward practical behaviour. These dimensions are: Islamic financial services, seeking religious education, current Islamic issues, and sensitive products (Khraim, 2010: 171). Khraim (2010: 171) states that 'The rationale behind selecting these dimensions is to encompass as many issues as possible so that the dimensions reflect the tenet that Islam is a complete way of life rather than as a bundle of rituals in the narrow religious sense. The result from this study shows that 'the three dimensions (seeking religious education, Islamic current issue, and sensitive products) yield the best combination of dimensions to measure Islamic religiosity' (Khraim, 2010: 171). Khraim (2010: 172) observes that 'Although the scale is tentative and conducted in new environment and away from western context, the general results support the assumption of dimensionality in the measurement of Islamic religiosity. It could also be concluded that the nature of religiosity, Islam in this case, is a profoundly complex construct to measure. In addition, the way of approaching the problem of measuring religiosity is another delicate issue'. Khraim (2010: 172) concludes that 'This research helped highlight some problems and obstacles in the road to measuring religiosity among Muslims. This research may be considered as a first step in scale development to understand more deeply one of the factors that influence the consumer behaviour'.

Abdul Shukor and Jamal (2013: 69) state that ‘Religiosity refers to the degree to which a person adheres to his or her religious values, beliefs and practises and uses them in daily life’. In their paper they aim to develop scales of measuring religiosity for Muslims in the context of consumer research. The previous definition to religiosity has been adopted in this study as they believe that it emphasises the importance of adhering to one’s religious beliefs as a basis for action in daily life, which can include many things along with way of behaving in the market place (2013: 69). Abdul Shukor and Jamal (2013: 70) argue that ‘Early researchers have relied upon single indices, or unidimensional measures, to measure religiosity, the most commonly measured element is religious attendance’. Abdul Shukor and Jamal refer to an argument made by Bergan and McConatha (2001) that ‘the reliance on religious attendance as a sole measure of religiosity may be insufficient and lead to incorrect conclusions. For instance, a young Muslim may attend prayers at the mosque for social reasons (i.e. to please their friends)’ (2013: 70). Hence, this particular action could be more of a routine than a worshiping act (Khraim, 2010 and Abdul Shukor and Jamal, 2013: 70). Abdul Shukor and Jamal (2013: 71) argue that ‘The dimensions introduced in Khraim’s study are directed more toward practical behaviour’. They continue to argue that ‘the measurement developed does not reflect the true meaning of Islam. Islam is not a mere belief system or a ‘religion’ in the commonly understood sense of the word, it is, rather, what in Arabic is called a ‘deen’ - a total frame of reference, a complete system and way of life which embraces the entirety of a human being’s existence. Thus, it does not separate what pertains to ‘religion’ such as act of worship, from what pertains to human interaction and mundane or ‘secular’ life’ (2013: 71). Accordingly, Abdul Shukor and Jamal have developed two dimensions for measures of religiosity for Muslims in the context of consumer behaviour. One is ‘*Hablum minallah*’ which refers to a relationship with Allah, and the second is ‘*Hablum minannas*’ that reflects a relationship with other people (2013: 71). Their study operationalises religiosity using nine items. Abdul Shukor and Jamal (2013: 73) conclude that ‘the author[s] offers an easy to administer, reliable and valid measure that can help consumer researchers to better understand and use religiosity as important construct in the consumer research’. A summary of Islamic religiosity measurements are shown in Table 4.1.

To conclude, the role of Islamic religiousness as a variable in models of consumer behaviour is not well established. Research findings in this area tend to be sparse and conflicting, and measurement issues have yet to be addressed. This study proposes

comprehensive Islamic religiosity measurement that has been rigorously tested. This will be discussed in chapter 6.

**Table 4.1: Studies of Islamic Religiosity**

<b>Author (Year)</b>	<b>Measurements</b>
Hassani (1978), Yahya (1988), and Junger and Polder (1993)	Measurements used in these studies were ambiguous, arbitrary or sometimes subjective single-item definitions of religiosity.
Samandari (1982)	The original measurement was consisted of 40- items and only 5-items of 40 were used. There was no report on internal validity and reliability of the scales.
Pouryoussefi (1984)	The measurement used 31-item Likert scale of Glock and Stark's model of religiosity (1965) (excluding the intellectual dimension). There was no report on internal validity and reliability of the scale.
Taai (1985)	The measurement anticipated Krauss, et al. (2005). It was based on basic sources of Islamic teaching and it this consisted of 2 dimensions: belief and practise.
Albehairi and Demerdash (1988)	The measurement based on 2 dimensions: intrinsic and extrinsic religious orientation. The scale consisted of 34 items. The measurement described as 'inappropriate'.
Alsanie (1989)	The measurement based on the basic Islamic view which combines faith with deeds. Belief and practise was treated as 1 dimension. This measurement was criticised that belief and practise are not the same and cannot be measured as one component.
Wilde and Joseph's (1997)	Adopted Glock and Stark's model (1965). The measurement consisted of 14-items 'Muslim Attitudes Towards Religion Scale' (MARS).
Albelaikhi (1997)	The measurement used 3 dimensions: belief, practise and attitude. However, the used items failed to represent the identified dimensions.
Serajzadeh (1998)	Adapted Glock and Stark (1965) and applied the aspects of the Islamic faith.
Krauss, et al. (2005)	The measurement was based on the <i>tawhidic</i> worldview of Islam and included 2 main dimensions: Islamic Worldview and Religious Personality.
Rehman and Shabbir (2010)	The measurement adopted Glock and Stark's model (1965) and was based on 5 dimensions: Ideological, experiential, consequential, ritualistic and intellectual.
Khram (2010)	The measurement was based on 4 dimensions: Islamic financial services, seeking religious education, Islamic current issues and sensitive products. This measurement was criticised as directed more toward practical behaviour and that it does not reflect the true meaning of Islam.
Abdul Shukor and Jamal (2013)	The measurement was based on 2 dimensions: <i>Hablum minallah</i> and <i>Hablum minannas</i> . The scale used 9 items.

The following sections in this Chapter (4.7 - 4.9) look into background on Muslims and Islam in UK and KSA. This allows identifying the key differences that might lead to differences in perceptions and choices regarding insurance. For instance, different intensity of religion, who makes purchasing decisions, legal requirements for particular types of insurance in different countries. The discussion in the following sections ends by identifying degree of religiosity as potentially a key factor that could explain differences.

#### **4.7 Background on Muslims and Islam in UK and KSA**

Saudi Arabia has population of 27 million of which 60 % are under the age of 25 and 40 % of the population are under 15 (Ministry of Planning, 2009). The population is expected to reach nearly 40 million by 2025 (Mouawad, 2008). Saudi Arabia is considered to be a developing country. The World Bank, (2009) defined developing countries as Countries that are below- or middle-income countries compared with developed countries. Despite this status, Saudi Arabia is the largest economy in the Middle East, comprising 25% of the Arab world's GDP (USSABC, 2008). It is the world's leading oil exporter, possessing one-fourth of the world's proven oil reserves (Energy Information Administration, 2009).

Saudi Arabia is a society with a large governmental and private business organizations explicitly operating according to Saudi values and traditions. Saudi is governed by a structure akin to what Weber (1947) characterized as traditional authority structures. Ali (1990 and 2009) suggested that management practices in Arabic society are influenced by Islam, tribal traditions, colonial legacies, Western influences, and government interventions. Saudi Arabia is a hereditary monarchy and that have reflected on organization. Rights and responsibilities are allocated among Saudi citizens who represent their families according to both the family social rank and their personal qualifications in the society. As in all traditional societies, posts are obtained through a mix of both individual merit and position (Al-Aiban and Pearce, 1993, and Ali, 2009). This situation has remained the case. In Saudi Arabia an attempt to balance free market capitalism with the protection of highly valued cultural and religious traditions has led to a unique set of governance mechanisms. The Saudi government has traditionally steered clear of micro-managing private sector activity yet with the Saudi Stock Market governmental authorities concluded that developing a reasonable governance structure would generate a healthier investment climate (Mellahi, 2007). There are essentially two

legal systems in Saudi Arabia: one is based on Sharia and the other is based on secularized (non-religious) laws, known as Nitham (Kwong and Levitt, 2009). In this sense, Saudi Arabian government is undertaking and creating a dualistic legal system. For example, while Islamic Sharia remains the paramount and primary legal system in Saudi Arabia, the government has come to allow a separate, Western-based commercial law system to function within the Islamic law umbrella. For instance, conventional non-Islamic financial institutions are allowed to function even though that may introduce inconsistency to the overall legal system.

Despite that, the Islamic Sharia is the law applicable to all judicial matters in KSA. However, considerable changes, both economically and socially, in the country, particularly over the last few decades, have created pressing need for the enactment of regulations by Royal Decrees, Ministerial Decisions or Administrative Circulars in many fields of activity such as business, insurance and banking, labour, social security and arbitration, etc. Such legislation is meant to supplement the Sharia law and is approved of by it, because it is not contrary to Sharia principles (Al-Ghadyan, 1998). Traditionally, financial sectors in the Gulf Region - with the exception of that in Bahrain - have been protected from foreign competition through regulations that impose barriers to entry. The World Trade Organization is pressuring the Gulf Cooperation Council (GCC) countries to tear down barriers to foreign competition. In response, the financial landscapes in countries such as Kuwait, Saudi Arabia, and the United Arab Emirates (UAE) have already undergone significant changes in the past two years. In May 2004, when the Saudi Arabian Monetary Authority (SAMA) granted new single-branch licenses to several global players including BNP Paribas, Deutsche Bank, and JP Morgan Chase, and authorized HSBC (Al-Karasneh and Fatheldin, 2005). Despite the richness of Islamic teachings on the conduct of business and trade, very little has been written on consumer protection in Islamic societies other than discussions of financial markets and consumer credit and monopoly (Morris and Al-Dabbagh, 2004).

The influence of Islam on the Saudi Arabian cultural traditions has been very powerful. This is a common thread throughout the Middle East. According to Hickson and Pugh (1995), there are four unique influences on Arab values: foreign rule, the Western quest for oil, Bedouin/tribal traditions, and Islam. The scope and magnitude of influence of each factor tends to vary from country to country. The value in Saudi Arabia stems primarily from the Islamic beliefs and the extent to which each nation upholds Muslim

beliefs in their respective legal, political and business environments (Ali, 1990 and 1999). Saudi Arabia is arguably the most fundamental and devoted Muslim state. Being the birthplace of Islam and the location of the two holy shrines Mecca and Medina for approximately one quarter of the world population, the Saudis have assumed the religious leadership position for Muslims around the globe. With such politically as well as socially sensitive role, the Saudis have maintained rigid controls on the social and moral code of conduct of their people through the strictest adherence to the holy Qur'an which plays a major role in every facet of Saudi life (Hickson and Pugh, 1995).

Religion is one of the most important influencers of national culture (Hickson and Pugh, 1995; Hill, 2003; Hofstede, 2001; Mencil, 2005; Rice, 2003). It is clear that the Islamic religion permeates every area of life in Saudi Arabia, heavily shaping the Saudi national culture (Alanazi and Rodrigues, 2003; Lundgren, 1998; Mababaya, 2002; Moran et al., 2007; Pillai et al, 1999; Rice, 2003). As the birthplace of Islam, Saudi Arabia remains the focal point of Islam within the Arab world (Moran et al, 2007; Robertson et al, 2001). Consequently, the relevance and prevalence of Islamic cultural values in the lives of its people is arguably greater than in any other Arab nation (Hickson and Pugh, 1995; Mababaya, 2002; Robertson et al, 2001). This influence necessarily extends to how business is conducted and how organisations operate in Saudi Arabia as well (Ali, 1990; Mababaya, 2002; Rice, 2003).

On the other hand, protestant faith has had a profound effect on the United Kingdom in past centuries. The majority of UK citizens define themselves as Christians. However, the state and constitution are secular. There is a clear separation between religion and the state in the UK. In the UK there are multicultural agendas mostly revolved around 'race' and minority status (Guvili and Platt, 2011). Guvili and Platt (2011: 11) state 'Until recently, religions were only covered by anti-discrimination legislation if they could be shown to be ethno-cultural entities – so, through case law Jews and Sikhs came to be covered but not Muslims. Muslims were also not covered by blasphemy laws'. Muslim population of Britain from the 2011 Census make up the second largest religious group with 2.7 million people, an increase of 1.2 million (from 3% to 5% of the population). Muslims were more ethnically diverse than the rest of the UK population. Although Muslims are often represented as a homogenous group, there are considerable internal differences, so that the characteristics of the population as a whole do not apply to all groups within. The 2011 Census shows that two-thirds of Muslims (68%) were from an

Asian background, with Pakistanis making up 38% of the total Muslim population, a 371,000 increase (from 658,000 to over a million) since 2001. However, one-third comes from diverse European, African, North African, Middle Eastern and other Asian sources. Just over half of all Muslims (53%) in 2011 were born outside the UK. Numbers of foreign-born Muslims have almost doubled from 828,000 in 2001 to 1.4 million in 2011, but there has been little change in the proportion of foreign-born Muslims between the two census dates. Muslims had the youngest age profile of the main religious groups in Britain. Nearly half of Muslims (48%) were aged under 25 (1.3 million), an increase of 505,000 since 2001. UK Muslim gender roles emerge as a critical differentiator of socio-economic vulnerability. Taken as a whole, the Muslim population are young and rapidly growing; its socio-economic profile is depressed, marked by the exceptionally low participation rate of women in the formal labour market, and by high concentration in areas of multiple deprivation (Peach, 2006). The majority of Muslims in the UK are either immigrants or the children of immigrants who have typically emigrated from countries where Islam is the majority religion and where participation in religious activities is higher than in the destination country. However, within this general pattern there is great diversity in terms of both origin societies and destination country. These ethnicities reflect complex histories of migration, and settlement as well as diverse historical and cultural heritages with different religious interpretations and practices.

According to Home Office estimates the Muslim Population in the UK now constitutes the second largest religious community in the UK after Christians. Most Muslims observe the Sunni tradition at 1136 registered mosques every Friday (MCB, 2006). Muslim communities have remained concentrated in the inner city areas of older towns and cities in the North, the Midlands, and the South. As a result to this, Abbas concludes 'It is an indicator of how they have not benefited from the levels of mobility enjoyed by other migrant communities, and of their inability to move out areas which are facing high levels of social tension and economic deprivation through direct discrimination, racial hostility and cultural preference' (2006: 17).

The position of Muslims in Western societies is the subject of intense study and debate (Modood 1998). However, remarkably little attention has been paid to the practice of UK Muslims and how Muslim religiosity relates to conventional measures of social and economic integration. On the contrary, there has been an increasing recognition of the economic disadvantage experienced by Muslims in many European countries (Ansari

2002; Platt 2007; Vasta 2007). However, little attention has been paid to the religious practice of UK and European Muslim immigrants and their descendants and to how Muslim religiosity relates to conventional measures of social and economic integration. Although current debates about Muslims in Europe often recognise that Muslim communities in different countries are quite distinct in terms of culture and ethnic origin, some debates are underpinned indirectly or explicitly by a universalising frame of reference that assumes transnational continuity in religious beliefs and practices, and their correlates (Guvili and Platt, 2011).

#### **4.8 Key Differences That Might Lead To Differences in Perceptions and Choices Regarding Insurance**

This section shows who makes purchasing decisions, legal requirements for particular types of insurance in the UK and KSA.

The main source of information about the insurance market in Saudi Arabia is The Saudi Monetary Agency (SAMA). As such, all information available about insurance in the Kingdom can be found on SAMA's website, specifically, under the "Publications" section. In Saudi, only one type of insurance is compulsory which is motor insurance (third party policy). This policy covers the damages caused to individuals and property by your vehicle. This policy does not cover the damages afflicting you or your vehicle when driving. For example, when an accident takes place and you are 100% the cause, the insurance company will pay for all the damages made by you, but will not pay you any compensation for damages afflicting you or your vehicle. Based on the Law on Supervision of Cooperative Insurance Companies issued under Royal Decree No. M/32 dated 02/06/1424 H, the Implementing Regulations issued under the Minister of Finance's resolution No. 1/596 dated 1/3/1425 H (20 April 2004), and the Council of Ministers' Resolution No.222 dated 13/08/1422 H (29 October 2001) concerning compulsory motor insurance, this unified policy shall be effective as from the date of its approval by SAMA's Governor, and shall replace the "Third Party Liability Insurance Policy (Motor)" issued by the Governor's resolution No. 1/427 dated 18/05/1427 H (14 June 2006). This means that motor insurance has been compulsory in KSA since 2006. SAMA (2013) identifies the compulsory insurance policy as a motor third party liability insurance policy under which the insurer undertakes to indemnify the third party upon the occurrence of a loss covered under the policy, for a premium paid by the insured.



This policy shall include the promissory warranty certificates and appendices (if any) provided that they shall not contradict or violate the provisions stated in this policy. It is important to mention that there is no law that make it compulsory to insure with Takaful insurance company only, however, the person is free to choose between variety of insurance companies whether Takaful or conventional. However, motor insurance policies must be issued by companies based in KSA. There is a strong motive for establishing Takaful general insurance in Saudi Arabia based on current market volume. The recent changes in regulation by SAMA are one of the drive forces behind the surge in demand for Takaful polices.

On the other hand, in the UK some types of insurance are legally compulsory for everyone. There are currently two types of insurance cover that are required by law in the UK. One is Motor Insurance. All drivers are required by law (under the Road Traffic Act of 1930) to have in force an insurance policy to cover their liability for bodily injury to or damage to third party property which arises from the use of a motor vehicle. Motor insurance is available for private cars, motorcycles, commercial vehicles and fleet insurance. Motor is one of the compulsory insurance classes and anyone using a motor vehicle on the public highway must have it (CII, 2013). The people do not have to take anything other than Third Party only although many policies are now arranged on a Third Party Fire and Theft and Fully Comprehensive basis. Two is Employers' Liability. Employers Liability Insurance is required by law (under the Compulsory Insurance Act 1969) if a person runs a business. This merely to provide cover in the event that one of the employees is injured or becomes ill as a result of working for the person who is running the business.

In the UK, many believe that there are other types of legally mandatory insurance since people are often heavily encouraged to take out additional covers – but it is not the case. Examples of such insurance covers are: a) Payment Protection Insurance that are often sold by banks to cover a loan that a person take out with them. b) Mortgage lenders will often insist on buildings insurance, life assurance and even critical illness payment protection. c) Landlords frequently request home contents cover insurance before a new rental agreement is signed. On the other hand, because of the coverage provided by the National Health Service, personal health insurance policies are purchased by only a minority of households in the UK.

From this presentation, it can be concluded that Saudis have the freedom of choice in taking any insurance cover and it is merely based on the individual personal need and preferences, except for motor insurance, which has become mandatory by law on everyone that owns a vehicle in June 2006. Furthermore, people have the choice to insure with any insurance company regardless of that it is being a Takaful company or not. However, British regardless of their religion, belief, ethnicity and background have to have legally mandatory insurance; motor cover and employers' liability (if owning a business), and heavily encouraged to take out additional covers. As there are no Takaful insurance companies in the UK, everyone have to insure with non-Takaful operators. Therefore, Muslims residing in the UK have to insure with local insurance operators for the mandatory covers and any other necessary insurance policies. A devout Muslim who prefers to have a Takaful policy does not have the choice to do so unless it is optional. In this case, people are not forced to acquire insurance policy locally, and have the option to acquire Takaful from the global market.

Compared with countries that have a Muslim majority like Saudi, Takaful has been rather slow to develop in the UK. The actual reasons behind the slow growth of Takaful companies are still unknown; refer to Chapter 6 section 6.2 for more details.

#### **4.9 Identifying Degree of Religiosity as Potentially a Key Factor That Could Explain Differences**

Drawing on the discussion in section 4.7, I would expect religiosity to be affected by the degree of development of the origin country, whether it is primarily agrarian or industrial and whether it is religiously plural. On this basis, to what extents are Muslims in the UK and KSA are likely to differ from one another in terms of their religiosity? Turning first to KSA, almost all of the population are Saudi and Muslims by birth living in an Islamic country that is categorised as a single income economy. In other words, the Saudi society has a highly homogenous culture, is tightly observant of Islamic teachings and values, and like most Eastern societies, has a collective culture (Al-Zahrani and Kaplitz, 1993). The UK's Muslims are predominantly Pakistani and Bangladeshi, though Indian Muslims (from both India and East Africa) make up a sizeable share. Both Pakistan and especially Bangladesh are agrarian societies and they are both Islamic societies. Indian Muslims from East Africa were a primarily urban minority, and Muslims are a

(substantial) religious minority in India. From this, I might therefore expect that Saudis attend religious meetings more than UK Muslims, while Bangladeshis and Pakistanis would show more religious observance than Indians and African Asian in the UK.

In line with the prior presentation, these factors would suggest a greater tendency towards secularization for Muslims in the UK compared to Saudis. While I cannot make a direct comparison between the two countries relating to the extent of religiosity, these contextual factors are likely to influence the ways in which economic, educational, integration and identification factors play out in the two settings. This also give rise to the issue about factors shaping religiosity can be highly context specific, and say as much about the national settings within which Muslims practice and their own histories and origins, as about the determinants of religious practice themselves.

The limited research in the Middle East region is attributed to several factors such as burgeoning research costs, funding difficulties, cultural limitations which limit access to the adult population (particularly with females), and data gathering problems that range from sampling to fieldwork issues (Yavas, 1994; Yavas & Habib, 1986; Tuncalp, 1988). Overall, there is a lack of academic and professional literature about religious practice and more specifically the relationship of level of religiosity among Muslims in the UK and Saudi Arabia. This particular topic has not yet received enough attention from social scientists. Shortage in pertinent information made the research heavily dependent on fieldwork data.

Thus, this research is considered a first in identifying degree of religiosity among Muslims in the UK and KSA. In addition, it draws the attention whether the degree of religiosity is considered a potential key factor that could explain differences among different groups of Muslims.

## **4.10 Summary**

This chapter presented and reviewed the current literature on religion and religiosity in the context of social sciences, namely consumer behaviour. It started with introducing religion as an object of study and showed how religious values shape the behaviour and practises of institutions and members of cultures. This was followed by defining religion and reviewing studies of religion in consumer behaviour. A case study of social sciences

research involving religion was presented. This led to look at religion as a sensible explanatory variable which was discussed in the accounting context. As these discussion and argument gave rise to the problem of operationalizing religiosity, an expansion on the concept of religiosity were followed. This was followed by a review of the prior research involving religiosity. These perspectives are key features of the present research into the influence of religiosity on consumer choice and perspective of insurance policies. Existing measures of Islamic religiosity were critically reviewed. This chapter then goes into discussing the background on Muslims and Islam in UK and KSA. This then identifies degree of religiosity as potentially a key factor that could explain differences. This chapter has moved from a general statement of the importance of religion in research down to conceptualisation of the idea of religiosity.

This chapter, with the previous two chapters, has revealed several research gaps. First (see Chapter Two) insurance is relatively under-researched as an aspect of Islamic finance. Secondly (see Chapter Three), although there is a literature addressing Takaful at the conceptual level, there is little research examining Takaful in practice. In particular, the question of whether providers of Takaful regard it as different in substance rather than form from conventional insurance has not been addressed in detail. Finally, very little is known about consumers' use of and attitudes to Takaful among Muslims. Are there differences between these aspects between Muslims in Saudi Arabia and those in the UK? I would expect that the greater degree of secularisation of Muslims in the UK in comparison with those in Saudi Arabia would be reflected in differences in use of and attitudes to Takaful. This will be explored in Chapters Seven to Nine, using the framework of religiosity set out in this chapter.

## **CHAPTER FIVE: RESEARCH METHODS**

### **5.0 Introduction**

Having identified the background, literature and variables to be explored in this study, this chapter continues to describe a crucial part of the research process in materializing the empirical aims of the study. Following this introduction, the chapter continues as follows: Section 5.1 defines and discusses research philosophy and identifies the followed paradigm in this study and the rationales behind the choice. Section 5.2 discusses the research Hypotheses. Section 5.3 explains the research strategy undertaken in this study. Section 5.4 focuses on the research design. Section 5.5 describes the research techniques where data collection are presented. Section 5.6 discusses the research quality issues. Section 5.7 describes the data analyses that have been used in this study depending on the data collection tools. This chapter concludes with a summary in section 5.8.

### **5.1 Research Philosophy**

Researchers have different world views or belief systems which guide them in their research, influencing the decisions they make about how to conduct their studies, what counts as valid knowledge, what is the right way to obtain that knowledge, how it should be analysed (e.g. using quantitative or qualitative-based methods) and what their own role in the process is. Hence projects usually fit into one of four main categories of research: 1) positivist/post-positivist; 2) social constructivist; 3) pragmatic and 4) participatory. The various approaches to research are sometimes called research paradigms. The whole issue of paradigms can be traced back to Kuhn's 1962 influential book *The Structure of Scientific Revolutions* (Kuhn, 1962).

It is widely agreed by researchers that the two main paradigms for social science research (for quite some time) were the positivist/post-positivist paradigm (linked to quantitative research) and the constructivist/interpretivist paradigm (usually associated with qualitative research). 'A few decades ago, there were huge methodological debates as to which of the two paradigms was right. Some researchers argued that only the positivist/post-positivist paradigm was "real science". Others argued that it was not suited to the study of complex human and social issues. This debate came to be known as the paradigm wars and there was an "incompatibility theory" which stated that the two

approaches were irreconcilable due to their very different underlying philosophies' (Trochim, 2006).

Carson et al. (2001: 5) describe the positivism paradigm 'where the positivist ontology holds that the world is external and objective and that researchers can explain causal relationships by means of objective facts'. Based on this, the positivist's perspective sees that the social world exists externally, and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection or intuition (Carson et al., 2001). Bryman and Bell (2003: 13) suggest that it is very difficult to pin down the doctrine of positivism since it has been used in a number of different ways by authors. Positivism is defined as 'an epistemological position that advocates the application of the methods of the natural science to the study of social reality and beyond. However, the term stretches beyond this principle, though the constituent elements vary between authors' (Bryman and Bell, 2003: 14, and 2007: 16). Bryman and Bell suggest further that positivism entails the following principles (2003: 14, and 2007: 16):

1. Only phenomena and hence knowledge confirmed by the senses can genuinely be warranted as knowledge (the principle of phenomenalism).
2. The purpose of theory is to generate hypotheses that can be tested and that will thereby allow explanations of laws to be assessed (the principle of deductivism).
3. Knowledge is arrived at through the gathering of facts that provide the basis for laws (the principle of inductivism).
4. Science must (and presumably can) be conducted in a way that is value free (that is, objective).
5. There is a clear distinction between scientific statements and normative statements and a belief that the former are the true domain of the scientist.

Hussey J. and Hussey R. (1997: 52) argue that 'Positivism is founded on the belief that the study of human behaviour should be conducted in the same way as studies conducted in the natural sciences. It is based on the assumption that social reality is independent of us and exists regardless of whether we are aware of it. Therefore, the ontological debate of 'What is reality?' can be kept distinct from the epistemological question of 'How do we obtain knowledge of that reality?' The act of investigating reality has no effect on that reality'.

Interpretivism on the other hand is an alternative to the positivist approach that has held influence for decades (Bryman and Bell, 2003). Bryman and Bell (2003:16) state that interpretivism ‘is predicated upon the view that a strategy is required that respects the differences between people and the objects of the natural sciences and therefore requires the social scientist to grasp the subjective meaning of social action’. Interpretivism emphasises relativism and that there are few truly universal standards of scientific adequacy (Bryman and Bell, 2003:16). As such, this is the paradigm that views the world and “reality” as socially constructed and given meaning by people. Many of the ideas in this approach stem from the introduction of Max Weber’s concept of *Verstehen* which is ‘interpretive understanding’ (Bryman and Bell, 2003: 16, and Outhwaite, 1987: 2). Weber argued that interpretive understanding of human behaviours and actions could be obtained in greater depth through studying the understanding of the actor (Weber, 1949). He (1968: 24) defined sociology as ‘A science concerning itself with interpretive understanding of social action and thereby with a causal explanation of its course and consequences’. According to latter definition, Weber has largely been seen as trying to reconcile the advantages of “interpretive understanding”, with the demand for “scientific criteria” which was dominant during his time (cited in Hughes, 1980: 69, and Maali 2005:104). Weber’s notion of *Verstehen*, the hermeneutic-phenomenological tradition and symbolic interactionism are described as the intellectual heritage of interpretivism (Bryman and Bell, 2003: 16).

Schwandt (2001: 118) sees intepretivism as a sensitising concept that steers researchers towards a particular outlook:

*Proponents of these persuasions share the goal of understanding the complex world of lived experience from the point of view of those who live it. This goal is variously spoken of as an abiding concern for the life world, for the emic point of view, for understanding meaning, for grasping the actor’s definition of a situation, for Verstehen. The world of lived reality and situation-specific meanings that constitute the general object of investigation is thought to be constructed by social actors.*

Interpretivists reject the notions of theory-neutral observations and the idea of universal laws as in science. Theory in this paradigm takes on a different perspective:

*Knowledge consists of those constructions about which there is a relative consensus (or at least some movement towards consensus) among those competent (and in the case of more arcane material, trusted) to interpret the substance of the construction. Multiple 'knowledges' can coexist when equally competent (or trusted) interpreters disagree (Guba and Lincoln, 1994: 113).*

Hart and Gregor state 'The interpretivist paradigm leads to a view of theory which is theory for understanding, theory that possibly does not have strong predictive power and is of limited generality' (Hart and Gregor, 2004).

### **5.1.1. Paradigm Followed in Present Research**

In this study, I lean towards the positivistic paradigm. The main thrust of this research relies upon hypothesis testing by logical empiricism. The approach I am following seeks the facts or causes of social phenomena, with little regard to the subjective state of the individual (Hussey, J. and Hussey, R., 1997: 52). In this study, there is a need not only to understand but also to analyse the conceptual and operational differences between Takaful and conventional general insurance. In addition, the study tries to investigate the extent to which Takaful products are distinctive in substance from conventional insurance products. Moreover, the study aims to explore the relationship between acquiring a Takaful policy and the depth of religiosity among Muslims. Although this means that individuals' opinions will be investigated, they are measured using objective scales. Logical reasoning is applied to this research so that accuracy, objectivity and rigour replace hunches and intuition as the means of investigating the research problem. Rational explanation is better able to deal with the research objectives of this study, as it provides the means to understand and investigate the empirical research questions. Based on the discussion above and the research objectives, the positivism paradigm is regarded as the appropriate research philosophy for the present study.

There has been criticism of the positivistic paradigm on many grounds. Hussey J. and Hussey R. summarise the main criticisms as follows (1997: 53):

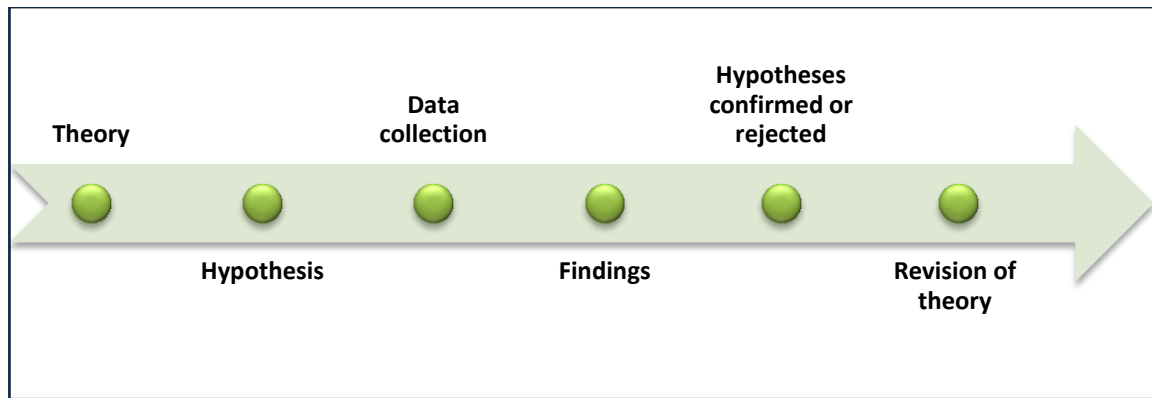


1. It is impossible to treat people as being separate from their social contexts and they cannot be understood without examining the perceptions they have of their own activities.
2. A highly structured research design imposes certain constraints on the results and may ignore more relevant and interesting findings.
3. Researchers are not objective, but part of what they observe. They bring their own interests and values to the research.
4. Capturing complex phenomena in a single measure is, at best, misleading. For example, is it possible to assign a numerical value to a person's intelligence?

However, although I acknowledge such limitations, I believe that good research design can offset such limitations. Therefore, two sources of data both quantitative and qualitative is gathered this research.

As this study follows a deductive approach, it is felt of use to mention briefly the process of such approach. Deductive reasoning works from the more general to the more specific. Sometimes this is informally called a “top-down” approach. Bryman and Bell (2003: 9) state ‘Deductive theory represents the commonest view of the nature of the relationship between theory and research’. This process begins with thinking up a *theory* about the topic of interest. Then narrow that down into more specific *hypotheses* that can be tested. In other words, based on what is known about a particular subject or field, hypotheses/a hypothesis then are/is deduced in accordance to the empirical study. Further narrowing down takes place when collecting *observations* to address the hypotheses. This ultimately leads the researcher to be able to test the hypotheses with specific data- a *confirmation* (or not) of the original theories. The process of deduction approach is shown in figure 5.1 below.

**Figure 5.1 The Process of Deduction Approach**



Note: This is adapted from Bryman and Bell, 2003.

The steps outlined above show that the process starts with a theoretical idea which reflects an explanation of observed regularities in relation to a particular domain. The next step entails that the hypothesis is deduced from the theory. The latter step derives the process of gathering data. Once information has been collected and on the basis of the data analysis, the step of the finding will emerge. Accordingly, findings will confirm or reject the research hypotheses. As explained by Bryman and Bell (2003: 10) ‘the last step involves a movement that is in the opposite direction from deduction-it involves induction, as the researchers infers the implications of his or her findings for the theory that prompted the whole exercise’. Many researchers describe this process as an ideal process that follows a clear and logical sequence. Bryman and Bell (2003: 68) suggest in regard to this process that ‘it is probably never or rarely found in this pure form, but it represents a useful starting point for getting to grips with the main ingredients of the approach and the links between them’.

## **5.2 Theorisation and Hypothesis Development**

A proposed answer to a research question is known as a hypothesis (Loether and McTavish, 2002). A hypothesis is also defined as ‘a logical supposition, a reasonable guess, an educated conjecture. It provides a tentative explanation for a phenomenon under investigation (Leedy and Ormrod, 2001). Hussey, J. and Hussey, R. (1997: 77) definition of a hypothesis is ‘An idea or proposition which can be tested for association or causality by deducing logical consequences which can be tested against empirical evidence’. Loether and McTavish (2002: 32) describe the role of a research hypothesis in the following terms ‘research starts with a hypothesis, usually derived from prior theory relevant to a research question, and gathers factual data to test whether the hypothesis is

likely or unlikely to be false'. Trochim (2006) discusses that 'not all studies have hypotheses' and 'there is no formal hypothesis, and perhaps the purpose of the study is to explore some area more thoroughly in order to develop some specific hypothesis or prediction that can be tested in future research'. However, when it comes to setting up a hypothesis test, Trochim (2006) suggests that 'The way we would formally set up the hypothesis test is to formulate two hypothesis statements, one that describes your prediction and one that describes all the other possible outcomes with respect to the hypothesised relationship'. Trochim (2006) states further that the logic of hypothesis testing is based on these two basic principles:

- *The formulation of two mutually exclusive hypothesis statements that, together, exhaust all possible outcomes.*
- *The testing of these so that one is necessarily accepted and the other rejected.*

The proposed empirical hypotheses for this research are set out below. In some cases, these are hypotheses in the sense of Leedy and Ormrod (2001) quoted above – 'a reasonable guess'. They are propositions about the state of the world that may appear to be rather obvious in the light of the discussion in the earlier chapters. However, for the purpose of clarity of exposition, no distinction is drawn between hypotheses in the sense of propositions and hypotheses in the sense of empirically refutable statements. The rationale for each of the hypotheses is discussed in more detail later in this section.

H1. Insurance operators identify conceptual and operational differences between Takaful and conventional general insurance.

H2. There is a significant distinction in substance between Takaful and conventional insurance products.

H3. Muslims are aware of a range of Islamic financial products, including Takaful.

H4. Muslims are likely to consider compliance with Sharia to be an important attribute of Islamic financial products.

H5. Muslims' perceptions of Takaful and conventional insurance are not significantly different in the UK and KSA.

H6. Usage of Takaful is greater in KSA than in the UK.

H7. There is a significant relationship between acquiring a Takaful product and the depth of religiosity among Muslims.

H8. Religious motives are an important factor in explaining Muslims' choice between Takaful insurance and conventional insurance.

The study has divided the objects of research into three major categories consistent with the study's focus, namely, conceptual and operational differences between Takaful and conventional insurance, awareness, perception and usage of Takaful, and factors affecting insurance policies choices. As follows, I summarise the theoretical notions set out in the previous literature review chapters that lead me to propose the earlier list of hypotheses.

#### ***Conceptual and Operational Differences: Qualitative Analysis***

Existing literature on Takaful has not provided straight answers to the following proposed two questions. This is not surprising as Takaful is an emerging topic where many gaps need to be filled in the literature. Furthermore, the age of Takaful companies and products are relatively short in comparison with a well-established conventional insurance industry. Thus, Takaful products have not gone through the cycle of creating, testing and developing stages. Therefore, it was felt necessary to further investigate the reality of Takaful products from the providers' perspectives, and comparing policies of both insurance models along with the examination of the literature.

The first empirical chapter focuses on the two issues: conceptual and operational differences and distinction in substance that aim to answer the following research questions:

1. CONCEPTUAL AND OPERATIONAL DIFFERENCES: What are the conceptual and operational differences between Takaful and conventional general insurance?
2. DISTINCTION IN SUBSTANCE: Can Takaful be distinctive in substance as well as in form from its conventional counterparts?

Each of these research questions is linked with a propositional-form hypothesis. The conceptual literature summarized in Chapter Three suggests that there are differences in principle between Takaful and conventional insurance. I would therefore predict that insurance operators would be aware of and identify these differences.

*H1. Insurance operators identify conceptual and operational differences between Takaful and conventional general insurance.*

However, it is not enough for there to be differences in form. Review of policy documents and discussions with insurance providers and others should be able to determine whether or not these differences in form amount to differences in substance.

*H2. There is a significant distinction in substance between Takaful and conventional insurance products.*

#### ***Awareness, Attribute Salience, Perception and Usage of Takaful***

Since most Islamic scholars consider that conventional insurance does not comply with Sharia, it would be expected that Muslims would seek out a Sharia-compliant financial product that provides the risk-sharing benefits of insurance. But how far, in practice, are Muslims aware of Takaful as an alternative to conventional insurance? Are they more aware of Takaful than other common Islamic financial products? What do they consider to be the most important attributes of Islamic finance products in general? How do they perceive Takaful in comparison with conventional insurance? And to what extent do they actually purchase Takaful and conventional insurance products? Although there is a growing literature on the factors that influence consumers' preferences for Islamic banking (see Dusuki and Abdullah (2007) for a survey), research into preferences regarding Takaful is at present limited, although Rahim and Amin (2011) have studied factors that may influence the customers of banks in Malaysia to accept Takaful products.

The second empirical chapter focuses on the four issues: awareness, attribute salience, perceptions and usage that answers the following four research questions:

1. AWARENESS: How far are Muslims aware of Islamic financial products (including Takaful)?

2. ATTRIBUTE SALIENCE: What do Muslims consider to be the most important attributes of financial products?
3. PERCEPTIONS: How do Muslims perceive Takaful and conventional insurance products?
4. USAGE: What types of insurance products do Muslims consider and actually buy?

I expect that the market for Islamic finance is more likely to be developed in a Muslim-majority country than in a Muslim-minority country, implying that there will be systematic differences in responses from Muslims in different countries. To investigate this, I have chosen the United Kingdom (UK) to represent Muslim-minority countries and the Kingdom of Saudi Arabia (KSA) to represent Muslim-majority countries. I am aware that the extent to which these countries are indeed representative of their classes is open to debate. However, a comparison between these two countries is likely to reveal interesting results.

Given the extensive promotion of Islamic financial products among the Muslim communities around the world, I expect some awareness of a wide range of Islamic financial products. Most of the studies of consumers of Islamic financial products start with consumers who are already purchasing such products. These studies investigate why consumers select such products, and how satisfied they are with the products they select. Previous studies have investigated a range of countries, including Jordan (Erol and El-Bdour, 1989; Naser, Jamal and Al-Khatib, 1999), Kuwait (Othman and Owen, 2001), Malaysia (Ahmad and Haron, 2002; Dusuki and Abdullah, 2007), and Singapore (Gerrard and Cunningham, 2001). However, little is known about consumer attitudes in the UK or KSA. Coolen-Maturi (2013) finds that there is lack of awareness about Takaful insurance and its main principles among UK Muslim communities and that most of respondents are only aware of *riba* and *maisir* concept. Given the growing significance of Islamic finance around the world, I would expect Muslims in all countries to be aware of major Islamic financial products. Many of these products are aimed at commercial clients rather than personal customers, but Takaful is an exception, and so I would predict that the respondents will show awareness of Takaful in particular.

*H3. Muslims are aware of a range of Islamic financial products, including Takaful.*

Prior researchers have investigated many potential factors that might enhance the attractiveness of Islamic financial products. Some of these are not specific to Islamic products. Dusuki and Abdullah (2007), in summarising much of the prior literature in this area, mention factors such as returns, costs, service delivery, size and reputation, location, and competence and courtesy of staff ('service-related' factors), as well as advertising and recommendations of family and friends. In addition, they also mention the 'religious' factor – whether products are perceived as complying with Sharia, and whether customers are particularly pious. In their review of prior literature, Dusuki and Abdullah (2007) find that most of the 'service-related' factors are positively associated with customer satisfaction, while the 'religious' factor is more ambiguous: some researchers (including Naser, Jamal and Al-Khatib, 1999) find a positive association, while others (including Erol and El-Bdour, 1989, and Ahmad and Haron, 2002) find a negative association. In this research, I am more concerned with understanding what influences the initial choice of insurance vehicle, rather than ex post customer satisfaction, so I consider that Muslim consumers will give a high rating to Sharia compliance when choosing insurance products.

*H4. Muslims are likely to consider compliance with Sharia to be an important attribute of Islamic financial products.*

Most prior studies of attitudes and perceptions to Islamic financial products have been single-country investigations, usually restricted to Muslim respondents. Although the results of prior research have identified differences in some responses across countries, the absence of a specific comparative study means that it is not possible to rule out methodological differences as the source of variations in results. I have no prior expectations at a theoretical level of systematic differences in perception of Islamic financial products between respondents in the UK and KSA.

*H5. Muslims' perceptions of Takaful and conventional insurance are not significantly different in the UK and KSA.*

Islamic finance is much more embedded in KSA than in the UK, and I am not aware of any company based in the UK that specifically markets Takaful products to British Muslims (a Takaful-based motor insurance company, Salaam Halal, launched in 2008,

was closed to new business after only 15 months of operations – Dunkley, 2009). This would suggest the following hypothesis:

*H6. Usage of Takaful is greater in KSA than in the UK.*

### ***Factors Affecting Insurance Policies Choices***

The aim of the third and fourth empirical chapter is to answer the following research questions:

- Why do consumers choose between Takaful insurance and conventional insurance?
- Is there a relationship between acquiring a Takaful policy and depth of religiosity among Muslims?

Muslims are expected to demonstrate their religiosity in a number of ways. Islam involves various beliefs and practices, some of which are required of Muslims and others are encouraged. These practices may relate to worship or day-to-day life. Muslims are encouraged to pursue religious knowledge. Hence, I would expect religiosity to exhibit different dimensions, though more religious Muslims would demonstrate high levels on all dimensions. Overall, I would expect more religious Muslims to acquire Takaful products (which comply with Sharia) and avoid conventional insurance products (which are considered to be haram). Measuring religiosity using the R-index as described in Chapter 8, I predict that Muslims with high R-index values are more likely to have Takaful products, and less likely to have conventional products, than Muslims with lower R-index values.

Accordingly, the following hypotheses are tested:

*H7. There is a significant relationship between acquiring a Takaful product and the level of religiosity among Muslims.*

Unlike banking and general investment, Takaful has relatively lower coverage in the literature on Islamic finance, and its workings are not fully understood. The availability of both Takaful and conventional insurance in many markets provides customers with the opportunity to choose and consider between them according to their needs, perceptions and beliefs. Hence, choice of insurance products will depend not just on “demographic” factors such as gender and location, but also on religiosity.



*H8. Religious motives are an important factor in explaining Muslims' choice between Takaful insurance and conventional insurance.*

Identification of customers' reasons for acquiring particular forms of insurance helps to highlight the perceived weaknesses and strengths of the different forms.

## **5.3 Research Strategy**

Bryman and Bell (2003: 25) define research strategy as 'a general orientation to the conduct of business research'. Surveys are a common choice in the positivism tradition. Saunders, Lewis and Thornhill (2003: 92) state that 'The survey strategy is usually associated with the deductive approach. It is a popular and common strategy in business and management research'. Section 6.1.1 above has demonstrated what I understand by positivism and what follows is a discussion about the survey as a research strategy. The research strategy adopted in this thesis involves an in-depth examination and investigation of the distinction between Takaful and conventional insurance products. This involves an analysis of consumers' perspectives towards, and actual choices related to, acquiring Takaful products and the extent to which these perspectives and choices are grounded in Muslim consumers' depth of religiosity.

### **5.3.1 Surveys and their Advantages and Limitations**

Two instruments were employed to collect data and testing the hypotheses developed in this research: The questionnaire and structured interview. Survey questionnaires have a history of use in business, accounting, finance, management and marketing research (Saunders, Lewis and Thornhill, 2003: 92). A questionnaire instrument is generally broad in nature, focusing on breadth rather than depth. As such, it is acceptable to collect a large amount of data of a cross-sectional nature that is required for quantitative studies like this research. It is widely agreed by many researchers that the data obtained by using the questionnaire are standardised which allows easy comparison (Saunders, Lewis and Thornhill, 2003: 92). Saunders, et al. (2003: 92) argue that 'the survey strategy is perceived as authoritative by people in general. This is because it is easily understood'. In addition, it is widely argued that using a survey strategy should give the researcher more control over the research/project process (Bryman and Bell, 2003, and Saunders, Lewis and Thornhill, 2003: 92).

Every strategy has its limitations and weaknesses. There are some limitations to the survey which are widely discussed in many research methods sources and by many authors. Some of these limitations are: It requires more time to be spent in designing and piloting the questionnaire in comparison to other data collection method. Analysing the results will also be time consuming. The progress of the research can be delayed by its dependence on others for information. The data collected by the survey strategy may not be as wide-ranging as those collected by other research strategies. Furthermore, There is a limit to the number of questions that any questionnaire can contain if the goodwill of the respondent is not to be presumed on too much (Saunders, Lewis and Thornhill, 2003 and Bryman and Bell, 2003).

### **5.3.2 Surveys in Finance Research**

Neuhauser (2007: 5) states that ‘Most empirical research in finance relies on the analysis of secondary data (e.g. stock prices, accounting data). However, a body of evidence exists that is based on primary data gathered from the decision makers themselves. Such research is typically gathered through surveys’. Further, Rea and Parker (1997) state that ‘Surveys have become a widely used research technique in many disciplines. However, the acceptance and credibility of survey-based research appears greater in some business disciplines than in others’. It is often mentioned in the literature that the survey method is less widely used than many other research methods in finance and that researchers in the management and marketing fields appear to embrace the use of surveys to a larger degree than those in finance. However, there are wide citations of certain studies that are based on the survey method (Neuhauser, 2007: 5). Here are some noteworthy examples of survey-based finance research: 1) Lintner’s (1956) seminal paper on dividend policy, 2) Graham and Harvey’s (2001) comprehensive survey-based study of cost of capital, capital budgeting, and capital structure, 3) Gait and Worthington’s (2008) empirical survey of individual consumer, business firm and financial institution attitudes towards Islamic methods of finance, and 4) Cohen and Yagil’s (2010) international survey-based study of sectorial differences in corporate financial behaviour.

Neuhauser (2007: 5) states that ‘the increasing interest in behavioural finance has led to increased usage of the survey method in recent years’. Further, Aggarwal (1993) acknowledges that properly designed surveys can be useful in empirically validating conceptual hypotheses and argues that there is much value in assessing the state of financial practise by surveying practitioners. As a positive step towards embracing

survey-based research in finance, The International Journal of Managerial Finance<sup>40</sup> has presented six articles that employ survey-based methods in examining issues of importance in finance and financial decision-making. The six articles represent a wide range of research topics e.g. dividend policy, methodological issues in employing the survey method, and the views of the profession concerning using the survey method. Data were gathered in these articles from a variety of respondents; Journal editors, chief financial officers and other practising financial managers, and mutual fund managers.

Graham (2004: 40) makes the following observation about the survey method:

*Survey research is by no means the standard academic approach these days; in fact it's sometimes looked down on in academic circles as "unscientific". The common attitude is that managers and investors can do very different things than what they say they do – and even if they do what they say, their real reasons for doing things can be different from the ones they cite.*

However, if the objective of the research is to examine attitudes and opinions, a survey may be the most direct method of obtaining relevant data.

Pinsonneault and Kraemer (1993: 3) state 'survey research has three distinct characteristics. First, the purpose of the survey is to produce quantitative descriptions of some aspects of the studied population. Second, the main approach used to collect data is to ask subjects structured and predefined questions. Third, researchers typically collect data about a fraction of the studied population in such a way as to be able to generalise the findings to the population'. They continue 'Thus, survey research is the most appropriate method if researchers need information that is unavailable elsewhere and want to generalise about a large population by studying a small portion of that population'.

### **5.3.4 The Rationale for the Survey Strategy**

In order to look into the distinction between Takaful and conventional insurance, a survey strategy was used as the main focus in this research. Questionnaire and interviews

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<sup>40</sup>International Journal of Managerial Finance, volume 3, issue 1: 2007.

were used as the data collection methods. Questionnaire was designed for consumers and interviews were designed for insurance providers. Most prior research in the field of Takaful is from the insurers' perspective and not from the consumers' viewpoint. Studies conducted to measure and understand consumers' awareness and understanding of Islamic insurance are very few and little is known about consumer attitudes in the UK or KSA which are the context of this study. Moreover, most of the previous research is mainly descriptive or normative and the empirical work focuses on the operational framework for Takaful. The reason for choosing interviews for insurance providers is that these people are the key strategists on managing their insurance products in the wake of new competition or declining performance in their insurance companies. Therefore, opinions from insurance providers contribute to the development and understanding of the differences of Takaful and conventional general insurance. Consumers perspectives contributes to our understanding identifying some of the reasons behind their choice of insurance policy, as it is known from the objectives of this research in chapter 1 that this research has not been succeeded by other researches that covers some gaps in the Takaful field. Another reason for choosing two data collection methods in a survey strategy is to reduce biased responses which may be inherent in particular data and method and to draw from the strengths and minimise the weaknesses of the quantitative and qualitative research methods.

## **5.4 Research Design**

Research design plays a significant role in providing a framework for the collection and analysis of data (Bryman and Bell, 2003). Bryman and Bell (2003: 32) state that the research design 'represents a structure that guides the execution of a research method and the analysis of the subsequent data'. Burn and Bush (2006: 116) state that 'the choice of the most suitable design depends basically on the objective and purpose of the research'. There are five different types of research design: 1) experimental design, 2) cross-sectional or social survey design, 3) longitudinal design, 4) case study design, and 5) comparative design (Bryman and Bell, 2003: 39). Due to the nature and overall aim of this research; advancing an understanding and analysis of the conceptual and operational differences between Takaful and conventional general insurance' and 'exploring the relationship between acquiring a Takaful policy and the depth of religiosity among Muslims, it is essential to deploy the relevant research design. As the area of insurance can be considered somewhat widespread, it is essential to have a research design which

facilitates the extraction of the required data. This could then help answering the research questions. Two research designs have been chosen as appropriate for this type of research.

First: comparative design (producers oriented). The following three objectives embody the logic of comparison and they imply that understanding Takaful insurance is better when it is compared to conventional insurance: 1) *Identify* the conceptual and operational differences between Takaful and conventional general insurance. 2) *Evaluate critically* both models and frameworks. Sharia compliance is the basis for evaluation. 3) *Investigate* the extent to which Islamic products are distinctive in substance from conventional products. In this sense, the comparative design felt appropriate to employed.

Second: cross-sectional design (consumer oriented). Bryman and Bell (2007: 55) state that ‘a cross-sectional design entails the collection of data on more than one case (usually quite a lot more than one) and at a single point in time in order to collect a body of quantitative or quantifiable data in connection with two or more variables (usually many more than two), which are then examined to detect patterns of association’. The main empirical objective of this research is to *investigate* the relationship between acquiring a Takaful policy and the depth of religiosity among Muslims. To reach this target, data was gathered from Muslims in the UK and KSA that holds, have had or/and considered an insurance policy. Furthermore, the data on the variable of interests was collected more or less simultaneously when the individual respondents completed the questionnaire. The latter led to the collection of quantitative data in order to establish variation between the two research sites and then to examine associations between variables. This enabled me to examine the relationships between the variables. Therefore, it was felt appropriate to employ the cross-sectional design as a second research design.

## **5.5 Research Techniques**

### **5.5.1 Literature Review**

The Literature review is based on published materials, insurance policies, computerised databases and syndicated data. As Takaful is an under-researched topic, the main sources are very limited. The following list are considered to be the main feed of Takaful: 1- Conferences papers held in this field, 2- The Islamic Research and Training Institute

through their website ([www.IRTI.org](http://www.IRTI.org)), 3- The Islamic Finance Advisory and Assurance services ([www.IFAAS.com](http://www.IFAAS.com)), 4- Institute of Islamic Banking and Insurance (<http://www.islamic-banking.com/>), 5- International Cooperative and Mutual Insurance Federation (<http://www.ICMIF.org/>). Recent uploaded and published materials were extensively reviewed to enrich the study with up to date information. Refer to references list for all used relevant sources.

### **5.5.2 Structured Interviews**

The interview is one of the most used and fundamental data collection methods in the social sciences (Yin, 2003: 92). Maali (2005: 136) states that ‘Interviews cover the whole range from unstructured interviews to fully structured ones’. Structured interviews were used in this study. The interview schedule is attached in Appendix 1. Moreover, structured interviews are used when the researcher has a pre-established set of categories and questions which control the content of the dialogue in an interview (Drummond, 1996). The main advantage of structured interviews is that the results are easier to analyse in comparison with unstructured one, however, there may be cost of missing valuable information due to the interviewer is not in a position to ask further questions (Drummond, 1996).

#### **5.5.2.1 The Description of the Insurance Providers’ Interviews**

Structured interview were devised for the insurers in order to investigate the extent to which Islamic products are distinctive in substance from conventional products, and also to understand conceptual and operational differences between Takaful and conventional general insurance. Although the latter objective is answered descriptively through literature review and empirically through answering the question: *What is the awareness of the differences?*, interviewing insurance providers help to have a balanced investigation and to understand the following questions: 1) *What are the conceptual and operational differences between Takaful and conventional general insurance?*, 2) *Can Islamic products be distinctive in substance as well as in form from their conventional counterparts?*

The interview consisted of five themes: A. Comparison between Takaful General Insurance and Conventional General Insurance, B. Economy Drivers for Insurance, C. Barriers, D. Operations, and E. Reflections. Theme A. consisted of six main questions

and follow up questions. Theme B. consisted of two main questions plus follow up questions. Theme C. consisted of six main questions and follow up questions. Theme D. consisted of eight main questions and follow up questions. Theme E. consisted of two questions. Each asked question had a specific purpose and was related to the research objectives. Interviewees' answers helped in determining the salient attributes of Takaful and conventional insurance.

The reputation of the potential candidates and their long experience in the field of Islamic finance, Takaful insurance and insurance was the aim of the search and selection criteria of potential interviewees. Potential candidates working at insurance companies in the UK refused to participate because of confidentiality reasons. Despite The rationale for such a choice are logical and serving the purpose of the research (see section 5.5.2.2). Eight of those were selected and agreed to participate are listed as follows (See references for a full list of the interviewees except one promised anonymity):

1. The Director of Finance in Islamic Development Bank.
2. The CEO of Al Ahlia for Cooperative Insurance.
3. The Sharia Board General Secretary of Solidarity Saudi Takaful Company.
4. The protection and saving Takaful Manager in Weqaya Takaful Insurance.
5. The director of Sharia compliance and product development in the Islamic Finance Advisory & Assurance Services (IFAAS).
6. The Actuarial Services and Strategic Planning Manager in Bank Al-Jazira, Takaful Tawuni.
7. The Personnel Assistant Manager in Bank Al-Jazira, Takaful Tawuni.
8. An anonymous CEO of a conventional life insurance company in Saudi Arabia.

The CEO of a conventional life insurance company in Saudi Arabia asked for anonymity of himself and the company name. Dates of the interviews were agreed on a month prior to set dates. Therefore, interviewees were sent reminder emails a week prior to the interview day. The day prior the interview a confirmation message was sent to the candidates. Planning ahead and allowing enough time to ask for the address of the place of the interview and ensuring that needed aids such as interview questions, tape-recorder, notebook etc. are ready before each interview is crucial. All the interviews were conducted during the period August-September 2011 and all took an average duration of one hour and thirty minutes.

The interview questions were translated into the Arabic language bearing in mind that most of the candidates are Arabic speakers and that Arabic is the first language in Saudi Arabia while English is only used as a second language. Having an ability to translate the content of the interview to Arabic gave a wider choice to interviewees with diverse backgrounds and different degree of education levels to choose between the two versions and language used in the interviews. Six out of eight interviews were in English. Transcribing and translation process took in total three weeks. Care has been taken to start transcribing immediately after conducting each interview. Thus, I managed to finish transcribing all interviews by mid-September 2011. The following section (5.5.2.2) goes into more detail regarding the interview process.

### **5.5.2.2 The Interviews Process**

This section describes how the interviews were carried out, how I have selected interviewees, and how were interviews documented and analysed. One of this research aims is to identify the perceptions of insurance providers in order to develop an in-depth understanding on the conceptual and operational differences between Takaful and conventional general insurance and on the distinction in substance of Takaful products from conventional insurance products.

As I am using structured interviews, I have entered the interview setting with a planned sequence of questions to be asked of the respondent. The structured interviews are used when it is known at the start what information is needed. As a result, I had a list of predetermined questions to be asked of the respondents. The questions used in the interviews focus on factors that had surfaced during the review of literature. A list of questions was prepared in advance to guide the exploration of the understanding on the conceptual and operational differences between Takaful and conventional general insurance as well as their related issues and explore further information on the distinction in substance of Takaful products from conventional insurance products. The interview content was constructed in a way to complement and supplement the literature regarding finding straight answers to the two questions mentioned at the beginning of this chapter.

In gathering data that can answer the study research questions, sampling must be well established. The sample in this interview survey comprised Sharia and Islamic finance specialist, Takaful insurance and insurance providers (please refer to section 5.5.2.1 for more details). The sampling used to select interviewees for this study was snowball



sampling. Neuman, (2004: 140) states “[Snowball sampling is used in] identifying and selecting the cases in a network. It is based on an analogy to a snowball, which begins small but becomes larger as it is rolled on wet snow and picks up additional snow”. He goes further (2004: 140) “Snowball sampling (also called network, chain referral, or reputational sampling) is a method for identifying and sampling (or selecting) the cases in a network. The crucial feature [In snowball sampling] is that each person or unit is connected with another through a direct or indirect linkage. This does not mean that each person directly knows, interacts with, or is influenced by every other person in the network. Rather, it means that, taken as a whole, with direct and indirect links, most are within an interconnected web of linkages”. In applying snowball sampling to gather the sample for the structured interviews I have begun with two main people and these people identified the rest of the interviewees. After that, I managed to develop a list of almost fifteen potential interviewees. Unfortunately, potential candidates working at insurance companies in the UK refused to participate because of confidentiality reasons although I had guaranteed to maintain their and insurance company anonymity. Hence, they did not take part in the end. It was only possible to interview eight candidates of the original list. Five of those were insurers; four working for Takaful insurance companies and one working for conventional insurance company in Saudi, and three Sharia and Islamic finance specialists (see full list of participants in section 5.5.2.1).

The chosen type for conducting interviews were face-to-face, one-to-one, among other (telephone or through computer-assisted telephone interviews) due to the following advantages (Sekaran, 2003: 233): 1) It allows the interviewee to clarify any doubts arising during the interview; hence, it enables questions to be adapted, rephrased and repeated until arising issues are properly understood. 2) It allows interviewers to read non-verbal signs from the respondent e.g. body language. It is worth noting that face-to-face interviews reflect the most common practise in the research literature (Banister et al., 1994: 49). However, face-to-face interviews could be a disadvantage where the geographical factor may increase costs and the discomfort of participants concerning their anonymity. Interviews were conducted through the face-to-face structured interviews except of one was through telephone. This particular participant decided at the last minute to have the interview via telephone due to some commitments outside Riyadh where the interview initially scheduled. Two interviews were in the UK and others were in KSA, Riyadh. The rest of the interviews were held in the participant headquarter offices or place of work. Hence, the real cases for seven of the interviewees were

diverted from the original plan. Much care has been taken to establishing a good rapport and credibility with the prospective interviewees. This would encourage participants to provide sincere answers, which can reduce bias as their anxieties and suspicions can be reduced through the process (Sekaran, 2003: 232). In addition, there are certain tips that researchers should follow during and post interviews to get richer data (Sekaran, 2003):

- 1) Avoid biased ways of asking questions.
- 2) The early questions should be general and then be followed by a more focused issue.
- 3) Provide help and clarification over certain issues that are difficult for participants.
- 4) The interview also has to be immediately transcribed to avoid loss of information as memory is not reliable over a longer period.

At the start of every interview session, I emphasised to each respondent that the information gathered in the interview would remain confidential and they could choose not to answer any question if they felt the question would threaten their post, contradict their interests or any other reasons. Also they were reminded that the interview session would only last a maximum of an hour and a half, but that they have the right to stop it at an earlier point if required. As the interviews were tape recorded, the interviewees were asked for their permission to tape record the interview to avoid loss of valuable information. The full transcript for each interviewee was coded and kept confidential. Some interviews were conducted in English, others in Arabic, though in practice several interviewees switched between languages (particularly when they wished to quote Qur'anic verses in the original language).

In analysing the gathered interview data, a qualitative method of codifying and an interpretative method were used. As mentioned earlier that the responses gathered through interviews were transcribed immediately after each interview session. After transcription and translation (where this was required) as mentioned in section 5.5.2.1, the data from the structured interviews was analysed using 'Thematic Analysis'. Banister et al., (1994: 57) explains this approach as follows: "A thematic analysis is a coherent way of organizing or reading some interview material in relation to specific research questions. These readings are organised under thematic headings in ways that attempt to do justice both to the elements of the research question and to the preoccupations of the interviewees". In this sense, the interview text was coded manually and grouped according to the themes established in the interview schedule. This grouping according to theme allows reaching a general view much more easily than describing the text without

the grouping theme. The following section discusses the key findings of the interview data.

### **5.5.3 Takaful and Conventional Insurance Policies**

One of the main aims of this study is to compare between Takaful and conventional general insurance. The literature review in the subject of Family/life and general Takaful and conventional insurance has covered the general description of both models and only few prior researchers have described the policies in more detail. Therefore, it felt necessary to compare the policies of those insurance models. Four insurance policy documents were looked at, two of Life insurance and the other two of general insurance. These documents were sought equally from Takaful and conventional insurance companies (See references for a full list of the insurance policy documents). An examination of the relevant literature review with the policy documents allows proposing a fairer comparison of insurance policy documents that helps in understanding the mechanism of Takaful and draws the light to its similarities and differences to conventional insurance.

### **6.5.4 Triangulation**

Using multiple research methods, according to many researchers in social sciences (Haniffa and Hudaib, 2007b, Green et al., 2002, Carson, et al. 2001, Creswell, 1994, Deshpande, 1983 and Sieber, 1973), allows more perspective on the phenomena to be investigated. Furthermore, triangulation increases confidence enriching and validating research data (Haniffa and Hudaib, 2007b). Triangulation, according to Denzin (1978), is a term borrowed from navigation and military strategy to argue for the combination of methodologies in the study of the same phenomenon. As such, the triangulation concept was based on the assumption that any bias inherent in particular data sources and method would be neutralised when used in conjunction with other data sources and methods (Jick, 1979). Greene et al. (2002) also supported the concept of triangulation, proposing several objectives of the concept. Some of these objectives or purposes for combining methods in a single study are developmental, wherein the first method is used sequentially to help inform the second method and where the mixed methods add scope, and fresh perspectives may emerge.

The mixed methods approach to research is an extension of rather than a replacement for the quantitative and qualitative approaches to research, as the latter two research approaches will continue to be useful and important (Johnson and Onwuegbuzie, 2004). The goal for researchers using the mixed methods approach to research is to draw from the strengths and minimise the weaknesses of the quantitative and qualitative research approaches (Johnson and Onwuegbuzie, 2004). Williams (2011: 70) argues ‘the strengths and weaknesses associated with the various research approaches are not absolute but rather relative to the context and the manner in which researchers aspire to address the phenomenon under study’. For example, if the researcher purports to provide in-depth insight into a phenomenon, the researcher might view selecting a small but informative sample, which is typical of qualitative research. The researcher might use inferential statistics to quantify the results, which is typical of quantitative research, as strengths worthy of combining into a single research study, in relation to the mixed methods approach to research. The fact that the quantitative and the qualitative research approaches are not only compatible but also complementary underpins calls for additional research studies that use the mixed methods research approach (Carr, 1994, Johnson and Onwuegbuzie, 2004, Mingers, 2001, Sale, et al. 2002, Tashakkori and Teddlie, 2003). In this research, I am applying the triangulation technique by using three methods; focused literature review, reviewing insurance policy documents and structured interviews for insurance providers, to answer the conceptual and producer-oriented research questions.

As using qualitative and quantitative data collection tools would draw on the strengths and minimise the weaknesses of both methods, I decided to adopt the questionnaire method for collecting data from consumers and to apply structured interviews for the insurance providers.

## **5.5.5 Data Collection Methods**

### **5.5.5.1 Questionnaires**

A structured on-line questionnaire survey was used (see appendix 3 which include a copy of the questionnaire PDF template) in this study and was developed based on the customer-oriented research questions mentioned earlier in Chapter 1/Section 1.1. The reason for using such method is to obtain a substantial set of data for this study. The main advantage of this approach is the potential to obtain many responses, but there are several

disadvantages. Because specific individuals cannot be targeted, and because it is difficult to define the full population being sampled and identify members of the population, truly random samples cannot be selected and traditional measures of reliability such as response rates are meaningless.

Each respondent was sent an email that included links to the on-line questionnaires and PDF templates (Arabic and English) together with a cover letter outlining the objective of the research, respondent confidentiality, and availability of survey results upon request. The cover letter was designed to include both English and Arabic versions that stood in parallel in one page which made it easier for the participants to choose the preferred language (see appendix 2). A database was built for potential Muslim insurance consumers in the UK, as there was no such database for this population. The long list consisted of bodies, including Muslim organisations, university Islamic societies, insurance companies, chambers of commerce, and members of personal and social networks. In addition, a commercial organisation with mailing lists of potential respondents was employed to enhance the response rate. Similar groups were targeted in KSA. The questionnaire was prepared in English and Arabic versions, with the Arabic version being retranslated into English by a third party to ensure that there was no distortion of meaning arising through translation. This process is called the back translation approach (Douglas and Craig, 1999). Potential respondents in the UK were sent the English-language version of the instrument and potential respondents in KSA were sent the Arabic-language version. The questionnaire version sent to UK starts with a filter question; which asks to indicate the religion of the participant, if the participant chooses Islam as his religion he will then be directed to the rest of the questionnaire, if not then the participant will be directed to a part where a thank you note is shown. 'Qualtrics'; online survey software helped in distributing the survey among insurance companies in heavily populated Islamic areas in the UK. Respondents had the choice to download a PDF version of the questionnaire and had the options of return it by fax or mail if they preferred not to complete the survey on-line. I have used E-fax which was prepaid and that choosing this option by participants would be cost free. In order to encourage participation I offered summary of the results an incentive. Respondents' names and addresses were not requested, though some personal data of a demographic nature were collected.

Administering the survey in this manner gave rise to various difficulties. First, there was no easily accessible data base of potential respondents, and it was necessary to compile lists of Muslim organisations and contact them to ask them to distribute or complete the survey. This process revealed many instances where organisations no longer existed or their contact details were not valid. Secondly, the large volume of e-mails being sent per day created problems as internet service providers were prone to identify such e-mails as 'spam' and block them, leading to suspension of e-mail accounts. Thirdly, it was necessary to persuade key 'gatekeepers' in organisations to allow the instrument to be circulated internally. Fourthly, women in KSA are less likely to be involved with organisations outside the home, so personal methods of contact became more important. This could lead to response biases if important social and economic groups could not be easily contacted and hence were under-represented in the survey.

I expected that the market for Islamic finance was more likely to be developed in a Muslim-majority country than in a Muslim-minority country, implying that there would be systematic differences in responses from Muslims in different countries. To investigate this, the United Kingdom (UK) to represent Muslim-minority countries and the Kingdom of Saudi Arabia (KSA) to represent Muslim-majority countries has been chosen. The KSA participants are mainly nationals and the majority are from Saudi Arabia. However, Muslim participants from the UK were expected to be multinational which includes participants from all over the Islamic world and this would enhance generalisability. Reference was made to census data for the UK and KSA in order to assess the appropriate sample sizes for each country so that the samples were likely to be representative of the populations of Muslims in each country. The extent to which these countries are indeed representative of their classes is open to debate. However, a comparison between these two countries was thought likely to reveal interesting results.

1106 people responded to the survey, 406 from the UK and 700 from KSA. However, only 1067 responses provided enough data for analysis.

#### **5.5.5.2 Instrument Description**

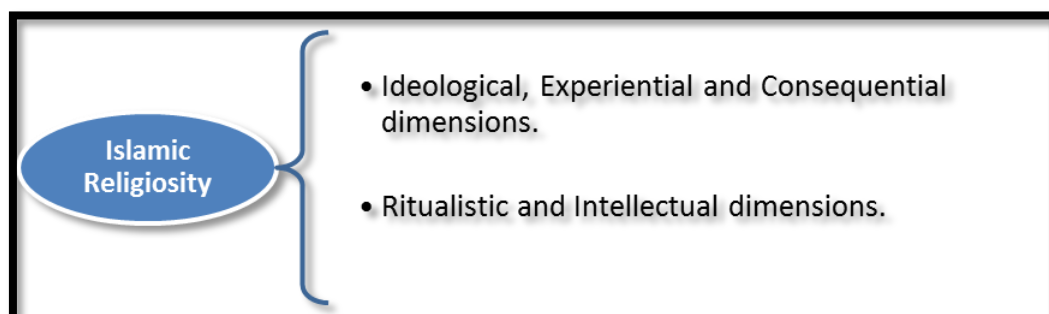
The questionnaire structured into six sections. **Section one** includes the demographic information of the respondent (age, gender, marital status, location, ethnicity, academic qualification, income, occupation). **Section two** of the questionnaire included

information about the respondent's selected insurance provider (Islamic, conventional or both Islamic and conventional). **Section three** collected the respondent's knowledge about the different products of the Islamic finance and insurance (e.g. Murabaha, Mudarabah, etc.). The **fourth section** of the questionnaire collected information regarding those respondents who are considering acquiring Takaful and Islamic financial products. The **fifth section** of the questionnaire collected information regarding these respondents who are involved in both Islamic and conventional finance and insurance system. In the **sixth and final section** the level of the relationship between acquiring a Takaful policy and the level of religiosity among Muslims was measured. There were list of variables which was selected in order to know about the respondent's level of knowledge and awareness regarding the product. This was simply measured by just asking the respondent either 'aware' or 'not aware' or of the product. A five point Likert scale was used for some of the variables.

Takaful takes various forms, and is oriented towards organisations of all sizes as well as individuals and families. This study concentrates on products designed for personal rather than commercial customers. This includes both 'general' Takaful (for example, policies covering household, property or motoring risks) and 'family' Takaful (analogous to life insurance, where there may be a significant element of savings involved in the product).

### 5.5.5.3 Religiosity Measurement in this Study

**Figure 5.2 Islamic Religiosity Model**



There are certain individual traits or personality characteristics that may interact with their perception when purchasing products or choosing between products. A trait that believed to be one of the important traits or factors is religiosity. Glock and Stark, 1965 model has been the main model employed either partly or completely in different fields.

However, it has been argued that it neglects the uniqueness and spirit of the individual religious tradition and since there is a need to capture the unique qualities and the most relevant dimensions of religiosity from the perspective of Islam as its concept of religion is fundamentally different from the worldview concept of religion as argued in the previous section. Wilkes et al. (1986: 49) state ‘Although the former measure [Glock and Stark (1965)] may be simple at the cost of validity, the latter measure may achieve high validity at the cost of sheer impracticality for almost all consumer research. A less complex measure may be warranted’. The Glock and Stark model is seen as a seminal and foundational model in operationalising religiosity. I have built a new version inspired by Glock and Stark, 1965 model “ex ante” dimensions: experiential (feelings), ritualistic (practise), ideological (belief), consequential (works) intellectual (knowledge). In other words, I have theorised these dimensions as a basis of constructing my instrument.

In the instrument these dimension were employed into two main items: One item combines the overall belief associated with Islamic religion, the practicality of Islamic religion and the importance of Islamic religion (ideological, experiential and consequential dimensions). The second item consists of the actions prescribed by Islamic religion and individuals’ knowledge about Islamic religion (ritualistic and intellectual). New religiosity statements were formulated that would capture the meaning of each dimension. These statements are considered to be more detailed and in relation with the Islamic religion in particular (see Figure 5.2 above). As an attempt to develop the items, one to one meetings with six professors from College of Sharia and College of Fundamentals of Islam in Imam Muhammad bin Saud Islamic University<sup>41</sup> were involved. Respondents were asked on their understanding of concept of religiosity. The scholars all took one to two weeks to edit the scale. Upon completion the researcher met with the scholars to receive their feedback. Following the final meeting the researcher edited the scale and applied the necessary changes. All had a general agreement that the proposed measurement would measure only the level of religiosity and that religiosity consists of two components: First, religiosity means someone who believe in Allah and surrender with acceptance and obedience. Second, scholars relate religiosity with persons

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<sup>41</sup> Located in Riyadh, Saudi Arabia, this institution was founded in 1953. In 1974, it was granted university status by royal decree. The university houses 10 faculties. It currently has more than 24,000 students and 1,300 academics. It has intermediate and secondary Islamic institutes in major cities of Saudi Arabia, Ras Al-Khaimah, USA, Indonesia, Malaysia, Djibouti and Japan. It considered one of the highlighted Islamic Universities. The university as a cultural and intellectual institution aims to promote knowledge offering undergraduate as well as postgraduate studies. One of the most important aims is to promote translating and publishing as the university has its own print house. Moreover, the university achieves its goals within the Islamic Sharia.



who fulfil his or her obligation to the God by following the basic of Islam such as keeping up with the rituals and *Sunan*. Here is a list of the detailed comments:

- One of the experts suggested **delete statement number 45 ‘I avoid earning through Haram (prohibited) means’**. As he thinks that this statement has no relation at all with the research title. (After the final review this statement was not deleted according to the majority agreement).
- One of the experts suggested **to provide a definition of religiosity**. (A definition of religiosity and a rationale of operationalizing the measure of Islamic religiosity are included in this study and there was no need to include such information in the survey as this would result in bias responses).
- Two experts think that **there are no financial transactions statements included in this measurement**.
- All experts thought that **this measurement only measures Islamic religiosity**.
- One suggested that **this measurement could be applied on new converters to Islam** to measure the level of implementing the five pillars of Islam.
- **One found statement number 54 unclear** ‘I try to avoid any kind of transaction that includes Gharar’. Therefore, *Gharar* has been explained in the modified statement to avoid ambiguity and vagueness of meaning (I try to avoid any kind of transaction which could lead to a quarrel or litigation due to some uncertainty (Gharar)).
- One of the experts **did not understand what were meant by ‘Financial products’** in statement number 56 ‘I avoid acquiring non-Islamic financial products’ and described it as unclear as this was not his field of expertise.
- One thinks that statement number 55 ‘I try to avoid increase my capital through lending on usury or interest (riba)’ is the only statement that is **related to the research proposed title**.

The first item of the combined dimensions consisted of 25 statements which based on a five point likert scale, which ranged from ‘1= strongly disagree’ to ‘5= strongly agree’. The second consist of 32 statements which are based on a five point likert scale, which ranged from ‘1= never’ to ‘5= always’<sup>42</sup> this makes it a total of 57 statements (As a prior

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<sup>42</sup> 1 [Never] – I never do the action indicated.

2 [Rarely] – I do the action indicated on only a few occasions, but mostly I do not do the action indicated.

stage of factor analysis this considered an initial religiosity instrument) of both items as shown in Table 5.1. The results of the qualitative research guided the construction and phrasing of the structured questionnaire used in the quantitative research that refers to the concept of religiosity. This makes it possible to construct an index of ‘religiosity’ (Abdullah and Abd.Magid, 2003, Rehman and Shabbir, 2010), and to analyse the responses to ascertain whether there are any consistent factors or dimensions to the overall notion of religiosity. This, together with other variables, was used to investigate whether there are any systematic explanations for choices between Takaful and conventional insurance policies.

**Table 5.1 Religious Beliefs and Practices Questions**

<b><u>Beliefs:</u></b>	<b><u>Practices:</u></b>
<ol style="list-style-type: none"> <li>1. I believe that Islam helps to lead me to a better life.</li> <li>2. I think it is my duty to give respect to others and give them their rights.</li> <li>3. I try to avoid any activity which hurt others.</li> <li>4. I always try to help those who need help.</li> <li>5. I try to be honest and fair with others.</li> <li>6. I always avoid humiliating others.</li> <li>7. I always avoid backbiting and gossip.</li> <li>8. I attend religious talks at the mosque.</li> <li>9. I read religious books and magazines.</li> <li>10. I watch or listen to religious TV/radio programs.</li> <li>11. I believe that Muhammad is God’s (Allah’s) last prophet.</li> <li>12. I believe that Muhammad provided a good standard of conduct for Muslims.</li> <li>13. I believe that there is only one God.</li> <li>14. I believe that Allah listens to prayers.</li> <li>15. I believe that the Qur’an is relevant and applicable to the modern day.</li> <li>16. I believe that supplication (dua’) helps me.</li> <li>17. I read the Qur’an for inspiration and motivation.</li> <li>18. I believe that I am obliged to</li> </ol>	<ol style="list-style-type: none"> <li>1. I pray five times a day.</li> <li>2. I perform my daily prayers in the mosque.</li> <li>3. I attend Friday prayer in the mosque.</li> <li>4. I perform Qiyam al-layl (night prayer).</li> <li>5. I perform Tahajjud (night prayer)</li> <li>6. I perform Sunnah prayer (extra but necessary prayers).</li> <li>7. I fast during Ramadan.</li> <li>8. I attend evening prayer (Tarawih) in Ramadan.</li> <li>9. I fast outside the month of Ramadan.</li> <li>10. I read the Qur’an in Arabic.</li> <li>11. I read the Qur’an in other languages than Arabic.</li> <li>12. I spend some amount for charity.</li> <li>13. I perform the obligation of Zakat annually.</li> <li>14. I give charity (Sadaqa) every week.</li> <li>15. I avoid eating prohibited food (pork, product that contains animal/pork gelatine, etc).</li> <li>16. I consume Halal meat.</li> <li>17. I drink alcohol.</li> <li>18. I avoid using products (for example, cosmetics, medicines, mouthwashes) containing alcohol.</li> <li>19. I avoid places (such as restaurants and bars) and occasions (such as parties) where alcohol is drunk.</li> <li>20. I avoid earning through Haram (prohibited) means.</li> <li>21. I try to avoid minor sins.</li> <li>22. I try to avoid major sins.</li> <li>23. I try to follow Islamic injunctions in all matters of my</li> </ol>

3 [Sometimes] – I do the action indicated roughly half of the time

4 [Often] – I do the action indicated on most occasions, but not always

5 [Always] – I always do the action indicated.

<p>perform Hajj when I fulfil all the necessary conditions.</p> <p><b>19.</b> I believe in Allah’s angels, books, messengers, Day of Judgment and fate (both good and bad).</p> <p><b>20.</b> I feel sorrow and dissatisfaction when I do something against my faith.</p> <p><b>21.</b> I am pleased when I see others following Islamic teachings.</p> <p><b>22.</b> I am conscious that the devil is trying to tempt me.</p> <p><b>23.</b> I have the feeling of being afraid of Allah.</p> <p><b>24.</b> I believe that Allah will punish me for doing something wrong.</p> <p><b>25.</b> I am distressed when I see others not following Islamic teachings.</p>	<p>life.</p> <p><b>24.</b> I avoid displaying photographs or other images of living beings.</p> <p><b>25.</b> I wear silk clothing (if you are a woman click never).</p> <p><b>26.</b> I wear gold accessories (if you are a woman click never).</p> <p><b>27.</b> I wear perfume in the presence of foreign men (non mahram; anyone who a Muslim female is not allowed to marry). (if you are a man click never).</p> <p><b>28.</b> I wear a headscarf (hijab) in public. (if you are a man click never).</p> <p><b>29.</b> I try to avoid any kind of transaction which could lead to a quarrel or litigation due to some uncertainty (Gharar).</p> <p><b>30.</b> I try to avoid increase my capital through lending on usury or interest (riba).</p> <p><b>31.</b> I avoid acquiring non-Islamic financial products.</p> <p><b>32.</b> I try to avoid working for companies that deal with prohibited elements.</p>
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## 5.6 Research Quality Issues

Validity, reliability and generalisability are three key concepts in quantitative methods and all these concepts are connected with measurement (Muijs, 2004: 64). As I am looking into the relationship between acquiring a Takaful policy and the depth of religiosity among Muslims, I consider measuring religiosity among Muslims using a religiosity measurement scale.

### 5.6.1 Validity

Bryman and Bell state ‘Validity refers to the issue of whether or not an indicator (or set of indicators) that is devised to gauge a concept really measures that concept’ (Bryman and Bell, 2007: 165). Muijs (2004: 65) states that ‘Validity asks the question: are we measuring what we want to measure?’. There several ways of establishing validity: 1) face validity, 2) concurrent validity, 3) predictive validity, 4) construct validity and 5) convergent validity (Bryman and Bell, 2007: 165). Construct and face validity are considered appropriate to measure the validity of the developed measurement in this research.

Trochim (2006) states ‘Construct validity refers to the degree to which inferences can legitimately be made from the operationalisations in your study to the theoretical constructs on which those operationalisations were based’. For example, there may be an association between an operationalisation of a concept and some variable of interest

(such as a link between the *measurement* of religiosity and preferences for Islamic financial products), but does this imply that there is a relationship between the underlying concept (religiosity itself) and the variable? If the construct (operationalisation) is valid, then there will be such a relationship. In this manner, the researcher is encouraged to deduce hypotheses from theory that are relevant to the concept (Bryman and Bell, 2007: 165).

On the other hand, face validity might be established by asking people whether or not the measure seems to be getting at the concept that is the focus of the attention (Bryman and Bell, 2007: 165, and Muijs, 2004: 66). Bryman and Bell argue 'Face validity is, therefore, an essentially intuitive process' (Bryman and Bell, 2007: 165). To establish face validity, well-known Saudi Muslim scholars were asked to give their views on whether the developed religiosity measurement in this research appeared to be valid to them. The immediate reaction of both scholars confirmed that the developed measurement is valid as a measure of religiosity. This was described in sub-section 5.5.5.3.

A pilot test of the questionnaire and interview questions was initially conducted on five administrators in insurance companies in KSA, five officers in insurance companies in KSA, and six academic professors inside and outside Royal Holloway, University of London beside the supervisor's comments. All have exposed to it and answered positively. The questions were well perceived however few notices on the duration of the questionnaires and on the format of some questions. Feedback was sought on the instrument. Only minor changes were made after the pilot.

The initial draft of the questionnaire and the interview were translated to Arabic for those non-English speakers. Hence, Arabic copies of both instruments were prepared.

### **5.6.2 Reliability**

Bryman and Bell (2007: 163) discuss that 'Reliability refers to the consistency of measure of a concept'. Three factors are involved when considering whether a measure is reliable or not.

**First:** Stability, this involves asking whether or not a measure is stable over time to ensure that the results relating to that measure for a sample of respondents do not vary. Bryman and Bell (2007: 162) state that ‘The most obvious way of testing for the stability of measure is the *test-retest* method. In other words, the *test-retest* method means that to administer a measure to certain group and then re-administer it to the same sample at a different time. High correlation between both results would indicate that the measure is stable and that the respondents’ answers can be relied upon. On the other hand, low correlation would reflect that the measure is unstable and the respondents’ answers cannot be relied upon. The *test-retest* method encounters a number of problems in evaluating reliability<sup>43</sup>. However, it is impractical to expect respondents to a survey questionnaire to respond twice. Therefore, Bryman and Bell (2007: 163) state ‘many if not most reports of research findings do not appear to carry out tests of stability’.

**Second:** Internal reliability. This refers to the extent to which a measure is consistent within itself. The internal reliability of self-report measures, such as questionnaires can be assessed using various techniques. For questionnaires where respondents give responses on an ordinal scale, the most common approach is to apply **the Cronbach’s Alpha test**. This method is regarded as ‘clever methodology’. It allows multi-level responses. For instance, a series of questions might ask the subjects to rate their response between one and five. Cronbach’s Alpha gives a score of between zero and one, with 0.7 generally accepted as a sign of acceptable reliability. The test also takes into account both the size of the sample and the number of potential responses. A 40-question test with possible ratings of 1 – 5 is seen as having more accuracy than a ten-question test with three possible levels of response (Field, 2000). This reliability method was used in this study.

**Third:** Inter-observer consistency. Bryman and Bell (2007:163) discuss ‘When a great deal of subjective judgment is involved in such activities as the recording of observations or the translation of data into categories and where more than one ‘observer’ is involved in such activities, there is the possibility that there is a lack of consistency in their decisions’. One way to test inter-observer consistency is to have each observer assign each test item a score. For example, each observer might score items on a scale from 1 to 10. Next, calculating the correlation between the two ratings to determine the level of inter-observer consistency. Another means of testing inter-observer consistency is to

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<sup>43</sup> Bryman and Bell (2007: Chapter 6) provides a brief discussion of these problems.

have observers determine which category each observations falls into and then calculate the percentage of agreement between the observers. So, if the observers agree 8 out of 10 times, the test has an 80% inter-observer reliability rate (Trochim, 2006). Again, this approach is impractical in a questionnaire-based survey, where respondents rather than the researcher are providing scores.

To enhance reliability and to leave an audit track in this research, every stage of data collection was well documented. The same procedure was applied to data analysis. Furthermore, a database of secondary sources of data is stored as computer files and paper files as relevant. Other sources such as documentary evidence, interviews schedule, insurance policies and questionnaires copies were included in the existing database (see appendices).

### **5.8.3 Generalisability**

This research is considered a mixed methods research which involves the collection, analysis, and integration of qualitative and quantitative data. Polit and Beck (2010: 1457) argue that '[Mixed methods research] appears to hold promise for generalizability'. Polit and Beck (2010: 1457) continue that 'Larger and more representative samples in the quantitative strand of mixed methods studies can promote confidence in generalizability in the classic sense'. Teddlie and Tashakkori (2009) argue that 'Well-grounded meta-inferences based on rich, complementary data sources can enhance analytic generalization. And rich and diverse descriptive information from two types of data source can promote an understanding of proximal similarities and hence transferability'. Some researchers (e.g. Flemming, 2010, Polit and Beck, 2010 and Plueye, et al., 2009) question whether mixed methods research will lead to enhance generalization potential. In this manner, the dependability on strategic and judicious blending of data will be high in order to arrive at knowledge that merits generalization (Polit and Beck, 2010).

In this study, generalization applies in two directions. First, the study focuses on Takaful, but it may be possible to generalise the findings to other Islamic consumer financial products. Secondly, the survey focuses on a particular group of Muslims in two countries, so generalization to other Muslims and other countries is an issue.

## **5.7 Data Analyses**

This study is quantitative in nature; the initial exploratory investigation used descriptive statistics in terms of frequency, percentage and mean. Additionally, t-statistics were conducted to measure awareness of Islamic finance and insurance products and perception of Takaful and conventional products and companies with selected variables that were classified into their grouping. Additionally, the Spearman test of correlation, factor analysis and the logistics regression test were also used. The statistical analysis in this study was conducted using the Statistical Package for the Social Science (SPSS) version 19. SPSS is sophisticated software used by the social scientists and other professionals for statistical analysis. SPSS provides a large array for programmes for single category, two category and full model statistical analysis (Green and Salkind 2003). SPSS has been considered as the most widely available and generally used comprehensive statistical computer package available and for this reason it has been chosen by the researcher as a statistical programme for data analysis in this study. The following is brief explanation of the analysis techniques that have been used depending on the data collection tool discussed earlier.

### **5.7.1 Descriptive Statistics**

Descriptive analysis provides an idea and details of the content and sample of the questionnaire. Descriptive statistics is classified under preliminary analysis, which can be used to describe the sample characteristics (Pallant, 2007). This suggests that descriptive analysis is used at the beginning stage of the data analysis and helps to understand the sample. In other words, it helps in describing, organising and summarising the gathered data. Describing the relationship between a sample and its population is very significant and, in order to convey such a relationship, we must be able to describe it in terms of characteristics that are common to both, the sample and its parent population (Oppenheim, 1992). Therefore, the first section of the first empirical chapter in this study is mainly concerned with presenting a descriptive analysis of the sample general demographic to provide an overview of the respondent characteristics. Frequency distribution, percentage and mean were used as the main descriptive analysis methods. The descriptive analysis was conducted for all the variables in the questionnaire to establish the overall findings in an attempt to grasp some basic knowledge of the responses gathered from participants. It aims to provide a brief description of the respondents' demographic variables. Thus, descriptive analysis will be utilised to

evaluate the respondents according to the following characteristics: location, gender, age, ethnicity, marital status, academic qualification, occupation, nature of the work, and annual income. The frequency and percentage distributions were used to determine the occurrence, while the mean was used to observe the general tendency for every variable in the study.

### 5.7.2 T-Test

The t-test is a statistical analysis method that it significance indicates whether or not the difference between two groups' averages most likely reflects a existent difference in the population from which the groups were sampled. In other words, t-test assesses whether the means of two groups are statistically different from each other (Trochim, 2006). T-test works by calculating the differences between each pair, and then it calculates the mean and standard errors of these differences. The, it divides the mean by standard error of the mean to get the test statistics (Field, 2009). This analysis is appropriate for comparing the means of two groups. The t-test formula is shown in Equation 5.1:

#### Equation 5.1 T-Test

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{S_1^2}{n_1} + \frac{S_2^2}{n_2}}}$$

There are two kinds of t-tests, this depend on whether the independent variable manipulated using the same participant or different (Field, 2009). One Type is: independent t-test which is 'used when there are two experimental conditions and different participants were assigned to each condition'. The second type is: dependent t-test (or known as paired sample t-test) which is 'used when there are two experimental conditions and the same participants took part in both conditions of the experiment'. Paired sample t-test is used to compare two set of data to determine if the mean differences are "significant" between the observed paired or not (Zar, 1999). In this study the dependent t-test and independent t-test were used. This type of analysis is used in chapter 8.



### 5.7.3 Factor Analysis

Field (2009) defines factor analysis as ‘a technique for identifying groups or clusters of variables to understand the structure of a set of variables and to reduce a data set to a more manageable size while retaining as much of the original information as possible’ (p: 628). Pallant (2007) states that ‘Factor analysis allows a large set of variables or scale items to a smaller, more manageable number of dimensions or factors. It does this by summarising the underlying patterns of correlation and looking for ‘clumps’ or groups of closely related items’ (p: 102). Kaplunovsky (2007) also provides a definition to factor analysis ‘statistical method for the compression of information, economic description of the data’. In other way, factor analysis tells us which variables come together to form a group. It groups variables with similar characteristics together to reduce the number of observed variables. The factors then can be used to perform further analysis. Factor analysis works by performing a correlation matrixes and creates major pieces (factors), underlying causes, which has variables that correlates highly with each other. Factor analysis aims to create and investigate conception models and ideas that allow researchers to analyse the data more independently of their physical nature. However, other thinks that factor analysis is only for categorical classification and not corresponding to any reality. There are two commonly intentional uses of factor analysis in the social sciences: 1) to explore the underlying factor structures present in responses to a set of measures, and 2) to confirm whether a set of measures in the form specified in a model of their relationships (Kaplunovsky, 2007 and Field, 2009). Thus, factor analysis may be either exploratory or confirmatory (Musil, Jones and Warner 1998). For the first it is used to as Floyd, and Widaman (1995) explain ‘to identify the underlying dimensions of a domain of functioning, as assessed by a particular measuring instrument’. Thus, it is used to identify different dimensions within an instrument. It is called exploratory because the investigator has no prior expectation about the expected subscale, because it is not based on a theory or previous research. Exploratory factor analysis might be used when there is no prior theory or uses; thus it may generate hypotheses. The second use data reduction in which the goal is to combine set of measured variables into summary indices. The purpose is to reduce a large set of variables into smaller set that achieve “maximal variability and reliability”. Social sciences show wide usage of factor analysis for the aim of data reduction in. Data reduction is achieved through the use of principal components analysis.

There is disagreement between researchers on what sample size required for principal components analysis. The general rule is that the ratio of subjects-to-variables should be 4:1 or 5:1, and the more participants the better. Other has stated that the sample size is preferred to be not less than 200 (Gorsuch, 1983). However, Streiner (1994) have suggests different solutions; for a sample less than 100 there should 10 participants per variable, while for a sample with more than 100 there should be 5 participants per variable. However, these calculations were challenged by Guadagnoli and Velicer (1988) who claim that there are no theoretical or empirical bases to support the recommended participant-to-variable ratio.

The values of Kaiser-Meyer-Olkin (KMO) and Bartlett tests need to be checked to determine that factor analysis could be conducted on a set of variables. Minimum value of 0.6 is required for KMO result, and Bartlett's test has to produce a significant value (Pallant, 2007: 181). The detailed results of the factor analysis are available in Chapter 8.

#### **5.7.4 Correlations**

Correlation aims to show the direction and the strength of a relationship between the variables that are being measured (Pallant, 2007). Correlation is considered a more powerful statistic compared to chi-square test. The Spearman test of correlation was used to measure the direction and strength of the relationship for the dependant and independent variables of used in this study along with the control variable (location and gender). This test was conducted after factor analysis but presented after the regression analysis sections of Chapter 9.

#### **5.7.5 Logistic Regression**

Ramcharan (2006) states that 'Regressions are used to quantify the relationship between one variable and the other variables that are thought to explain it; regressions can also identify how close and well determined the relationship is'. Fisher's (1925a) idea of regression is 'The idea of regression is usually introduced in connection with the theory of correlation, but it is in reality a more general, and, in some respects a simpler idea, and the regression coefficients are of interest and scientific importance in many classes of data where the correlation coefficient, if used at all, is an artificial concept of no real utility (114). Aldrich (2005) argues that 'Excluding Fisher's own work, "usually" can be read as "invariably" Regression and correlation were related features of a joint

distribution' (407). Regression analysis provides an objective and systematic way to analyse data. As a result, decisions based on regression are less likely to be subject to bias, they are consistent, the basis for the decisions can be fully explained – and they are generally useful. The gains are especially well documented when compared to judgmental decisions based on the same data (Grove and Meehl 1996, and Armstrong 2011).

In this study, the empirical objective is to determine whether religiosity have an influence on insurance purchase and choice. This study predicts that the probability of choosing an insurance policy depends on religiosity along with other factors. Logistic regression is an approach to prediction, similar to Ordinary Least Squares (OLS) regression. However, when predicting a binary; takes on the values 0 or 1 only, or dichotomous; two categories such as yes/no, outcome the logistic regression analysis is appropriate. When the Y variable is binary or dichotomous then the choice of logistic regression is appropriate. In the case of that the original variable was dichotomous, then the categories are coded as 0 and 1 and the researcher gets to choose which of the dichotomous categories is coded as 1 and 0. The dependent variables in this study are binary / dichotomous – Someone either chooses a Takaful policy or dose not chooses one. This means that conventional regressions like Ordinary Least Squares are inappropriate because these assume a continiouse dependent variable. Variables used in this study are mentioned in Chapter 9. Field (2009: 265) defines logistic regression as 'multiple regression but with an outcome variable that is a categorical variable and predictor variables that are continuous or categorical. In its simplest form, this means that we can predict which of two categories a person is likely to belong to given certain other information'. The goal of regression is to understand the relationship between the explanatory X-variables and the Y-variable (dependent variable). However, X-variables in the logistic regression are used to try to explain or predict the value of the Y variable. In logistic regression, the X-variables are used to build a mathematical equation that predicts the probability that the Y-variable takes on a value of 1. Thus, the use of logistic regression is plausible when that whether or not the Y-variable is 0 or 1. In other words, the probability of getting Y depends on the X-variables.

There are several different methods that can be used in logistic regression. One is the forced entry method, where all of the predictors are placed into the regression model in one block, and parameter estimates are calculated for each block. Second the stepwise

methods either a forward or a backward (Field, 2009: 271- 272). Field (2009: 272) explains 'Forward method is employed the computer begins with a model that includes only a constant and then adds single predictors to the model based on a specific criterion. This criterion is the value of the score statistic: the variable with the most significant score statistic is added to the model. The computer proceeds until none of the remaining predictors have a significant score statistic (the cut-off point for significance being .05). At each step, the computer also examines the variables in the model to see whether any should be removed'. On the other hand, Field (2009: 272) explains the backward method 'instead of starting the model with only a constant, it begins the model with all predictors included. The computer then tests whether any of these predictors can be removed from the model without having a substantial effect on how well the model fits the observed data. The first predictor to be removed will be the one that has the least impact on how the model fits the data'. There are conditions for using stepwise methods: first, it is used when there are no previous studies to base hypotheses for testing. Second, it can be used when causality is not of researcher interest, and the aim is to find a model to fit the research data (Agresti and Finlay, 1986, Menard, 1995, and Field, 2009). This study is the first on the field and there are no previous studies that have used the same variables. Therefore, forward stepwise method has been chosen technique in this study.

In a process known as iteration, estimate of the parameters are calculated repeatedly in the hope that they will 'converge' to stable values, although it does not always happen. In order to check this 'convergence' really has been achieved by examining the iteration history in the SPSS output. The iteration history enables to check whether the algorithm was able to arrive at a stable estimate. The effects of failure to converge can mess up the whole analysis. Iterations history in this analysis Forward stepwise method enters only the reliable predictors in the model. Iteration history is not that important in terms of evaluating the model, but it should be checked each time when doing an analysis to ensure that the algorithm has performed correctly. For instance, when modeling extremely messy data with many missing values, the algorithm will not converge, and an error message will be received accordingly (or the software will keep trying to converge indefinitely). And by checking the iteration history, any serious problems of this kind will be spotted before going on to interpret the actual output.

The goodness-of-fit of a model is measured by a log likelihood chi-square statistic. -2 Log likelihood; negative 2 multiplied by the Log likelihood, is a statistic used in

estimation, similar to chi-squared statistics that are used in other contexts. The first -2 log-likelihood value of the first step in the iteration history does not tell us much as is. However, as noted by Meyer et al., (2006) it serves nicely as a “baseline” value by which we can compare to the model that actually contain the predictors of interest. If those predictors actually have predictive value, the ‘-2 Log likelihood’ should DROP (not go up). In structural equation modeling for instance, the value of chi-squared is good to be low for good-fitting models and this is would be considered good a desirable and in the case of ‘-2 Log likelihood this would reflect a potential gain in model fit. Cox and Snell R-squared can also measures goodness-of-fit. This statistic is referred to as a ‘pseudo-R’ statistic, in that it is designed to tell us something similar to what R-squared tells us in ordinary least-squares regression, that of the proportion of variance accounted for in the dependent variable based on the predictive power of the independent variables (predictors) in the model. And the reason why it is called ‘pseudo’ is that it should never be interpreted exactly as one would interpret R-squared in OLS (ordinary least-squares) regression. Overall, high values are better than low values, with higher values suggesting that the model fits increasingly well. Cox and Snell R-squared can be calculated as follows:

**Equation 5.2 Cox and Snell R-Squared**

$$f(x) = 1 - \exp\left\{\frac{-2(LL_m - LL_0)}{N}\right\}$$

Nagelkerke R-square is another statistic that measures goodness-of-fit and it can be calculated as follows:

**Equation 5.3 Nagelkerke R-Square**

$$f(x) = \frac{1 - \exp\left\{\frac{-2(LL_m - LL_0)}{N}\right\}}{1 - \exp\left\{\frac{2LL_0}{N}\right\}}$$

The Nagelkerke R Square statistic, and like the Cox & Snell R Square, it is also a pseudo R-square value, purporting to tell us something along the lines of an OLS R-square, but not directly comparable to it. Cohen, et al. (2003) actually call these statistics ‘Multiple R-squared Analogs’ to emphasise that they are not equivalent to the R-squared in OLS regression. Cohen, et al. ‘we caution that all these indices are not goodness of fit indices

in the sense of proportion of variance accounted for, in contrast to R-squared in OLS regression' (2003: 503). Generally, Nagelkerke R-squared becomes larger than Cox and Snell R-squared since the Nagelkerke R-square is an adjustment of the Cox & Snell, for which the maximum value it can attain is equal to 1.0. The maximum value for the Cox & Snell is 0.75 (Cohen, et al., 2003). The Hosmer and Lemeshow Test is another measure of fit which evaluates the goodness of fit between predicted and observed probabilities in classifying on the DV. Similar to the -2 log likelihood test, it is desirable that this chi-squared value be low and non-statistically significant if the predicted and observed probabilities match up nicely. The Hosmer–Lemeshow test statistic is calculated as follows:

**Equation 5.4 Hosmer–Lemeshow Test Statistic**

$$H = \sum_{g=1}^n \frac{(O_g - E_g)^2}{N_g \pi_g (1 - \pi_g)}.$$

‘S.E.’ in the model summary stands for ‘standard error’. The standard error is a measure of how stable our estimate is. A large standard error means the estimated coefficient is not that well estimated, and a low standard error means that there is a fairly precise estimate (Cohen, et al., 2003).

### 5.7.6 Normality Distribution

Assessing normality of the data is very important to choose the right statistical analysis. For instance, conducting an analysis that assumes that the data follow a normal distribution when, in fact, the data are abnormal, will end in inaccurate results. To avoid this costly error, I must determine the distribution of my data and check whether the data set is well-modeled by a normal distribution or not.

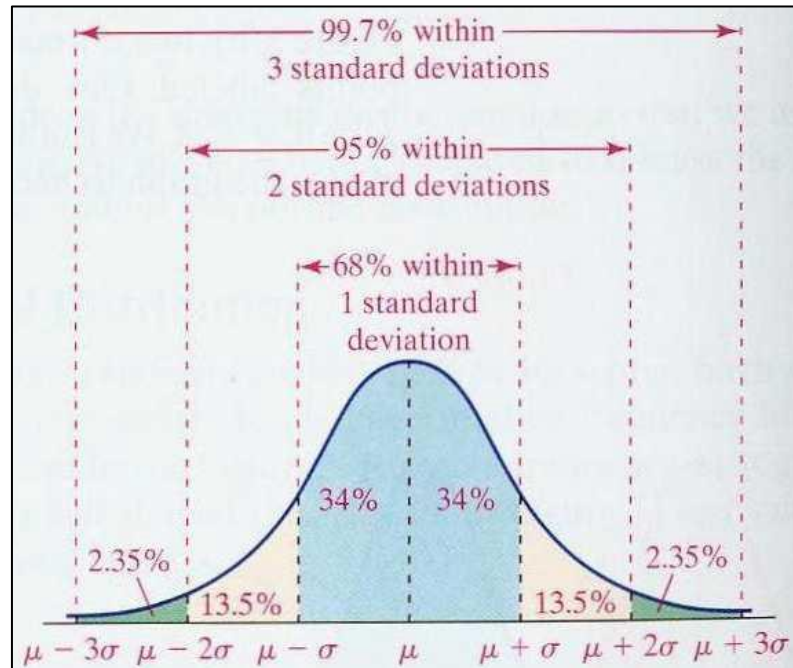
Gaten (2000) states that ‘The simplest method of assessing normality is to look at the frequency distribution histogram’ as shown in Figure 5.3. The curve symmetry and peakiness are the most important items to look at. In addition, curves that indicate two or more peaks would show a bimodal distribution and are not very friendly in statistics (Gaten: 2000). Field (2009) states that ‘a very useful thing to do is to plot a graph of how many times each score occurs. This is known as a frequency distribution, or histogram, which is a graph plotting values of observations on the horizontal axis, with a bar

showing how many times each value occurred in the data set' (p:18). The reason for doing such test is to assess properties of the distribution of scores. Field states that 'In an ideal world our data would be distributed symmetrically around the centre of all scores. As such, if we drew a vertical line through the centre of the distribution then it should look the same on both sides' (2009: 18). This is known as a normal distribution and is characterised by the bell-shaped curve (Field, 2009, Gatens: 2000, and Altman and Bland, 1995).

The bell-shaped basically suggests that the majority of scores lie around the centre of the distribution, in other words the largest bars on the histogram are all around the central value (Field, 2009: 19). Furthermore, the bars get smaller as getting further away from the centre, this indicates that as scores start to deviate from the centre their frequency is decreasing. The scores become very infrequent as moving further away from the centre and the bars become very short. Field (2009: 19) states that 'Many naturally occurring things have this shape of distribution'. Histogram of the normal distribution has the following properties:

- There is a single highest bar (the mode).
- There are as many values above the mode as there are below it (it is in the middle).
- The shape of the histogram is symmetrical about the mode, so the left side is a mirror image of the right.
- The frequency of values gets lower as you move further from the mode in a way that produces a bell shape.

**Figure 5.3 The Frequency Distribution Histogram**



The centre of distribution could be calculated through three measures: the mean, the mode and the median (Field, 2009:20). Normal Distribution Calculator is also known as Gaussian Distribution Calculator, is used to find the Normal Probability density function for the given standard deviation and mean (see Equation 5.5). Normal Distribution is a continuous probability distribution also known as Gaussian function and the curve related with it is called as Bell Curve (Jarrad, 2001).

#### **Equation 5.5 Normal Distribution Formula**

$$f(x) = \frac{1}{\sigma\sqrt{2\pi}} e^{-\frac{(x-\mu)^2}{2\sigma^2}}.$$

$\mu$  = Mean

$\sigma$  = Standard Distribution

$x$  = Normal random variable

If mean ( $\mu$ ) = 0 and standard deviation ( $\sigma$ ) = 1, then this distribution is known to be normal distribution.

Altman and Bland state that 'It is not in fact necessary for the distribution of the observed data to be normal, but rather the sample values should be compatible with the population



(which they represent) having a normal distribution. Indeed, samples from a population in which the true distribution is normal will not necessarily look normal themselves, especially if the sample is small' (1995). Jarrad (2001) states that 'A rule of thumb is that the distribution is reasonably symmetric if the skewness is between -0.5 and 0.5, and the distribution is highly skewed if the skewness is  $<-1$  or  $>1$ '.

## **5.8 Summary**

This chapter explains the research methodology and research methods used to achieve the aim of the research. This chapter is key as it provides an overview of the processes undertaken by the researcher in researching. The research is categorised as mixed research as it aims to identify the conceptual and operational differences between Takaful and conventional general insurance, investigate the extent to which Takaful products are distinctive in substance from conventional insurance products, and measure religiosity, and perceptions of insurance consumers and its effect on their product choice. This study involves Muslims in the UK and KSA. In answering the research questions, the study utilised a deductive strategy through the use of a mixed method. Questionnaire was distributed based on Muslim consumers. Structured interviews were used for insurance providers, which worked as a complementary method to the secondary data. This chapter also presents the theoretical and conceptual framework and a model which forms the basis of the study. Operationalizing religiosity was explained. Glock and Stark, 1965 model has been the main model employed either partly or completely in different fields. In this study a new version consisted of Glock and Stark, 1965 model of religiosity were based. One item combines the overall belief associated with Islamic religion, the practicality of Islamic religion and the importance of Islamic religion (ideological, experiential and consequential dimensions). The second item consists of the actions prescribed by Islamic religion and individuals' knowledge about Islamic religion (ritualistic and intellectual). New religiosity statements were formulated that would capture the meaning of each dimension. These statements are considered to be more detailed and in relation with the Islamic religion in particular. Religiosity, together with other variables, was used to investigate whether there are any systematic explanations for choices between Takaful and conventional insurance policies. Research quality issues were addressed. SPSS version 19 was used to analyse the data for the quantitative method, which uses frequency, percentage, mean, t-test, factor analysis, the Spearman test of correlation, and the logistic regression.

## CHAPTER SIX: CONCEPTUAL AND OPERATIONAL DIFFERENCES: QUALITATIVE ANALYSIS

### 6.0 Introduction

Existing literature on Takaful has not provided straight answers to the following proposed two questions. This is not surprising as Takaful is an emerging topic where many gaps need to be filled in the literature. Furthermore, the age of Takaful companies and products are relatively short in comparison with a well-established conventional insurance industry. Thus, Takaful products have not gone through the cycle of creating, testing and developing stages. Therefore, it was felt necessary to further investigate the reality of Takaful products from the providers' perspectives, and comparing policies of both insurance models along with the examination of the literature.

This chapter focuses on the two issues: conceptual and operational differences and distinction in substance that aim to answer the following research questions:

1. CONCEPTUAL AND OPERATIONAL DIFFERENCES: What are the conceptual and operational differences between Takaful and conventional general insurance?
2. DISTINCTION IN SUBSTANCE: Can Takaful be distinctive in substance as well as in form from its conventional counterparts?

*H1. Insurance operators identify conceptual and operational differences between Takaful and conventional general insurance.*

*H2. There is a significant distinction in substance between Takaful and conventional insurance products.*

This chapter aims to address the two producer-oriented questions. It discusses the interviews findings and the results of the comparison of the policy documents. This chapter consists of six substantive sections. Section 6.1 provides a summary of the reviewed literature on Takaful and conventional insurance. Section 6.2 compares between Takaful and conventional policy documents. Section 6.3 summarises the interview findings. Section 6.4 compares the interview findings with the literature and

the policy documents. The final section in this chapter 6.5 provides overall answers to the two research questions.

## 6.1 Literature Summary

The existing evidence from the literature has shown that there are conceptual and operational differences between Takaful and conventional general insurance. However, there were mixed views in practices, so differences are not so apparent.

The concept of insurance is fully supported by Islamic evidence from the Qur'an, *Sunnah* and Islamic history. In Islam, there are evidences that support the concept of insurance. First, Islamic rules *Roshd* should guide Muslims to secure their interests and families against probable accidents or peril in future. Second, Qur'an made very clear the ethics of cooperation among people within the spirit of unity and awareness of the common good and wellbeing. Third, is solidarity; that is the general meaning of Takaful, which is represented and well established in the principle of Zakat. Takaful system embodies the elements of shared responsibility, common benefit and mutual solidarity. It is basically the willingness to secure one's own wealth and social cooperation. In addition, the basis of the insurance concept rests on rational individual behaviour and social cooperation. Furthermore, the *Tabarru'* or donation system is considered the main heart of the Takaful system.

On the other hand, the source of law and regulations in conventional insurance are set by the state and are thus man-made. The insurance company accepts premiums from the insured; in exchange for indemnity against risks that may not occur, at a level that it predicts will cover claims and result in a definite profit. This characterization of insurance stresses a major aspect that can be found implicitly or explicitly in most other definitions, namely the reduction of risk through some transfer mechanism.

Operationally, the main features of Takaful could be summed up into three elements: first, cooperative risk-sharing, by using charitable donations, based on the concept of *Tabarru'*, to eliminate *Gharar* and *Riba*; second, clear financial segregation between the interests of the Participants (insured/insurer) and the Operator (insurance company); and third, Sharia-compliant underwriting policies and investment strategies. Most scholars have the same opinion on the features of Takaful, although some of the scholars use

different wordings when describing the features. Under Islamic law any transaction that has or involves prohibited activities according to Sharia principles and rules would make the insurance contract void. The various contracts for Takaful are: Musharaka, Mudaraba, Wakala and Hybrid Model; which can be summarised as follow:

**Musharaka:** a) Two or more partners contribute to the capital and expertise of an investment and these contributions can be in equal or unequal proportions. b) Both parties are allowed to charge a fee or wage for any management or other labour put into the project. c) Profits and losses are shared according to the amounts of capital invested. d) Period and terms of contract termination and type of Musharaka are specified and included in the contract.

**Mudaraba:** a) The insurance company is totally owned by the shareholders. b) Insurance funds (premiums) are provided by the policyholders who are considered as Rab-ul-mal. c) Shareholders manage the insurance funds and invest surplus and pay all management expenses from the shareholders' funds from their share of the profit. d) All claims and technical reserves are paid out of the Mudaraba fund. e) In the case of any surplus being available after paying out all technical liabilities, it will be shared as per the agreement between shareholders and participants. f) In the case of any deficit, the policyholders must bear the deficit, and policyholders are obliged to pay additional premiums. Shareholders will only be liable in the case of negligence in managing the portfolio. g) Policyholders share in the profit to be added to their account.

**Wakala:** Basically both Mudaraba and Wakala contracts follow the same principles under the concept of profit sharing between participants and operators. However, there is a structural difference in the way such profit is determined. Unlike Mudaraba, the operator under a Wakala contract has the right to use part of the fund to cover its management costs. In addition, any underwriting surplus from the Takaful fund should be returned only to the participants' fund: this is based on the principle that the funds actually belong to the participants.

**Hybrid Model:** 1) Wakala contract: on a fee-driven basis to manage the insurance portfolio (underwriting, claims, reinsurance arrangements, etc). Under this contract the insurance company is entitled to receive fees regardless of the portfolio result. These fees will be taken out of the insurance fund (premiums or contributions). 2) Mudaraba

contract: on a profit-sharing basis to invest the policyholders' money. Under this contract the insurance company is entitled to receive a profit-share (based on Mudaraba rules), out of the investment income.

While conventional insurance is basically a contract of exchange in the form of a sale and purchase agreement, between the insurers or company who sells and the insured or policyholder. In other words, insurance is a financial product sold by insurance companies to safeguard you and / or your property against the risk of loss, damage or theft. Conventional accounting supposes the separation of ownership from management in the company form. A common basic advantageous feature in all types of insurance for customers seems to be mitigating the risks associated with the negative financial impacts of a loss or danger.

The contract creates an explicit linkage between the input and return of capital and the manager is left free to choose the individually most favourable level of effort in each condition, dependent on the specified level of investment. In an insurance policy premiums are paid to the insurer. If a claim is needed and requested, the insurer pays out for the loss that is covered under the policy policyholders' premiums. If a claim is not made, premiums are pooled with the premiums of other policyholders. Insurers use risk data to calculate the likelihood of the event of the person are insuring against happening. This information is used to work out the cost of premium. The more likely the event the person is insuring against is to occur, the higher the risk to the insurer and, as a result, the higher the cost of premium. All insurance policies have common standard policy conditions e.g. losses must not be deliberate.

There are arguments stating that the reality of Takaful in practice is a clone of conventional insurance. The current Islamic financial products are not focusing on the spirit of Islamic law, but it is represented by an Islamic brand name (El-Gamal, 2005). Other argues that Islamic finance is still not achieving social justice by banning exploitative practises such as paying interest, gambling involvement, and investing in firms that involve haram elements (Saleem, 2005: 23). Other critics suggest that Islamic finance is not in fact entirely Islamic, and accordingly it cannot be expected to achieve the objectives of social justice and fairness. Hamoudi argues that 'Islamic finance as a practise has failed to meet these objectives' (Hamoudi, 2007b: 1). On the same note, Haniffa and Hudaib (2010: 85) 'Maqasid al-shari'ah (purposes of the law) has been

unduly used to justify the innovation of financial products to compete and converge with conventional banking'. Moreover, critics suggest that, at a structural level, Islamic finance neglects expectations of consumers but is pushed by banks to generate money. Some suggested that Islamic finance should really be aimed at the "micro" level, and that the huge transactions being arranged by international banks are simply using the name "Islamic finance" as an excuse for charging high fees (El-Diwany, 2008).

Ahmed states 'Lots of confusion that had arisen among a minority of Fuqaha who showed no objection to conventional insurance and still raised from time to time, is due to mixing up between the practise of insurance, i.e. the insurance business, and the concept of insurance in itself' (Ahmed, 2009: 29).

Section 6.2 provides answers to the two questions from the insurance providers' perspectives.

## **6.2 Key Findings of the Interviews**

This section presents a summary of the key findings of the interviews, each subheading represents the meaning of the theme used in the interview. I have treated the interviewees' answers with an unaligned eye to avoid being biased towards one interviewee or response rather than another.

### **Comparison between Takaful General Insurance and Conventional General Insurance:**

Interviewees were given of summary of what is thought to be Takaful and asked if whether they agree with it or not. The summary is: Takaful is a form of cooperative risk sharing. The policyholders pay a premium to a fund as a donation for those who suffer losses. The policyholders are then entitled to receive any surplus from the cooperative insurance fund, just as they will help make up for any deficits. The premium or donation will differ, based on the degree of risk. Takaful is based on the Sharia tenets which state that if there is the opportunity for gain, then people must be willing to accept the possibility of loss; there should be no ambiguity or unknown and doubtful risk involved, there should be no deception, and there should be no loss due to ignorance or absence of information. All interviewees agreed to this summary, although practise of Takaful does not fully convey its core principles. They have elaborated that Takaful is a cooperative

agreement between a group of people to share any risks or pre-specified risks. Members of this cooperative agreement are entitled for compensation in case of accidents happened to any of their member. This is the definition of Takaful drawn from the *Sunnah Al-Nabawiya*, where people help those in need.

In principle, interviewees agree to the following three major differences between Takaful and conventional general insurance are:

1- Conventional insurance does not conform to Sharia in the sense that a) it involves Riba (interest), Gharar (uncertainty due to combination of the unknown and doubtful), and elements of Maisir (gambling) in the insurance contracts, and b) the underwriting policies and investment strategies not Sharia compliant. On the other hand, Takaful conforms to Sharia due to a) the elimination of Riba, Gharar, and Maisir, and b) the adaptation of Sharia-compliant underwriting policies and investment strategies.

2- Conventional insurance business does not conform to Islamic values in regards to the absence of cooperative risk sharing (but consider mutual insurance), while Takaful conforms to Islamic values through a cooperative risk sharing.

3- In conventional insurance companies, the interests of participants and operator mixed. On the other hand, there is a clear financial segregation between the interests of the participants (insured/insurer) and the operator (insurance company) in Takaful companies.

However, operationally they think that Takaful works differently: In term of investing the money in the conventional insurance it is not always the case that they invest the money in a way that does conform to Islamic Sharia. In the conventional insurance, the interest of operators and policyholders is separated. While in Takaful, in principles, the policyholders are the shareholders and the insurance company and the operators are working for the shareholders (the participants); therefore, there should be no conflict of interest.

**Other differences mentioned by the interviewees:**

1) Liabilities: There is a fundamental difference between the conventional and Takaful in term of liability. In the conventional insurance the company take full risks whether they

would be able to pay the compensation or not, but they are entitled to pay the full compensation. In Takaful, the compensation is limited to the fund available, and that what make Takaful called cooperative. Without this difference there would not be that big of a difference between conventional insurance and Takaful. In Takaful, in principles, they cannot guarantee compensation, if there are no enough funds then no compensation would be paid; unless the members agreed to raise their contribution fees to cover the expenses.

2) Specifying risks: There are operational differences; in conventional insurance they focus on specified risks as risks. So, in case of insuring a house against fire, the insurance company will cover the losses only in the case of fire. If this house incurred other risks such as floods, the insurance company will not cover the losses against this risk. So, conventional insurance companies tend to specify risks in order to escape from paying compensation to maximise profits.

One of the interviewees states that ‘While in Takaful, the person is the centre. So in Takaful there are fewer tendencies to specify risks; because, in principles, it is a “cooperative” fund aiming for a support and cooperation among members in case of risks’

#### **Similarities between Takaful and conventional insurance:**

1) Interviewees think that it is normal that pricing mechanisms are similar between the Takaful and commercial insurance. This is considered a technical mechanism, therefore they are similar.

2) Most Takaful companies nowadays are following the pricing mechanism of conventional insurance, however they (Takaful) tried to add some amendments to it. In this issue you need to consult Takaful providers. However, as a concept, they think that until now researches on Takaful did not specify the pricing mechanism in Takaful.

#### **Significant distinction in substance between Takaful and conventional insurance products:**

Based on reality there is not a significant distinction in substance between Takaful and conventional insurance. They are not saying that there are no differences at all between both models, however substance wise there is not a significant distinction. There has to



be a distinction in substance between the types of insurance because it cannot be named Takaful if it is similar to conventional insurance. The differences should not be confined only to the name of products. As this is not good as this can harm or damage the Takaful concept.

In terms of designing Takaful policies, interviewees agreed that providers try to replicate conventional policies in a Sharia compliant framework. In addition, they have agreed that providers try to design Takaful products as close as possible to conventional insurance products. This is not due to force of regulation.

Interviewees have agreed on the following statement: ‘Based on my knowledge, I would conclude that so long as Takaful is being used, managed and priced correctly then it should have no disadvantages compared to conventional insurance’.

Interviewees have recognised the existence of certain barriers that have hindered the growth of Takaful. Some of these are internal factors – lack of skilled staff, inappropriate management style, low level of capitalization, lack of creativity and product development and some of them are external factors - regulatory framework, competitive environment, role of government, how mature the insurance industry is. Other important factor is relating to how Takaful is being advertised. Takaful providers try to represent Takaful as a non-profitable product through the concept of donation, however, for the model to succeed providers should not hide the fact that Takaful is in fact a profitable product in nature.

#### **Economic Drivers for Insurance:**

All interviewees agreed that there must be an enormous potential demand for Takaful in Saudi Arabia. A recent survey estimates the current market volume at around US\$1 billion for all form of Takaful insurance. Takaful motor insurance alone is estimated to grow to US\$1.3 billion and medical insurance to US\$1.7 billion within the next four years. This is phenomenal potential growth. I understand that the Saudi insurance sector was very limited in scope until the recent changes in regulation by The Saudi Arabian Monetary Agency (SAMA), and they believe this was a strong motive for establishing Takaful general insurance in Saudi Arabia. Also they have added other motive which is seeking profits.

### **Motives for establishing Takaful insurance and financial products the UK:**

I have mentioned that regulators in the UK have been supporting the development of Sharia compliant financial products. A community of some 1.5 to 2 million Muslims and some 350,000 households is a sizeable market. The interviewees were asked to list other motives for establishing Takaful insurance and financial products the UK. Polarization of Islamic capital was on top of their list. Some of the interviewees think that the Islamic financial system is a moral example that has potential to replace the declining capitalist model. To sum up, moral and financial factors were the main motivations.

### **Barriers:**

All interviewees considered it appropriate to describe Takaful as 'Profitable'. One of the interviewees has commented 'Here we go back to the issue if the insurance company that it is only a manager or a risk taker. If it is only a manager, in this case we can say that the management industry of Takaful is profitable. Because the term Takaful supposed to have no profit in its meaning so saying that Takaful is profitable is a contradictory, as if you are saying that donating is profitable'. When the interviewees were asked if they considered it appropriate to describe Takaful as 'Islamic', they had mixed views. Most of them answered no, couple answered positively. All interviewees have considered it appropriate only in principle to describe Takaful as 'Free from interest, Gharar and Maisir'. All interviewees have not considered it appropriate to describe Takaful as "Something Customers want". Although Takaful may attracts some devout Muslims. The reasons why Takaful is less desired by customers are high costs, product are either seen similar to or as a bad replica of conventional policies, low level of service, complicated compensation mechanism, and some firms that claim to be Takaful are deceptive.

Compared with countries that have a Muslim majority like Malaysia, Takaful has been rather slow to develop in the UK. Interviewees' thoughts on the main barriers to the expansion of Takaful in the UK were: Size of Muslim population, also that Takaful is not Islamic banking where demands for products are larger and not exclusive to a particular segment of the community.

In order to overcome such barriers Takaful products should be as appealing to non-Muslim customers as to Muslims, and this should be for Takaful's benefits/rewards not because that it is Sharia compliant. Additionally, there has to be product differentiation between Takaful and conventional insurance products and this is the ABC of marketing.

**Operations:**

Interviewees think that there are huge number of companies that do not comply with Takaful concept and not Sharia compliant. They have also emphasised that Takaful insurance companies need to understand what Takaful is, and they need to have the ability to create and develop products that comply with Takaful concept and then the ability to meet peoples need.

In terms of suitability of Takaful products to non-Muslims consumer, interviewees think that Sharia tailored financial products are not only for Muslims, and if it reflects true the ethics of Islam will have large appeal to the people from all faiths.

### **6.3 How Do Conventional General Insurance Policies Differ from Takaful General Insurance?**

This section provides a comparison between Takaful and conventional insurance policies. It is felt necessary to include the comparison between family Takaful and life insurance as those types of insurance were covered in the questionnaire survey. The literature review in the subject of Family/life and general Takaful and conventional insurance has covered the general description of both models and only few have described the policies in more detail. As part of comparing between both models of insurance, comparison policies of those models were necessary. I have managed to have access to life and general insurance policies from both Takaful and conventional insurance companies. An examination of the relevant literature review with the policies allowed me to propose a comparison between Takaful and conventional insurance policies documents in a table form that assist in grasping the concepts in a simple way (see Table 6.1).

**Table 6.1 Comparison of Takaful and Conventional Insurance Policy Documents**

	<b>Family Takaful</b>	<b>Conventional Life Insurance</b>	<b>General Takaful</b>	<b>Conventional General Insurance</b>
<b>Contracts Operated</b>	Donation and contribution.	Sale and pay (exchange contract).	Donation and contribution.	Is based on the principles of exchange of interest that the insured buys protection by payment of premium, and insurer provides protection against the insured risk.
<b>Company Responsibility</b>	Pay claims, with underwriting fund and in case of fund shortfall it offers interest free loans to the fund.	Pay claims from the insurance premiums and shareholder funds, while profits generated by the fund belong to the Insurer. The policyholder has no knowledge as to how and from where it has been derived.	Takaful Operator will pay to the Covered the value of the property at the time of the happening of its loss or destruction or the amount of such damage or at their option reinstate or replace such property or any part thereof.	Pay claims from the insurance premiums and shareholder funds, while profits generated by the fund belong to the Insurer. The policyholder has no knowledge as to how and from where it has been derived.
<b>Funds Ownership</b>	Ownership is between the participant members.	The company.	Ownership is between the participant members.	The company.
<b>Allocation of Contributions</b>	Takaful insurer credits installment premiums to two separate accounts; the individual account (purely for savings and investment) and the special account of each insured (is to build up a reserve for death benefits of any insured who die prematurely).	The insurer credits installment in the company pooling account.	Takaful Contributions donated by the participants from whom Benefits are paid to eligible Beneficiaries after deduction of the charges and expenses related thereto.	The insurer credits installment in the company pooling account.

	Family Takaful	Conventional Life Insurance	General Takaful	Conventional General Insurance
<b>Management and Administration Fees</b>	Administration and management fees can be charged from the first year premium from the company's share of surplus account and not from the participants' account.	Administration and management fees are charged from the first year premium from the company's account.	The Wakala Fees represent the fees payable to the Takaful Operator for services rendered in connection with the management of Takaful funds, and payable at the end of accounting year and not exceeding the 90% of the surplus if any.  The Wakala fees shall be mentioned at the membership schedule and subject to change annually.	Administration and management fees are charged from the first year premium from the company's account.
<b>Time of Paying The Claims</b>	The end of the coverage period death or surrender and on the age, gender and health condition of that insured.	The end of the coverage period death or surrender and on the age, gender and health condition of that insured.	After payment of the first premium any of the property insured be accidentally physically lost destroyed or damaged other than by an excluded cause at any time before 12 o'clock in the midnight of the last day of the period of insurance or of any subsequent period in respect of which the insured shall have paid and the insurer shall have accepted the premium required for the renewal of this policy.	After payment of the first premium any of the property insured be accidentally physically lost destroyed or damaged other than by an excluded cause at any time before 12 o'clock in the midnight of the last day of the period of insurance or of any subsequent period in respect of which the insured shall have paid and the insurer shall have accepted the premium required for the renewal of this policy.
<b>Claim Amounts</b>	No guarantee to the amount that shall be claimed.	Claimed amount is either entirely, partly guaranteed, or paid with profits.	The sum to be paid upon occurrence of the Covered Event as specified by the Membership.	The insurer will pay to the insured the value of the property at the time of the happening of its accidental physical loss or destruction or the amount of such accidental physical damage (accidental physical loss destruction or damage being hereinafter termed damage) or at its option reinstate or replace such property or any part thereof.
<b>Participants'</b>	Pay contributions and the right	Pay contributions with no	Pay contributions and has the right to	Pay contributions has no right to know

	Family Takaful	Conventional Life Insurance	General Takaful	Conventional General Insurance
<b>Responsibility</b>	to inspect their book of business, how surrender values are computed and how profits are shared.	right of inspection the book of business except when the Financial accounts is published.	know how their money is used, how the surrender value is calculated, and Takaful policyholders must be certain that neither returns nor funds paid out in claim settlements, originate from unlawful means.	how their money is used, and how the surrender value is calculated.
<b>Capital Utilised</b>	Participants' fund.	Participating capital.	Participants' fund.	Participating capital.
<b>Investment Considerations</b>	Restricted and <i>Sharia</i> compliant.	May exclude certain industries such as arms production, therefore, it is often restricted.	Under Sharia law, interest is forbidden, which rules out the investment in fixed income securities.	Invest large amount in fixed income securities on their balance sheet in order to minimise the risks and the variability associated with the equity.
<b>Types of Plans</b>	Retirement, children fund, <i>Waqf</i> and single payment plans.	Permanent life plan and term life plan.	Automobile, health, property all risks, etc. (non-Family Takaful plans).	Automobile, health, property all risks, etc. (non-life insurance plans).
<b>Benefit Riders</b>	Hospitalization, disability and each major type of conventional life insurance policy, while it differs in how premiums are allocated.	Similar types, however it differs in how premiums are allocated.	The event the occurrence of which shall entail payment of benefits specified by the membership.	The event the occurrence of which shall entail payment of benefits specified in the insurance contract.
<b>Benefit Distribution</b>	According to the Islamic of law of inheritance and in some cases the insured identifies the name of the beneficiary.	According to what is mentioned in the insurance policy.	Every policyholder has the right to know how profits from different investments are divided among the participants.	There is no hard and fast rule for profit distribution, it is totally depends on company management.

In the past insurance served to protect families and others from financial difficulties in the event of an early death. Nowadays, it is used as an investment and estate planning tool. Interviewee 6 states when asked about agreeing to the above sentence:

*The world of insurance, particularly life insurance, is far more complex than to suggest that simply agreeing or not agreeing. Life insurance products today may be designed as pure “protection” products much like there were in the past, with no intention to combine investment features in the product design, as they give statement states. Conversely, in today’s business environment a more “holistic” approach known as estate planning is common where investment or savings elements are bundled with protection-type products.*

Conventional insurance company aims to maximise profits for its shareholders. The general consensus by all interviewees were that life insurance products today may be designed as pure protection products much like there were in the past, equally.

Today’s business environment introduces an approach known as estate planning which adds to the protection-type products, investment or savings elements. The best term described the participants’ perception toward Takaful life insurance as Islamic. Conversely, conventional life insurance was described as profitable. There are some similarities between both models in the way the product is priced and the actual processing mechanism. However, the major differences are presented in the type of contract, and the method in which the money is used.

It is advised if Takaful is being used managed and priced correctly then it should have no disadvantages compared to conventional insurance, however, internal factors -skilled staff, management style, level of capitalization, and external factors-regulatory framework, competitive environment, role of government, maturation level of insurance industry (conditioning/mandates), etc. might become barrier to Takaful grow.

I have found that Takaful and conventional insurance policies pricing mechanisms are similar. Policy contracts are almost identical apart from the Takaful contract having a ‘Cooperative Insurance Clause’ which reads as follows and it also includes a section called ‘Arabic Text to Prevail’ that in the event of any differences in meaning between

the Arabic and English texts in this policy, the Arabic text shall prevail. The latter is a common clause in any translated contract.

*'In accordance with its Articles of Association as a Cooperative Insurance Company, Takaful Insurance & Reinsurance Company (hereinafter called "Takaful Operator") will distribute to the Membership holders, as required by Article No. 70 (2-e) of the implementing Regulations, at least 10% (Ten Percent) of the net annual surplus, if any, arising from its insurance operations either in cash or in the form of a reduction in contribution for the subsequent year, the remaining 90% of the Net Surplus shall be transferred to the shareholders income statement after the deduction of the stipulated Wakala fees'.*

## **6.4 Comparison of the Interview Finding With the Existing Literature and the Insurance Policy Documents**

After reviewing prior research and writings along with the interviews finding, the first hypothesis is fully supported: *Insurance operators identify conceptual and operational differences between Takaful and conventional general insurance.*

The increase of Takaful insurance has made people curious to know more about it and compare it with other models from different angles. Takaful is defined as the modern day Sharia compliant alternative to conventional insurance. Upon close examination of the origins of Takaful, it is found from the primary sources of guidance for Muslims (Holy Qur'an, *Sunnah*, and *Hadith*), that it becomes apparent that members of the first Islamic community 14 centuries ago practised successful schemes of cooperative risks sharing that originated even before the advent of Takaful. Early precursors were developed in response to dangers and risks associated with long-distance trade via caravans or sea voyage and included: *hulf* (confederation), *aqila* (pooling of resources), and *daman al tarik* (surety) that gradually evolved into a system of community self-help and financial assistance, which Prophet Muhammad (peace be upon him) validated as Takaful. In the early period of community building in Madinah (Hijrah 1 thru 20) there were three instances in which Prophet Muhammad (pbuh) employed an insurance mechanism to solve daily societal issues. In the first constitution in Madinah of 622 C.E., there were codified references to social insurance relying upon practises such as *al-diyah* and *al-aqila* (blood money to rescue an accused in accidental killings), *fidyah* (ransom of



prisoners of war) and cooperative schemes to aid the needy, ill and poor. Therefore, according to these evidence that the definition of Takaful drawn from the *Sunnah Al-Nabawiya*, where people help those in need. There is a cross agreement on concept of Takaful from literature and interviews findings.

The findings of this chapter show that there are five elements that must co-exist to establish a proper and Sharia compliant framework for a Takaful system; namely: (1) **Niya** or utmost sincerity of intention for knowingly following the guidance and adhering to the rule and purposes of Takaful. (2) **Integration of Sharia Conditions**, i.e. risk sharing under *Ta'awuni* principles, coincidence of ownership, participation in management by policyholders, avoidance of Riba and prohibited investments, and inclusion of *Mudharaba* and/or *Wakalah* principles for management practises. (3) **Presence of Moral Value and Ethics** whereby business is conducted openly in accordance with utmost good faith, honesty, full disclosure, truthfulness and fairness in all dealings. (4) **No Unlawful Element**, that contravenes Sharia and strict adherence to Islamic rules for commercial contracts, explicitly: (a) Parties have legal capacity and are mentally fit, (b) Insurable interest, (c) Principle of indemnity prevails, (d) Payment of premium is consideration (offer and acceptance), (e) Mutual consent which includes voluntary purification, and (f) Specific time period of policy and underlying agreement. (5) **Appointment of Sharia Advisory Council** or Committee to oversee the development and Islamic auditing of the Takaful operation.

Some of the interviewees have endorsed these conceptions of insurance drawn from the literature. The insurance in the past was served to protect family and significant others from financial difficulties in the event of an early death. However, nowadays, it is used as an investment and estate-planning tool depending on the development level of the users' i.e. in Europe and the developed countries this conclusion is correct – but in the developing countries, they are more likely to see it as a safety net. A primary objective of any conventional insurance company is to maximise profits for its shareholders. This objective is not far from the objective of current Takaful insurance companies. Therefore, the consensus of literature and interviews findings shows that there are operational differences between Takaful and conventional insurance. That proves that in theory the concept of Takaful does exist with proven origins, concepts and values have set up the mechanism of Takaful.

On the other hand, findings from this chapter are not showing support to the second hypothesis: *There is a significant distinction in substance between Takaful and conventional insurance products.* In terms of the issue of the distinction in substance between the products of the two insurance models, it appeared that there are explicit and implicit views. The findings from the interviews and insurance policy documents comparison were answering the raised questions more explicitly than the literature.

As conventional insurance industry is older, well established, and more widely accepted than Takaful, Takaful operators seemed to be not able to break away from conventional insurance model. Takaful insurance products do not adequately explain its distinctiveness features from the conventional one. Takaful products may have been influenced by the designing, contract wording even strategic marketing of conventional insurance products. The findings also demonstrate that Takaful providers agreed more with Takaful being marketed more through selling their product features rather than designing their products accordingly to Islamic ethical values. This implies that Takaful providers are competing with Conventional insurance providers in offering similar products and not in terms of the Islamic finance base value.

It cannot be denied that product features are important in a product making. However, as Takaful products should be based on Islamic values, their providers should also stress on the importance of controlling haram elements when promoting their products as the Islamic high ideals, as articulated by *maqasid al-Sharia* or the objectives of Sharia, namely, the concept of cooperation and human well-being, have to be kept in perspective. Otherwise, the result of the Takaful products would be similar to the conventional insurance products where the haram features have not been eliminated from the products. Muslim consumers as well will not be successful in avoiding haram with the use of such products. Islamic products are supposed to avoid certain prohibited elements that are expressed by Muslim scholars, existing in non-Islamic products. One of the main prohibited element is moral risks, so are Islamic products avoiding these forbidden activities or minimizing them? This issue has not been researched and I am not aware of such studies that examine Takaful products and investigate whether it is really avoiding such activities that exist in conventional insurance products or if there is a possibility to avoid such activities in making insurance product. The findings suggest that this should be a reminder to the financial institutions issuing Takaful products. In their ethicality, they should not be exploiting religious features and dressing their products

Islamic gown to promote their products for profit. However, their products should reflect Takaful concept and values in substance as in form.

I have understood that Takaful products are facing two issues. First, Takaful industry is lacking creativity and stuck in renaming existing conventional insurance products instead of creating unique products of its own. Second, although Takaful is in fact based on the donation concept, it is still a profitable product for providers not as how it is perceived. Hence working on improving Takaful insurance mechanisms, specifically absorbing risk that are caused by Takaful through forming profitable contracts and this will bring raise to *manfa'a* (benefit) concept. Thus, they should try to clarify this mix up and present itself clearly as possible profitable product.

Takaful products are not seen as unique products, and that it has many complicated procedures, and running such complicated product makes it very costly. Therefore, unless the Takaful companies start to produce their own “unique” products they will fail in the medium and long run. In addition, Takaful is seen as conventional products but with Sharia stamp plus high pricing. There has to be product differentiation between Takaful and conventional insurance products for it to succeed and compete with its counterpart.

It can be concluded that in theory Takaful products sounds reasonable and appears to be consistent with the principles of Sharia. However, in substance the practice, structure and mechanism of these products do not completely meet the spirit of Sharia.

## **6.5 Summary**

This chapter presents the results of the used three methods as a triangulation technique: literature review, the coding and thematic analysis conducted with the data gathered through structured interviews and comparison of insurance policies documents. The results answer the two producer-oriented research questions in this study. The literature summary included in this chapter is related to these two research questions. The sample of the interview included various stakeholders, which included insurers of both Takaful and conventional industry, and Sharia and Islamic finance specialists. Four insurance policies documents were looked at, two of Life insurance and the other two of general insurance each consist of one from Takaful insurance company and other from conventional insurance company. The findings gathered indicated the following:

Takaful is a cooperative agreement between a group of people to share any risks or pre-specified risks. Members of this cooperative agreement are entitled for compensation in case of risk happens to any of the member. This definition of Takaful drawn from the *Sunnah Al-Nabawiya*, where people help the sufferer with amount of money to help him face any risks inflicted on him. Three major operational differences between Takaful and conventional general insurance have been agreed upon. First, Conventional insurance does not conform to Sharia in the sense that a) it involves Riba (interest), Gharar (uncertainty due to combination of the unknown and doubtful), and elements of Maisir (gambling) in the insurance contracts, and b) the underwriting policies and investment strategies not Shari'ah compliant. On the other hand, Takaful conforms to Sharia due to a) the elimination of Riba, Gharar, and Maisir, and b) the adaptation of Shari'ah-compliant underwriting policies and investment strategies. Second, Conventional insurance business does not conform to Islamic values in regards to the absence of cooperative risk sharing (but consider mutual insurance) while Takaful conforms to Islamic values through a cooperative risk sharing. Third, in conventional insurance companies, the interests of participants and operators are mixed. On the other hand, there is a clear financial segregation between the interests of the participants (insured/insurer) and the operator (insurance company) in Takaful.

Regarding the distinction in substance between both insurance models, based on reality there is not a significant distinction in substance between Takaful and conventional insurance. Overall, the major differences are presented in the type of contract, and the method of investments. However, both models share a great deal of similarities in the way the product is priced and the actual processing mechanism.

Hence, Hypothesis 1 *Insurance operators identify conceptual and operational differences between Takaful and conventional general insurance* has been supported. But Hypothesis 2 *There is a significant distinction in substance between Takaful and conventional insurance products* is not supported by the evidence of the interviews.

## **CHAPTER SEVEN: BASIC ANALYSIS OF SURVEY RESPONSES**

### **7.0 Introduction**

This Chapter focuses on the four issues: awareness, attribute salience, perceptions and usage that answers the following four research questions:

1. AWARENESS: How far are Muslims aware of Islamic financial products (including Takaful)?
2. ATTRIBUTE SALIENCE: What do Muslims consider to be the most important attributes of financial products?
3. PERCEPTIONS: How do Muslims perceive Takaful and conventional insurance products?
4. USAGE: What types of insurance products do Muslims consider and actually buy?

This Chapter tests four hypotheses:

- H3. Muslims are aware of a range of Islamic financial products, including Takaful.
- H4. Muslims are likely to consider compliance with Sharia to be an important attribute of Islamic financial products.
- H5. Muslims' perceptions of Takaful and conventional insurance are not significantly different in the UK and KSA.
- H6. Usage of Takaful is greater in KSA than in the UK.

This chapter provides an overview of the descriptive analysis of the data collected from the questionnaire survey. The discussion of the respondent's demographic dimensions provide some clear understanding of the customer investigated in this study, and help prepare for a better understanding of the analysis in general. This chapter covers five sections. Section 7.1 describes the demographic characteristics of the whole sample: gender, age, marital status, ethnic group, nationality, academic qualifications, occupation, nature of the work and annual income. Sections 7.2 to 7.5 discuss the four issues of

awareness, attribute salience, perceptions, and usage. Section 7.6 provides a summary of this chapter.

## 7.1 General Demographic Analysis

Describing the relationship between a sample and its population is very significant and, in order to convey such a relationship, we must be able to describe it in terms of characteristics that are common to both, the sample and its parent population (Oppenheim, 1992). Therefore, this section is mainly concerned with presenting a descriptive analysis of the sample general demographic to provide an overview of the respondent characteristics. It aims to provide a brief description of the respondents' demographic variables. Thus, descriptive analysis will be utilised to evaluate the respondents according to the following characteristics: location, gender, age, ethnicity, marital status, academic qualification, occupation, nature of the work, and annual income. A total of 1106 respondents have participated in this research. The targeted groups are Muslims in the UK and KSA that holds, have had or/and considered an insurance policy. A total of 700 Saudi Muslims responses have been collected. On the other hand, a total of 406 responses have been collected for Muslims in the UK. Given that I have used an on-line survey, I cannot guarantee a balanced sample of the demographic variables: gender, age, ethnicities, educational, and professional and financial backgrounds, but steps been taken in order to expose the questionnaire widely as discussed previously in Chapter 5.

**Table 7.1 Demographic Data**

	UK		KSA		Total	
	Number	%	Number	%	Number	%
<b>Gender</b>						
Male	318	82.2	563	82.8	881	82.6
Female	69	17.8	117	17.2	186	17.4
Total	387	100.0	680	100.0	1067	100.0
<b>Age</b>						
20 and under	84	21.7	6	0.9	90	8.4
21-30	190	49.1	123	18.1	313	29.3
31-40	64	16.5	264	38.8	328	30.7
41 and over	49	12.7	287	42.2	336	31.5
Total	387	100.0	680	100.0	1067	100.0
<b>Marital status</b>						
Single	215	56.0	100	14.9	315	29.8
Married	162	42.2	562	83.5	724	68.5
Divorced	3	0.8	11	1.6	14	1.3
Widowed	4	1.0	0	0.0	4	0.4
Total	384	100.0	673	100.0	1057	100.0

	UK		KSA		Total	
	Number	%	Number	%	Number	%
<b>Academic level</b>						
Bachelor degree	162	45.9	648	95.4	810	78.5
Master's degree	127	36.0	308	45.4	435	42.2
Doctorate	48	13.6	132	19.4	180	17.4
Professional	88	24.9	27	4.0	115	11.1
Total (exc. multiple responses)	353	100.0	679	100.0	1032	100.0
<b>Occupation</b>						
Employed	239	63.2	563	83.4	802	76.2
Student: full-time	72	19.0	62	9.2	134	12.7
Student: part-time	28	7.4	15	2.2	43	4.1
Self-employed	34	9.0	76	11.3	110	10.4
Not employed	41	10.8	28	4.1	69	6.6
Total (exc. multiple responses)	378	100.0	675	100.0	1053	100.0
<b>Annual income</b>						
Below £26K/SAR60K	160	42.3	107	16.0	267	25.5
£26-32K/SAR60-120K	122	32.3	143	21.4	265	25.3
£33-39K/SAR121-240K	37	9.8	168	25.1	205	19.6
£40K/SAR241K or more	59	15.6	250	37.4	309	29.5
Total	378	100.0	668	100.0	1046	100.0
<b>Ethnicity</b>						
White and mixed	92	23.7	5	0.7	97	9.1
South/South-east Asian	188	68.3	0	0.0	188	17.6
Arab	81	20.9	675	99.3	756	70.9
Other (inc. African and Caribbean)	26	9.6	0	0.0	26	2.4
Total	387	100.0	680	100.0	1067	100.0

Note: non-responses to specific questions not included.

1106 people responded to the survey, 406 from the UK and 700 from KSA. However, only 1067 responses provided enough data for analysis. Various demographic data are set out in Table 7.1. Some important features of the data are worth noting. First, about five in every six respondents, from both the UK and KSA, were male. An even gender distribution was the original intention. Therefore, care was taken for the survey to reach both male and female potential respondents. However, men are the main participants in this study. The proportion of male respondents is virtually the same in the United Kingdom and Kingdom of Saudi Arabia subsamples. This reflects the difficulty in contacting women, particularly in Saudi Arabia. However, the data are in line with the overall trend in KSA and among Muslim communities in the UK, where most of the insurance purchasers are male consumers (SAMA, 2012). The percentage of female insurance holders is far less than male insurance holders in KSA and among Muslims communities in the UK for various reasons. For instance, women motor insurance holders<sup>44</sup> are far less than men in KSA. Hence, car ownership is low comparing to men

<sup>44</sup> Motor insurance is mandatory by law in KSA.

due to that fact that females are not allowed to drive in KSA and car owners tend to be men, so majority of women do not need to purchase motor insurance. In KSA, men account for the majority of jobs, reflecting the conservative nature of Arab society, where women are not expected to work in male-dominated organisations. Even those women who work tend to accept more traditional secretarial jobs, probably having less contact with men. Women therefore tend to earn and own much less than men, making them less likely to purchase insurance policies especially if it is not mandatory in the country as the case in Saudi Arabia (although motor insurance is mandatory). Generally, Muslim females rely mostly on their legal guardian as their sole provider. Therefore, insurance policies more possibly to be found under a man's name.

The age distribution is clearly different across the two country sub-samples, with the KSA sub-sample being older on average than the UK sub-sample. To some extent, this reflects the different demographics in the Muslim populations in the two countries. It is worth noting, that globally, Muslims are younger (median age of 23) than the overall global population (median age of 28). Among the five regions for which data are available, Muslims are youngest in sub-Saharan Africa (median age of 17), followed by the Middle East and North Africa (23), Asia and the Pacific (24), North America (26) and Europe (32). Furthermore, Muslims are younger than the general population in each of the major following regions (The Pew Forum on Religion and Public Life, 2012): North America (Muslims 26 years; general population 37 years), Europe (32 vs. 40), Asia and the Pacific (24 v s. 29), sub-Saharan Africa (17 vs. 18) and the Middle East and North Africa (23 vs. 24). However, pooling the two samples provides complementary inputs – the over-representation of younger respondents in the UK sample compensates for under-representation of that age group in KSA. After pooling the two samples, the lowest percentage is 8.4% of participants belonging to the under 20 age group. The younger age group are less likely to purchase insurance policies as they are more likely to be full-time students with no significant property or income. The other age groups are more likely to have stable jobs, earn more and own goods, thus needing to insure their possessions.

The age difference between the two national sub-samples is associated with differences in marital status (respondents in KSA are more likely to be married, while respondents in the UK are more likely to be single), academic level, employment status and annual income. Because of the different patterns of income distribution in KSA and the UK, the



bands specified in the English-language and Arabic-language versions of the survey were not direct translations of each other, but rather were set to reflect equivalent values in terms of the overall distribution of incomes. Reflecting also the age distributions of the two sub-samples, respondents in KSA tend to earn more than those in the UK. The level of education in this study may work as a rich source for insurance providers. As more people hold higher levels of education, the more one can observe their choice of insurance with better understanding of the customer needs and problems.

The instrument specified some 16 different ethnic categories (see appendix 3), based on standard UK national census ethnic categorisations. However, in the analysis, the 16 categories have been grouped into four because responses for many categories were small in number. The groups are: ‘white and mixed’, ‘south/south-east Asian’ (which includes those of Indian, Pakistani and Bangladeshi descent), ‘Arab’, and ‘others’ (which includes those of African and Caribbean descent). Not surprisingly, nearly all respondents in KSA described themselves as of ‘Arab’ ethnicity, while about half of the UK sub-sample described their ethnicity as one of those classified for this research as ‘south/south-east Asian’. The different dominant ethnicities of the two sub-samples may induce cultural biases in other responses.

I have chosen to continue with two main demographic variables, location and gender, in the following section. The reason for doing so is that many of the other demographic variables, such as income, age, education, were highly associated with location, so these variables are omitted to avoid problems with multicollinearity. I have calculated usage, awareness, perception and attribute salience of respondents and compared the results of two the sub-groups of gender and location.

## **7.2 Usage of Takaful and Conventional Insurance Products**

### **7.2.1 Location**

Just over half of the respondents (54%) reported that they had at least one Takaful policy, while just under 40% reported that they had at least one conventional insurance policy (see Table 7.2). Not surprisingly, conventional policies were much more common in the UK (69%), where Takaful products for such requirements as motor insurance are very rare, while only 22% of respondents in KSA stated that they had at least one conventional policy. Interestingly, this may reflect relative lack of usage of insurance in

general in KSA, as only half the respondents from that country reported that they had at least one Takaful product, while as many as 62% of the UK respondents reported at least one Takaful policy.

Those respondents who replied ‘no’ to having either a Takaful or a conventional policy were asked whether they had considered acquiring such a policy. About half (46%) of the UK respondents without Takaful had considered (but presumably rejected or deferred) buying a Takaful insurance policy, while about one third (34%) of the KSA respondents without Takaful had considered such a policy. Of the KSA respondents without a conventional policy, as many as 80% had not considered acquiring such a policy, while only 61% of the UK respondents without a conventional policy had not considered such a policy.

Table 7.2 reports other information about Takaful usage. Consistent with the relative lack of awareness of family Takaful compared with general Takaful, general plans were much more common than family plans in both the UK and KSA. In the UK, consumers with Takaful policies tended to have just one, whereas in KSA, about two thirds of respondents with Takaful policies had two or more such policies. This is consistent with the distribution of total annual premiums, where KSA respondents tended to pay more each year in respect of their Takaful policies.

**Table 7.2 Policy Usage in the UK and KSA**

	<b>UK</b>		<b>KSA</b>		<b>Total</b>	
	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>
<b>Has at least one Takaful policy</b>						
Yes	238	62.1	333	49.9	571	54.4
No	145	37.9	334	50.1	479	45.6
Total	383	100.0	667	100.0	1050	100.0
<b>Type of policy</b>						
General plan	184	72.2	276	78.4	460	75.8
Family plan	71	27.8	76	21.6	147	24.2
Total	255	100.0	352	100.0	607	100.0
<b>Number of policies</b>						
One	161	69.4	126	39.9	287	52.4
Two	61	26.3	102	32.3	163	29.7
Three or more	10	4.3	88	27.8	98	17.9
Total	232	100.0	316	100.0	548	100.0
<b>Annual premium</b>						
Less than £500/ SAR3000	101	43.3	160	50.8	261	47.6
£500/SAR3000 to £1000/SAR6000	107	45.9	47	14.9	154	28.1

	UK		KSA		Total	
	Number	%	Number	%	Number	%
Over £1000/ SAR6000	25	10.7	108	34.3	133	24.3
Total	233	100.0	315	100.0	548	100.0
<b>Considered acquiring Takaful policy</b>						
Yes	66	46.5	114	34.5	180	38.1
No	76	53.5	216	65.5	292	61.9
Total	142	100.0	330	100.0	472	100.0
<b>Has at least one conventional policy</b>						
Yes	258	69.4	143	22.2	401	39.4
No	114	30.6	502	77.8	616	60.6
Total	372	100.0	645	100	1017	100.0
<b>Type of policy</b>						
General plan	201	73.9	120	85.1	321	77.7
Life plan	71	26.1	21	14.9	92	22.3
Total	272	100.0	141	100.0	413	100.0
<b>Number of policies</b>						
One	179	69.6	70	50	249	62.7
Two	65	25.3	46	32.9	111	28.0
Three or more	13	5.0	24	17.1	37	9.3
Total	257	100.0	140	100.0	397	100.0
<b>Annual premium</b>						
Less than £500/ SAR3000	98	37.8	60	43.2	158	39.7
£500/SAR3000 to £1000/SAR6000	123	47.5	41	29.5	164	41.2
Over £1000/ SAR6000	38	14.7	38	27.3	76	19.1
Total	259	100.0	139	100.0	398	100.0
<b>Considered acquiring conventional policy</b>						
Yes	42	38.2	100	20.0	142	23.3
No	68	61.8	400	80.0	468	76.7
Total	110	100.0	500	100.0	610	100.0

### 7.2.2 Gender

Just over half of the male respondents (57%) reported that they had at least one Takaful policy, while 41.2% reported that they had at least one conventional insurance policy (see Table 7.3). It is interesting to note that Takaful and conventional policies are much more common amongst male than female. Again, as motor insurance are very rare amongst female in KSA, this may be a justification of men owning more insurance policies than female. Also this may reflect relative lack of usage of insurance in general amongst females, as 58.2% do not have a Takaful policy and 69.1% do not have conventional policy. General Takaful and conventional policies showed high popularity amongst male and female than family and life plans.

Those respondents who replied 'no' to having either a Takaful or a conventional policy were asked whether they had considered acquiring such a policy. About (40.5%) of the male respondents without Takaful had considered (but presumably rejected or deferred) buying a Takaful insurance policy, while almost one third (29.8%) of the female respondents without Takaful had considered such a policy. Of the male respondents without a conventional policy, as many as 74.9% had not considered acquiring such a policy, similarly 84% of the female respondents without a conventional policy had not considered such a policy. This result is consistent with the relative lack of awareness of family Takaful compared with general Takaful, general plans were more common than family plans in regard to both male and female.

Table 7.3 reports other information about Takaful and conventional usage. Male and female consumers with either Takaful or/and conventional policies tended to have just one, although female, about two thirds of respondents with either Takaful or/and conventional policies had one of such policies, which is higher than male consumers who have just one policy.

A total of 215 respondents (181 male and 34 female) held both Takaful and conventional policies. 356 respondents (314 male and 42 female) held only Takaful policies, while 186 respondents (166 male and 20 female) held only conventional policies.

**Table 7.3 Policy Usage vs. Gender**

	Male		Female		Total	
	Number	%	Number	%	Number	%
<b>Has at least one Takaful policy</b>						
Yes	495	57.0	76	41.8	571	54.4
No	373	43.0	106	58.2	479	45.6
Total	868	100.0	182	100.0	1050	100.0
<b>Type of policy</b>						
General plan	410	77.7	50	63.3	460	75.8
Family plan	118	22.3	29	36.7	147	24.2
Total	528	100.0	79	100.0	607	100.0
<b>Number of policies</b>						
One	239	50.2	48	66.7	287	52.4
Two	146	30.7	17	23.6	163	29.7
Three or more	91	19.1	7	9.7	98	17.9
Total	476	100.0	72	100.0	548	100.0
<b>Annual premium</b>						
Less than £500/ SAR3000	235	49.3	26	36.6	261	47.6
£500/SAR3000 to £1000/SAR6000	122	25.6	32	45.1	154	28.1
Over £1000/ SAR6000	120	25.2	13	18.3	133	24.3
Total	477	100.0	71	100.0	548	100.0
<b>Considered acquiring Takaful policy</b>						
Yes	149	40.5	31	29.8	180	38.1
No	219	59.5	73	70.2	292	61.9
Total	368	100.0	104	100.0	472	100.0
<b>Has at least one conventional policy</b>						
Yes	347	41.2	54	30.9	401	39.4
No	495	58.8	121	69.1	616	60.6
Total	842	100.0	175	100.0	1017	100.0
<b>Type of policy</b>						
General plan	285	81.0	36	59.0	321	77.7
Life plan	67	19.0	25	41.0	92	22.3
Total	352	100.0	61	100.0	413	100.0
<b>Number of policies</b>						
One	214	62.4	35	64.8	249	62.7
Two	98	28.6	13	24.1	111	28.0
Three or more	31	9.0	6	11.1	37	9.3
Total	343	100.0	54	100.0	397	100.0
<b>Annual premium</b>						
Less than £500/ SAR3000	137	39.8	21	38.9	158	39.7
£500/SAR3000 to £1000/SAR6000	138	40.1	26	48.1	164	41.2
Over £1000/ SAR6000	69	20.1	7	13.0	76	19.1
Total	344	100.0	54	100.0	398	100.0
<b>Considered acquiring conventional policy</b>						
Yes	123	25.1	19	16.0	142	23.3
No	368	74.9	100	84.0	468	76.7
Total	491	100.0	119	100.0	610	100.0

### 7.2.3 Usage of Takaful in Different Sub-Groups of Sample

I have calculated the usage of insurance policy across four sub-groups: 1) holders of conventional insurance policy only, 2) holders of Takaful insurance policy only, 3) holders of both policies 4) holders of any policy. In regards to the first sub-group, conventional policies were much more common in the UK (58.1%) and this is not surprising as there is no Takaful provider in the UK. (75.3%) of KSA respondents of the second sub-group reported that they had Takaful only, however what is surprising is that (24.7%) of UK respondents holds only Takaful policy, which raises two questions '*from where did they purchase such policy as it is not existing in the UK market?*' Or '*do they consider conventional insurance halal and therefore it is seen as an Islamic product?*' (see Table 7.4). (69.8%) in the UK of the third sub-group hold both policies. 310 respondents of the whole sample consider purchasing an insurance policy and not holders of any.

**Table 7.4 Policy Usage of Different Sub-Groups in the UK and KSA**

	C Only		T Only		Both		Any		Non-holder		Total*	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
UK	108	58.1	88	24.7	150	69.8	346	45.7	41	13.2	346	45.7
KSA	78	41.9	268	75.3	65	30.2	411	54.3	269	86.8	411	54.3
Total	186	100.0	356	100.0	215	100.0	757	100.0	310	100.0	757	100.0
Considering											310	
Missing											39	
Overall											1106	

\*Total excluding 'Any' and 'Non-holder'.

### ***Whole Sample Usage of Different Sub-Groups***

In Table 7.5, I have calculated the usage of insurance policy of the whole sample across four sub-groups: 1) holders of conventional insurance policy only, 2) holders of Takaful insurance policy only, 3) holders of both policies 4) non-holders of any policy (see Table 7.5). In terms of gender, male took the lead in all four groups in terms of holding and considering insurance policies. This is not surprising as this result is consistent with the general demographic findings about five in every six respondents, from both the UK and KSA, were male. In terms of age, conventional policies were much more common among 21-30 age group (35.4%). (37.0%) of 41 and over respondents of the second sub-group reported that they had Takaful. Holders of both policies were more common among 21-30 age group. 265 respondents of all age groups consider purchasing an insurance policy and not holders of any. Holding and considering insurance policies were more popular among married, bachelor degree holders', and employed respondents. In regards to annual income, conventional policies were more common in respondents who their annual income is below £26K/SAR60K (30.6%). (38.4%) of whom their annual income is £40K/SAR241K or more reported that they had Takaful only. Respondents of the second category £26-32K/SAR60-120K had the highest percentage (35.4%) among the rest of the categories of holders of both insurance policy types. 260 respondents of all annual income categories consider purchasing an insurance policy and not holders of any. Arab ethnic group took the lead in holding and considering insurance policies followed by South/South-east Asian ethnic group.



**Table 7.5 Policy Usage of Different Sub-Groups of the Whole Sample**

	C Only		T Only		Both		Non-holder		Total*	
	Number	%	Number	%	Number	%	Number	%	Number	%
<b>Gender</b>										
Male	186	90.3	312	89.4	161	82.6	181	68.3	840	82.8
Female	20	9.7	37	10.6	34	17.4	84	31.7	175	17.2
Total	206	100.0	349	100.0	195	100.0	265	100.0	1015	100.0
<b>Age</b>										
20 and under	24	11.7	21	6.0	32	16.4	4	1.5	81	8.0
21-30	73	35.4	85	24.4	79	40.5	64	24.2	301	29.7
31-40	55	26.2	114	32.7	51	26.2	94	35.5	314	30.9
41 and over	54	26.2	129	37.0	33	16.9	103	38.9	319	31.4
Total	206	100.0	349	100.0	195	100.0	265	100.0	1015	100.0
<b>Marital Status</b>										
Single	93	45.1	67	19.2	79	40.5	61	23.0	300	29.9
Married	104	50.5	280	80.2	114	58.5	190	71.7	688	68.4
Divorced	6	2.9	2	0.6	0	0	6	2.3	14	1.4
Widowed	2	1.0	0	0	0	0	1	.4	3	0.3
Total	205	99.5	349	100.0	193	99.0	258	97.4	1005	100.0
<b>Academic Level</b>										
Bachelor degree	142	53.8	284	56.3	106	41.2	242	55.1	774	52.8
Master's degree	72	27.3	139	27.4	75	29.2	128	29.2	414	28.3
Doctorate	22	8.3	60	11.8	32	12.5	55	12.5	169	11.5
Professional	28	10.6	23	4.5	44	17.1	14	3.2	109	7.4
Total	264	100.0	506	100.0	257	100.0	439	100.0	1466	100.0
<b>Occupation</b>										
Employed	142	62.8	291	76.4	137	66.5	200	69.2	770	69.9
Student: full-time	34	15.0	20	5.2	23	11.2	43	14.9	120	10.9
Student: part-time	11	4.9	21	5.5	5	2.4	2	0.7	39	3.5

	C Only		T Only		Both		Non-holder		Total*	
	Number	%	Number	%	Number	%	Number	%	Number	%
Self-employed	25	11.1	40	10.5	24	11.7	18	6.2	107	9.7
Not Employed	14	6.2	9	2.4	17	8.3	26	9.0	66	6.0
Total	226	100.0	381	100.0	206	100.0	289	100.0	1102	100.0
Annual Income										
Below £26K/SAR60K	63	30.6	65	18.6	53	27.2	74	27.9	255	25.4
£26-32K/SAR60- 120K	59	28.6	69	19.8	69	35.4	52	19.6	249	24.8
£33- 39K/SAR121- 240K	33	16.0	79	22.6	29	14.9	53	20.0	194	19.3
£40K/SAR241K or more	50	24.3	134	38.4	41	21.0	81	30.6	306	30.5
Total	205	99.5	347	99.4	192	98.5	260	98.1	1004	100.0
Ethnicity										
White and mixed	32	15.5	22	6.3	34	17.4	7	2.6	95	9.4
South/South- east Asian	57	27.7	41	11.8	70	36.0	13	4.9	181	18.0
Arab	108	52.4	281	80.5	85	43.6	245	92.5	719	70.8
Other (inc. African and Caribbean)	9	4.4	4	1.1	6	3.0	0	0	19	1.8
Total	206	100.0	348	99.7	195	100.0	265	100.0	1014	100.0

### ***UK Sample Usage of Different Sub-Groups***

In Table 7.6, I have calculated the usage of insurance policy of UK Muslims across four sub-groups: 1) holders of conventional insurance policy only, 2) holders of Takaful insurance policy only, 3) holders of both policies 4) non-holders of any policy. In terms of gender, male took the lead in all four groups in terms of holding or considering insurance policies and this is consistent with the previous findings. In terms of age, conventional policies (44.5%) Takaful policies (53.8%) and holders of both (56.1%) were much more common among 21-30 age group. This is consistent with the general demographic findings as over 70% of the UK sample participants were under 30 years old. 20 and under age group respondents were the only group that is not considering purchasing an insurance policy. This not surprising as this age group might not require to hold any kind of insurance policies. In terms of marital status, conventional policies (57.1%) Takaful policies (61.5%) and holders of both (55.4%) were much more common among singles. Divorced were the only marital status that do not hold both policies and do not consider purchasing an insurance policy as there were only two participants. In terms of academic level, conventional policies (44.1%) Takaful policies (39.8%) and holders of both (32.5%) were much more common among bachelor degree holders whom are the highest participant academic group in the study. Employed respondents scored high in all four sub-groups. In regards to annual income, conventional policies, Takaful policies, and considering insurance were more common in respondents who their annual income is below £26K/SAR60K. South/South-east Asian ethnic group took the lead in all four sub-groups.

**Table 7.6 Policy Usage of Different Sub-Groups of the UK Sample**

	C Only		T Only		Both		Non-holder		Total*	
	Number	%	Number	%	Number	%	Number	%	Number	%
<b>Gender</b>										
Male	100	84.0	80	87.9	109	78.4	16	76.2	305	82.4
Female	19	16.0	11	12.1	30	21.6	5	23.8	65	17.6
Total	119	100.0	91	100.0	139	100.0	21	100.0	370	100.0
<b>Age</b>										
20 and under	24	20.2	20	22.0	32	23.0	0	0	76	20.5
21-30	53	44.5	49	53.8	78	56.1	6	28.6	186	50.3
31-40	20	16.8	12	13.2	23	16.5	8	38.1	63	17.0
41 and over	22	18.5	10	11.0	6	4.3	7	33.3	45	12.2
Total	119	100.0	91	100.0	139	100.0	21	100.0	370	100.0
<b>Marital Status</b>										
Single	68	57.1	56	61.5	77	55.4	4	19.0	205	55.9
Married	47	39.5	34	37.4	60	43.2	15	71.4	156	42.5
Divorced	2	1.7	1	1.1	0	0	0	0	3	0.8
Widowed	2	1.7	0	0	0	0	1	4.8	3	0.8
Total	119	100.0	91	100.0	137	98.6	21	100.0	367	100.0
<b>Academic Level</b>										
Bachelor degree	56	44.1	37	39.8	53	32.5	10	40.0	156	38.3
Master's degree	33	26.0	27	29.0	52	31.9	10	40.0	122	30
Doctorate	11	8.6	14	15.1	17	10.4	3	12.0	45	11.1
Professional	27	21.3	15	16.1	40	24.5	2	8.0	84	20.6
Total	127	100.0	93	100.0	163	99.3	25	100.0	407	100.0
<b>Occupation</b>										
Employed	63	49.2	60	63.2	92	62.2	15	68.2	230	75.9
Student: full-time	27	21.1	13	13.6	23	15.5	4	18.2	67	22.1
Student: part-time	7	5.5	11	11.6	5	3.4	1	4.5	24	7.9

	C Only		T Only		Both		Non-holder		Total*	
	Number	%	Number	%	Number	%	Number	%	Number	%
Self-employed	18	14.1	3	3.2	11	7.4	1	4.5	33	10.9
Not Employed	13	10.1	8	8.4	17	11.5	1	4.5	39	12.9
Total	128	100.0	95	100.0	148	100.0	22	100.0	303	100.0
Annual Income										
Below £26K/SAR60K	51	42.9	46	50.5	45	32.4	12	57.1	154	42.3
£26-32K/SAR60-120K	35	29.4	23	25.3	58	41.7	0	0	116	31.9
£33-39K/SAR121-240K	12	10.1	8	8.8	10	7.2	5	23.8	35	9.6
£40K/SAR241K or more	20	16.8	12	13.2	23	16.5	4	19.0	59	16.2
Total	118	99.2	89	97.8	136	97.8	21	100.0	364	100.0
Ethnicity										
White and mixed	29	24.4	21	23.1	34	24.5	6	28.6	90	24.4
South/South-east Asian	57	47.9	41	45.1	70	50.4	13	61.8	181	49.1
Arab	24	2.0	24	26.4	29	20.9	2	9.5	79	21.4
Other (inc. African and Caribbean)	9	7.5	5	5.5	5	4.3	0	0	19	5.1
Total	119	100.0	91	100.0	139	100.0	21	100	369	100.0

### ***KSA Sample Usage of Different Sub-Groups***

In Table 7.7, I have calculated the usage of insurance policy of Saudi Muslims across four sub-groups: 1) holders of conventional insurance policy only, 2) holders of Takaful insurance policy only, 3) holders of both policies 4) non-holders of any policy. In terms of gender, male took the lead in all four groups in terms of holding or considering insurance policies. In terms of age, what is surprising is that holding of insurance policy in general is not common among younger generation. This might explained that Saudi youths are usually dependants on their families before the come financially dependants. While holding and considering insurance policies were very popular among married respondents, bachelor degree holders', and employed respondents. This latter result is consistent with the findings of the whole sample. In regards to annual income, it appears that respondents of higher income acquire insurance more than those of a lower income. As expected Arab are the holders of insurance in Saudi although (3.4%) were of white and mixed ethnic group which holds Conventional only.

**Table 7.7 Policy Usage of Different Sub-Groups of the KSA Sample**

	C Only		T Only		Both		Non-holder		Total*	
	Number	%	Number	%	Number	%	Number	%	Number	%
<b>Gender</b>										
Male	86	98.9	232	89.1	52	92.9	165	67.6	535	82.9
Female	1	1.1	26	10.1	4	7.1	79	32.4	110	17.1
Total	87	100	258	100	56	100	244	100	645	100.0
<b>Age</b>										
20 and under	0	0	1	.4	0	0	4	1.6	5	0.8
21-30	20	23.0	26	14.0	1	1.8	58	23.8	105	16.5
31-40	35	40.2	102	39.5	28	50.0	86	35.2	251	39.5
41 and over	32	36.8	119	46.1	27	48.2	96	39.3	274	43.1
Total	87	100.0	258	100.0	56	100.0	244	100.0	635	100.0
<b>Marital Status</b>										
Single	25	28.7	11	4.3	2	3.6	57	23.4	95	14.9
Married	57	65.5	246	95.3	54	96.4	175	71.7	532	83.4
Divorced	4	4.6	1	.4	0	0	6	2.5	11	1.7
Widowed	0	0	0	0	0	0	0	0	0	0
Total	86	98.9	258	100.0	56	100.0	238	97.5	638	100.0
<b>Academic Level</b>										
Bachelor degree	86	62.8	247	59.8	53	55.8	232	56.2	618	58.3
Master's degree	39	28.5	112	27.1	23	24.2	118	28.6	292	27.6
Doctorate	11	8	46	11.1	15	15.8	52	12.6	124	11.7
Professional	1	.7	8	1.9	4	4.2	12	2.9	25	2.4
Total	137	100	413	100	95	100	413	100	1059	100.0
<b>Occupation</b>										
Employed	79	80.6	231	80.8	45	19.9	185	69.3	540	61.6
Student: full-time	7	7.1	7	2.4	56	24.8	39	14.60	109	12.4
Student: part-time	4	4.1	10	3.5	56	24.8	1	.7	71	8.1

	C Only		T Only		Both		Non-holder		Total*	
	Number	%	Number	%	Number	%	Number	%	Number	%
Self-employed	7	7.1	37	12.9	13	5.8	17	6.4	74	8.4
Not Employed	1	1.0	1	0.3	56	24.8	25	9.4	83	9.5
Total	98	100.0	286	100.0	226	100.0	267	100.0	877	100.0
Annual Income										
Below £26K/SAR60K	12	13.8	19	7.4	8	14.3	62	25.4	101	15.8
£26-32K/SAR60-120K	24	27.6	46	17.8	11	19.6	52	21.3	133	20.8
£33-39K/SAR121-240K	21	24.1	71	27.5	19	33.9	48	19.7	159	24.8
£40K/SAR241K or more	30	34.5	122	47.3	18	32.1	77	31.6	247	38.6
Total	87	100.0	258	100.0	56	100.0	239	98.0	640	100.0
Ethnicity										
White and mixed	3	3.4	1	.4	0	0	1	.4	5	0.8
South/South-east Asian	0	0	0	0	0	0	0	0	0	0
Arab	84	96.6	257	99.6	56	100	243	99.6	640	99.2
Other (inc. African and Caribbean)	0	0	0	0	0	0	0	0	0	0
Total	87	100.0	258	100.0	56	100.0	244	100.0	645	100.0



#### **7.2.4 Systematic Differences across “Conventional Only”, and “Takaful Only” Sub-Groups**

##### ***Whole Sample***

I have calculated the usage of insurance policy of the whole sample across two sub-groups: 1) Conventional Only and 2) Takaful Only. This is merely to see if there are systematic differences between different type of policyholder and demographic variables: location, gender, age, and annual income (see Table 7.8). It appears that there are more Saudis holding only conventional policies than UK Muslims and the difference is significant. A possible explanation is that most Saudi participants are from an older generation, and since the age of Takaful companies in Saudi Arabia is very recent, they are most likely to be holding conventional insurance policies way before any Takaful company set its foot in the Saudi market. The data shows that females significantly hold more conventional policies than males. This result is surprising bearing in mind the low percentage of female participants in the sample and this requires further investigation in a future research. In regards to age, older groups ( $> 31$  yrs) significantly hold more conventional policies than younger group ( $< 30$  yrs). This is merely a reflection of the previous finding that Saudis who are twice the age of the UK participants in this sample are the highest holders of this type of policies. Lastly, higher income respondents significantly hold more conventional policies than lower income respondents do.

On the other hand, looking at the results of ‘Takaful only’ sub-group, Saudi again holds more Takaful only policies than UK Muslims and the difference is significant. This is not surprising as there is no Takaful company in the UK and Muslims who happen to have a Takaful policy are more likely to have it from their origin country. Similarly to the ‘conventional only’ sub-group, female significantly holds more Takaful policies than male. However, differences between age groups were not significant. Lastly, lower income respondents significantly hold more Takaful policies than higher income respondents do.

**Table 7.8 Systematic Differences across “Conventional Only” and “Takaful Only” of the Whole Sample**

	Country Comparison			Gender Comparison			Age Comparison			Annual Income Comparison		
	UK	KSA		Male	Female		>=30 yrs	<30 yrs		High <sup>1</sup>	Low <sup>2</sup>	
	Mean <i>s.d</i>	mean <i>s.d</i>	t-stat. <i>p-value</i>	mean <i>s.d</i>	Mean <i>s.d</i>	t-stat. <i>p-value</i>	mean <i>s.d</i>	mean <i>s.d</i>	t-stat. <i>p-value</i>	mean <i>s.d</i>	mean <i>s.d</i>	t-stat. <i>p-value</i>
Conventional Only	1.15	1.74	15.138	1.49	1.81	-6.719-	1.64	1.41	4.907	1.62	1.51	2.381
	.358	.441	.000	.501	.396	.000	.480	.494	.000	.487	.501	.017
Takaful Only	1.19	1.49	6.902	1.37	1.69	-6.909-	1.45	1.39	1.293	1.39	1.48	-2.424-
	.392	.500	.000	.483	.463	.000	.489	.489	.197	.488	.501	.016

Note: <sup>1</sup> >= £33-39K/SAR121-240K; <sup>2</sup> < £33-39K/SAR121-240K

### UK Sample

I have calculated the usage of insurance policy of the UK sample across two sub-groups: 1) Conventional Only and 2) Takaful Only. This is merely to see if there is a systematic difference between different type of policyholder and demographic variables: location, gender, age, and annual income (see Table 7.9). Differences between demographic variables (gender, age and income) when it comes to ‘Conventional only’ subgroup show no significant difference.

On the other hand, looking at the results of ‘Takaful only’ sub-group, result were similar to Conventional only sub-group and show no significant differences with exception of age group. The data shows that older groups (> 31) significantly holds more Takaful policies than younger group (< 30). This is consistent with the outline argument that as there is no Takaful company in the UK and Muslims who happen to have a Takaful policy are more likely to have it from their origin country. However, the younger generation in the UK appears to be secular due to being born and raised in a different country and setting than their families of the older generation.

**Table 7.9 Systematic Differences across “Conventional Only” and “Takaful Only” of the UK Sample**

	Gender Comparison			Age Comparison			Annual Income Comparison		
	Male	Female		>=30 yrs	<30 yrs		High <sup>1</sup>	Low <sup>2</sup>	
	mean s.d	mean s.d	t-stat. p-value	mean s.d	mean s.d	t-stat. p-value	mean s.d	mean s.d	t-stat. p-value
Conventional Only	1.14	1.21	-.875-	1.73	1.76	-4.48-	1.71	1.76	-1.016-
	.346	.415	.383	.444	.432	.654	.455	.429	.310
Takaful Only	1.17	1.31	- 1.161-	1.41	1.08	3.711	1.31	1.15	1.689
	.375	.479	.261	.498	.273	.001	.471	.357	.099

Note: <sup>1</sup> >= £33-39K/SAR121-240K; <sup>2</sup> < £33-39K/SAR121-240K

### KSA Sample

I have calculated the usage of insurance policy of the KSA sample across two sub-groups: 1) Conventional Only and 2) Takaful Only. This is merely to see if there is a systematic difference between different type of policyholder and demographic variables: location, gender, age, and annual income (see Table 7.10). The data shows that female

significantly holds more conventional policies than male. This result is surprising bearing in mind the low percentage of female participants in the sample and this requires further investigation in a future research. However, a possible explanation for this is that female requires insurance policies are most likely not under a male guardianship. In a conventional and deeply religious Saudi society, these women are less religious. In regards to age and annual income there is no significant difference across groups.

On the other hand, looking at the results of ‘Takaful only’ sub-group, female again significantly holds more Takaful policies than male. This is surprising as well and requires further investigation in a future research. Younger age group (< 30) and lower annual income group both significantly hold more Takaful than older age group and higher annual income group respectively. This is consistent with the outline argument that Takaful companies age in KSA is relatively younger than conventional insurance and that younger Saudis had the choice to choose between policies.

**Table 7.10 Systematic Differences across “Conventional Only” and “Takaful Only” of the KSA Sample**

	Gender Comparison			Age Comparison			Annual Income Comparison		
	Male	Female		>=30 yrs	<30 yrs		High <sup>1</sup>	Low <sup>2</sup>	
	mean s.d	mean s.d	t-stat. p-value	mean s.d	mean s.d	t-stat. p-value	mean s.d	mean s.d	t-stat. p-value
<b>Conventional Only</b>	1.66	1.99	-	1.73	1.76	-.448-	1.71	1.76	-1.016-
	.476	.112	.000	.444	.432	.654	.455	.429	.310
<b>Takaful Only</b>	1.42	1.75	-6.867-	1.45	1.63	-	1.39	1.64	-5.382-
	.493	.434	.000	.498	.486	.002	.489	.482	.000

Note: <sup>1</sup> >= £33-39K/SAR121-240K; <sup>2</sup> < £33-39K/SAR121-240K

## 7.3 Awareness of Islamic Financial Products and Takaful Products

This section measures consumers’ level of awareness of Islamic finance and insurance products and compares it against the two main demographics; location and gender. The result of the descriptive analysis and t-test used to compare between the sample sub-groups.

### 7.3.1. Islamic Financial Products

Respondents were asked to indicate whether or not they were aware of particular Islamic non-insurance financial products – see Table 7.11, which shows the percentage of responses indicating awareness of the specific product. The respondents were provided with a list of the names of common Islamic financial products, but not with detailed descriptions (these products are described in textbooks on Islamic finance, for example, El Diwany, 2010). Generally, males were more aware of products than females. The highest awareness related to *Qard al-Hasan*, a form of benevolent (interest-free) loan, followed by Tawarruq (a form of structured borrowing involving artificial purchases and sales of a commodity), Murabaha (a so-called ‘mark-up’ sale, where an intermediary purchases goods for cash from a supplier and sells them for a higher amount, with payment deferred, to the ultimate customer), Mudaraba (a form of profit-and-loss sharing used for many investment products), Musharaka (a form of partnership) and Ijara (a form of leasing).

This order of awareness was not surprising, as the last two products are more likely to be encountered in a commercial rather than a personal setting. It is possible that the use of Arabic terms for the products understated awareness, as some respondents might have been aware of the products without knowing what they are called in Arabic. On the other hand, some respondents might have indicated awareness of product names without necessarily being familiar with the detailed structure of particular products. However, the general literature on Islamic finance suggests that products are known to both providers and consumers by their Arabic names.

**Table 7.11 Awareness of Some Islamic Financial Products**

		Country Comparison			Gender Comparison		
	Total	UK	KSA	t-stat.	Male	Female	t-stat.
	%	%	%	p-value	%	%	p-value
Mudaraba	61	64	59	1.387	63	52	2.743
				0.166			0.006
Murabaha	64	59	67	-2.642	66	55	2.674
				0.008			0.008
Tawarruq	66	52	74	-7.349	69	51	4.630
				0.000			0.000
Musharaka	47	54	43	3.498	48	39	2.275
				0.000			0.023
Ijara	49	50	49	0.532	50	46	0.980
				0.595			0.328
Qard al-Hasan	67	57	74	-5.583	71	52	4.659
				0.000			0.000

Note: t-statistics are derived from a test of differences of proportions.

### 7.3.2 Takaful Products

Respondents were also asked to indicate their awareness of various Takaful products – see Table 7.12. The first point to observe is that respondents were more aware of ‘general’ Takaful products (these include motor and household insurance) than ‘family’ Takaful (insurance products with a significant element of savings involved). This may reflect the relative availability of such products, as family Takaful products are more associated with Malaysia than with either KSA or the UK. Within the specific categories, respondents were relatively more aware of retirement plans and straightforward savings plans than more speculative investment vehicles. Savings plans often have a particular goal in mind, for example, provision for children’s education and marriage, and ‘waqf’ plans, which involve saving for some benevolent objective such as the establishment of a mosque (a waqf is a Muslim benevolent entity similar to a charitable trust). Interestingly, women appeared more aware of family Takaful products than men. Of all the Islamic financial products, general Takaful achieved the highest overall awareness score, with family Takaful gaining rather low awareness scores relative to other products. An unexpected finding was that respondents in the UK were significantly more aware of family and investment-type Takaful products than respondents in KSA, although there is no significant difference between the two sets of respondents regarding general Takaful. As noted below, take-up of Takaful products is higher in the UK than in KSA, but a clear explanation for this finding regarding awareness will require further research.

**Table 7.12 Awareness of Takaful Products**

		Country Comparison			Gender Comparison		
	Total	UK	KSA	t-stat.	Male	Female	t-stat.
	%	%	%	<i>p-value</i>	%	%	<i>p-value</i>
Family Takaful	56	65	50	4.819	54	65	-2.569
				0.000			0.010
Investment-type Products	44	59	36	7.428	44	45	-0.313
				0.000			0.754
Retirement Plans	54	58	52	1.921	53	63	-2.449
				0.055			0.014
Waqf Plans	44	49	41	2.596	43	51	-2.036
				0.010			0.042
Education Plans	44	60	35	8.227	43	51	-1.979
				0.000			0.048
Marriage Plans	44	55	37	5.696	42	55	-3.321
				0.000			0.001
Capital Plans	28	49	15	12.333	28	25	0.925
				0.000			0.355
Risk-type Products	29	44	20	8.603	29	28	0.234
				0.000			0.815
General Takaful	69	71	68	0.776	70	68	0.497
				0.438			0.619

Note: t-statistics are derived from a test of differences of proportions.

## 7.4 Perception of Takaful and Conventional Companies and Products

Respondents were also asked to assess both Takaful and conventional insurance products according to the extent to which they met various descriptors. Table 7.13 reports the overall mean responses for conventional and Takaful products, together with t-statistics to assess the significance of differences in the means. Data are provided for the whole sample and the two country sub-samples. In terms of overall responses, conventional companies are regarded as better known than those offering Takaful. Conventional insurance products are seen as less beneficial. Possibly, respondents took into account the benefits in the hereafter of using Sharia-compliant products as well more ‘worldly’ benefits such as lower prices – the distinction was clearly drawn by respondents from KSA, but respondents from the UK did not make a distinction. On the other hand, conventional products were regarded as more profitable and offering greater variety. Although Takaful products were clearly assessed on average as more likely to be Sharia-compliant than conventional products, there was some variation in responses, with a significant minority of respondents questioning the compliance of Takaful products. There were some noteworthy differences between the national sub-samples, with respondents from KSA indicating significantly higher (though not particularly high in absolute terms) satisfaction with Takaful products as compared with conventional products, while UK respondents did not differ in their overall satisfaction scores.

**Table 7.13 Consumer Perception of Takaful and Conventional Companies and Products**

	Total sample			KSA			UK					
Attribute	Con.	Tak.	t-test	Con.	Tak.	t-test	Con.	Tak.	t-test			
COMPANIES												
Unknown/ well-known		3.55	3.00	8.0950		3.57	2.97	6.2156		3.53	3.03	5.3221
		1.324	1.334	0.0001		1.411	1.410	0.0001		1.217	1.222	0.0001
Unsuccessful/ successful		3.45	3.30	2.5079		3.39	3.30	1.0511		3.53	3.30	2.8199
		1.146	1.187	0.0122		1.214	1.272	0.2935		1.059	1.060	0.0049
Poor reputation/ good reputation		3.18	3.24	1.0040		2.91	3.12	2.5145		3.49	3.41	0.9928
		1.213	1.116	0.3155		1.260	1.176	0.0121		1.075	1.004	0.3212
Poor/ high quality customer service		3.24	3.12	1.9967		3.01	2.87	1.7275		3.51	3.45	0.7118
		1.181	1.157	0.0460		1.205	1.152	0.0844		1.095	1.080	0.4768
PRODUCTS												
Unbeneficial/ beneficial		3.37	3.52	2.4198		3.30	3.57	3.1517		3.46	3.44	0.2242
		1.200	1.212	0.0156		1.244	1.243	0.0017		1.143	1.164	0.8226

	Total sample			KSA			UK		
Attribute	Con.	Tak.	t-test	Con.	Tak.	t-test	Con.	Tak.	t-test
Unprofitable/ profitable	3.52	3.37	2.5762	3.61	3.40	2.5121	3.41	3.34	0.8862
	<i>1.137</i>	<i>1.121</i>	<i>0.0101</i>	<i>1.239</i>	<i>1.175</i>	<i>0.0122</i>	<i>1.001</i>	<i>1.042</i>	<i>0.3758</i>
Unreasonable/ reasonable premium	3.07	3.15	1.3947	2.89	3.08	2.3963	3.29	3.25	0.4940
	<i>1.152</i>	<i>1.084</i>	<i>0.1633</i>	<i>1.209</i>	<i>1.107</i>	<i>0.0168</i>	<i>1.044</i>	<i>1.044</i>	<i>0.6215</i>
Low variety/ high variety	3.44	3.05	6.5446	3.45	2.85	7.3022	3.43	3.33	1.1879
	<i>1.215</i>	<i>1.106</i>	<i>0.0001</i>	<i>1.310</i>	<i>1.087</i>	<i>0.0001</i>	<i>1.099</i>	<i>1.073</i>	<i>0.2353</i>
Not compliant/ Sharia compliant	2.68	3.21	7.6518	2.22	3.03	8.9171	3.22	3.47	2.5603
	<i>1.390</i>	<i>1.310</i>	<i>0.0001</i>	<i>1.285</i>	<i>1.355</i>	<i>0.0001</i>	<i>1.312</i>	<i>1.201</i>	<i>0.0107</i>
Overall satisfaction: very low/ very high	2.91	3.05	2.2520	2.50	2.80	3.5440	3.36	3.38	0.2443
	<i>1.302</i>	<i>1.128</i>	<i>0.0245</i>	<i>1.333</i>	<i>1.135</i>	<i>0.0004</i>	<i>1.102</i>	<i>1.030</i>	<i>0.8071</i>
Would recommend: unlikely/ likely	2.72	3.16	6.7073	2.20	2.96	8.5514	3.31	3.44	1.5369
	<i>1.341</i>	<i>1.235</i>	<i>0.0001</i>	<i>1.263</i>	<i>1.329</i>	<i>0.0001</i>	<i>1.173</i>	<i>1.029</i>	<i>0.1248</i>

Note: figure in regular font shows mean score on scale 1-5, while figure in italics shows standard deviation. For t-tests, the t-statistic (difference in sample mean, unequal variances assumed) is shown in regular font and the p-value in italics.

## 7.5 Attribute Salience of Islamic Financial Products

Respondents were asked to indicate the importance of various factors in assessing Islamic financial products, including factors relating to the provider of the product and factors relating to the specification of the product, on a scale from 1 (not important) to 5 (very important). As for awareness, details or interpretations of the various factors were not provided, so there is a risk that different respondents may have interpreted the terms slightly differently. For example, the term ‘profitability’ could have been interpreted in terms of the extent to which savings products were likely to generate favourable financial returns, or the extent to which purchasing a Sharia-compliant product could lead to benefits in the hereafter (some respondents may have seen profitability as an attribute relating to providers rather than products, and thought that intermediaries providing Islamic financial products would benefit from them more than from conventional products). Table 7.14 reports the overall mean responses, with means for the male and female sub-samples and the two country sub-samples. The responses are listed in order of importance within the whole sample.



**Table 7.14 Importance of Attributes of Islamic Financial Products**

		Country Comparison			Gender Comparison		
	<b>Total</b>	UK	KSA		Male	Female	
<b>Company/product feature</b>	<b>mean s.d.</b>	<b>mean s.d.</b>	<b>mean s.d.</b>	<b>t-stat. p-value</b>	<b>mean s.d.</b>	<b>mean s.d.</b>	<b>t-stat. p-value</b>
<b>Customer care</b>	4.19	3.69	4.49	10.533	4.14	4.43	2.810
	<i>1.22</i>	<i>1.34</i>	<i>1.03</i>	<i>.000</i>	<i>1.22</i>	<i>1.15</i>	<i>.000</i>
<b>Islamic credibility</b>	4.13	3.55	4.46	11.417	4.13	4.36	2.594
	<i>1.28</i>	<i>1.26</i>	<i>1.18</i>	<i>.000</i>	<i>1.28</i>	<i>1.16</i>	<i>.010</i>
<b>Quick response</b>	4.10	3.64	4.38	10.003	4.05	4.38	3.250
	<i>1.19</i>	<i>1.23</i>	<i>1.07</i>	<i>.000</i>	<i>1.20</i>	<i>1.08</i>	<i>.001</i>
<b>Product pricing</b>	4.03	3.71	4.21	6.788	3.99	4.21	2.290
	<i>1.14</i>	<i>1.19</i>	<i>1.08</i>	<i>.000</i>	<i>1.16</i>	<i>1.08</i>	<i>.022</i>
<b>Company reputation</b>	4.02	3.51	4.32	10.284	4.00	4.12	1.109
	<i>1.25</i>	<i>1.28</i>	<i>1.13</i>	<i>.000</i>	<i>1.25</i>	<i>1.26</i>	<i>.268</i>
<b>Profitability</b>	3.74	3.58	3.82	3.058	3.65	4.17	5.160
	<i>1.20</i>	<i>1.13</i>	<i>1.23</i>	<i>.002</i>	<i>1.21</i>	<i>1.07</i>	<i>.000</i>
<b>Range of products</b>	3.66	3.51	3.75	3.103	3.59	3.99	3.979
	<i>1.18</i>	<i>1.14</i>	<i>1.20</i>	<i>.002</i>	<i>1.17</i>	<i>1.16</i>	<i>.000</i>
<b>Investment options</b>	3.57	3.47	3.63	1.952	3.50	3.93	4.003
	<i>1.24</i>	<i>1.18</i>	<i>1.27</i>	<i>.051</i>	<i>1.25</i>	<i>1.14</i>	<i>.000</i>
<b>Company location</b>	3.15	2.97	3.25	3.145	3.09	3.41	2.665
	<i>1.37</i>	<i>1.33</i>	<i>1.39</i>	<i>.002</i>	<i>1.38</i>	<i>1.31</i>	<i>.008</i>

Note: figure in regular font shows mean score on scale 1-5, while figure in italics shows standard deviation. For t-tests (difference of sample means, unequal variances assumed), the t-statistic (absolute value) is shown in regular font and the p-value in italics.

The most important factor to the respondents was customer care, with Islamic credibility (that is, compliance with Sharia) coming a close second. However, there are some systematic differences that need to be noted. First, the order of attributes proposed by UK respondents puts greater emphasis on product pricing, and Islamic credibility is relatively less important. If Muslims in the UK think that they will have to pay a significant premium to purchase a Sharia-compliant product, then they will prefer a cheaper, but arguably haram product. Secondly, UK respondents are on average less generous in their ratings than KSA respondents, and similarly men tend to be less generous on average than women. This could reduce the internal validity of the data because of systematic biases in the responses.

## 7.6 Summary

The results reported in this chapter show some interesting results. Perhaps the most surprising is the extent to which UK respondents report the use of Takaful policies. Islamic insurance companies have found it difficult to establish themselves in the UK, so the providers of such policies are unclear at present. One possibility, which would reduce the validity of the results, is that some UK respondents with conventional insurance

policies are identifying these as Takaful products. These respondents may believe that Takaful is the Islamic version of insurance, and that necessity (for example, legal or contractual requirements to have motor or house insurance) permits Muslims, when there is no Sharia-compliant alternative, to follow practises that strictly are haram (Billah, 2001). This would lead them to regard their conventional insurance policies as being, in effect, Takaful. However, it would be surprising if this misidentification of conventional policies as Takaful were systematic, especially as the difference between Takaful and conventional policies was explained in the survey instrument. Another possibility is that many of the UK respondents have retained close links with Muslim-majority countries from which they or their families originated and had sourced their Takaful products from these countries.

In terms of the hypotheses, Hypothesis 3 is generally supported. It has been found varying degrees of awareness of Islamic products on the part of respondents, with high awareness of general Takaful, much lower awareness of family Takaful, and mixed awareness of other products. Hypothesis 4 is also supported. Compliance with Sharia is a highly valued attribute of Islamic financial products, though this attribute is less highly valued by UK respondents. Hypothesis 5 is not supported. It has been found that there are some significant differences in how respondents in the UK and KSA perceive insurance companies and providers, with KSA respondents tending to differentiate Takaful from conventional insurance much more than UK respondents. Finally, Hypothesis 6 is clearly rejected. It has been found that insurance products in general are more likely to be purchased by UK respondents than by KSA respondents, and, as noted above, Takaful seems to be more widely used in the UK than in KSA.

## **CHAPTER EIGHT: ANALYSIS OF RELIGIOSITY**

### **8.0 Introduction**

The aim of this Chapter is to look at religiosity as an overall, uni-dimensional, measure (“R-index”) and the relationship between the R-index and demographic data. Also, this Chapter looks at religiosity as a multi-dimensional measure. Section 8.1 analyses religiosity as an overall measure. This is followed by section 8.2 which discusses the normality distribution of R-index. Section 8.3 looks at the relationship between the R-index as an overall measure and location and gender. In Section 8.4, the relationship between Religiosity and choice of Takaful or conventional insurance is tested using Chi-Squared and Z-Test of Sample Proportions. Section 8.5 carries out factor analysis of religiosity, awareness and perception. This is followed by section 8.6 which discusses the normality distribution of three main independent variables: religiosity, awareness and perception. Section 8.7 calculates and compares mean values of sub-concepts of religiosity, awareness and perception for different sub-groups of the sample. Such analysis provides a better view to more understanding and explaining the forthcoming analysis in Chapter 9. Finally, this Chapter ends with a summary in Section 8.8.

### **8.1 R-Index as an Overall Measure**

In order to analyse religiosity I have measured religiosity by constructing an “R-index” as an overall measure. I have used 57 religiosity statements in the questionnaire survey as explained in Chapter 5. In order to have an “R-index” as an overall measure, I have combined the responses to the individual items using Compute variable function SPSS into one measure. This process adds up the responses (on a scale from one to five) to a total of 57 religiosity statements and then divides the sum by 57. This then represents a non-weighted index as the R-index takes value between 1 and 5. The higher value the participant score the more religious he is. Values between 3 and 5 suggest positive religiosity, while values less than 3 suggest negative religiosity, that is, the subject tends to be more secular than religious in belief and practices. The R-index has high reliability with Cronbach’s alpha is equal to (0.937).

## 8.2 Normality Distribution of R-Index as an Overall Measure

In this section I assess the normality of R-index data. First I look into the distribution of the whole sample, second the distribution of UK sample and third the distribution of KSA sample (see Table 8.1). The significance of the differences between mean values of the R-index for different sub-samples is analysed in the next sub-section.

**Table 8.1 R-Index Normality Distribution Statistics**

		Whole Sample	UK Sample	KSA Sample
<b>N</b>	<b>Valid</b>	957	368	599
	<b>Missing</b>	139	19	81
<b>Mean</b>		4.04	3.79	4.19
<b>Std. Dev.</b>		.570	.715	.386

The construct R-index has been analysed in terms of an overall index measurement that ranges from a minimum of 1 to a maximum of 5. Therefore, using a plot range of 1.5 to 5.5 and an interval of 0.5 or 1.0 is considered good. This of course depends on how many data points there are. Jarrad states that ‘An interval of 0.5 or 1.0 is good, because we can see the overall pattern of a bell-shaped distribution without being too distracted by looking at each individual point’ (2001).

As I have been using SPSS 19 for analysing the data, I have used it here for this test. SPSS carries out two tests of normality; the Kolmogorov-Smirnov test and the Shapiro-Wilk test. The Kolmogorov-Smirnov test is used to test large data sets while the Shapiro-Wilk test is more appropriate for a smaller sample, such as 50 numbers or less. The results of the two tests display in a box which could be easily reviewed and determine if the data is normally distributed. If the significance column of either test is above 0.05, then the data is normally distributed. The Kolmogorov-Smirnov test validated the assumption of normality of R-index in the whole sample, UK sample and KSA sample as shown in Table 8.2.

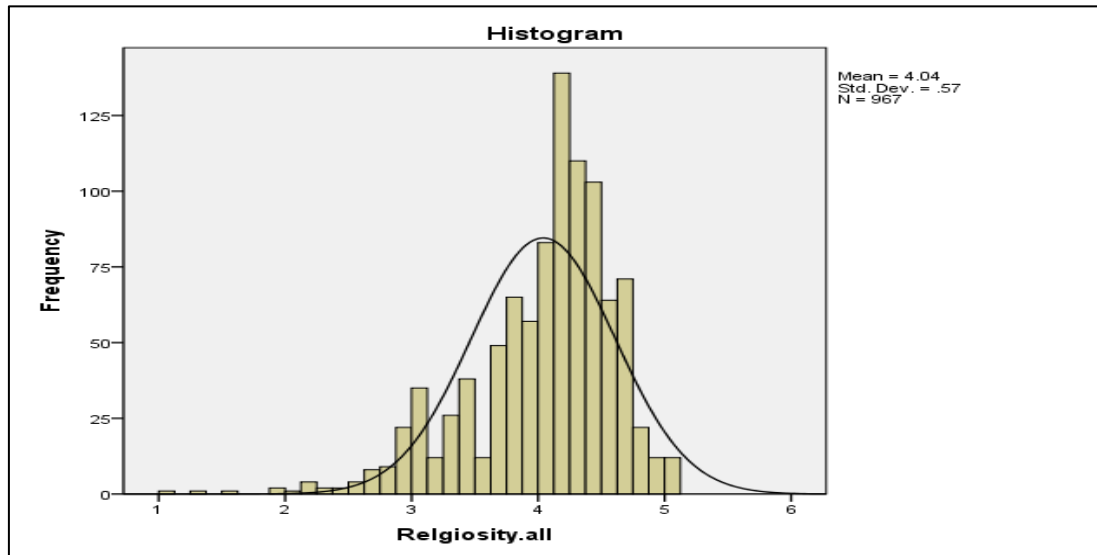
**Table 8.2 Kolmogorov-Smirnov Test for R-Index**

Variables	X(the parameter of the K-S test)
<b>Whole Sample</b>	0.9539
<b>UK Sample</b>	0.9547
<b>UK Sample</b>	0.98618

### *Whole Sample*

From looking at Graph 8.1, the histogram of the R-index of the whole sample appears that is bell-shaped but negatively skewed (skewness=1.0).

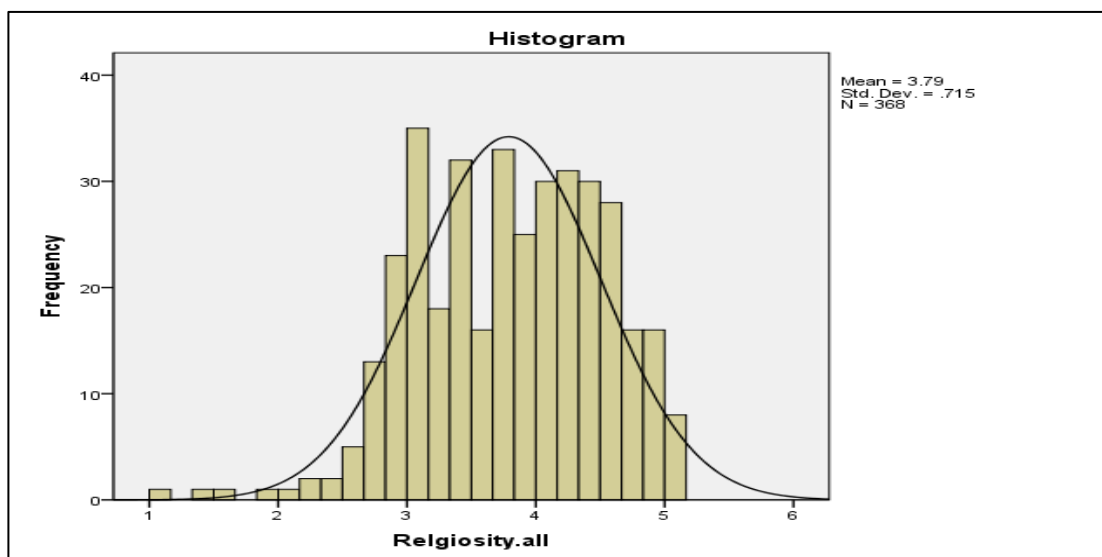
**Figure 8.1 R-Index Normality Distribution of Whole Sample**



### *UK Sample*

From looking at Graph 8.2, the histogram of the R-index of the UK sample appears that is bell-shaped but negatively skewed (skewness=1.0). This means that, although UK Muslims are positive toward Islam, a reasonably minority demonstrate negative religiosity. This is consistent with the fact that the UK sample contains more young Muslims, who are more likely to have secular views than their elders.

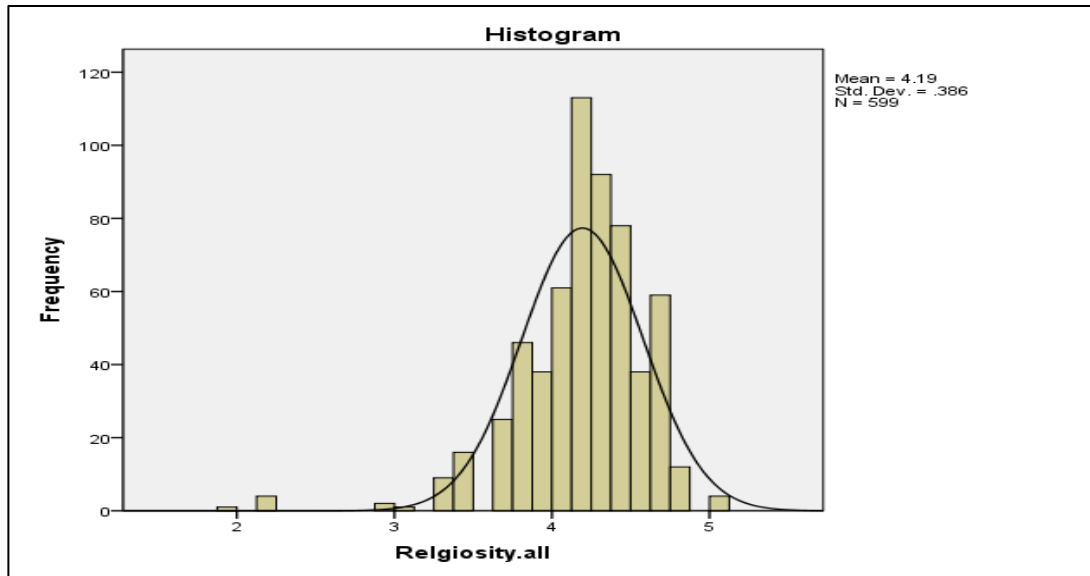
**Figure 8.2 R-Index Normality Distribution of UK Sample**



### ***KSA Sample***

From looking at Graph 8.3, the histogram of the R-index of the KSA sample appears that is negatively skewed (skewness=1.0). This shows that average KSA Muslims scored a mean of 4.19 which means fewer people scored every statement as strongly agree. Also there is a clear skewness toward 5. Again, this is consistent with the fact that KSA is a strongly Muslim country where religion plays a highly important role in society.

**Figure 8.3 R-Index Normality Distribution of KSA Sample**



## **8.3 The Relationship between the R-Index as an Overall Measure and Location and Gender**

The following table (8.3) measures the relationship between the R-index as an overall measure and location and gender. I have divided that sample into five sub-groups: 1) All Sample, 2) holders of conventional insurance policy only, 3) holders of Takaful insurance policy only, 4) holders of both policies 5) non-holders of any policy. The first point to observe is that KSA Muslims insurance holders were more religious than UK Muslims insurance holders. Within the specific categories, interestingly female appeared to be more religious than male except for conventional only category as the differences between both gender were not significant. The differences between male and female of holders of both policies are little as ( $p < .1$ ). Of all the sub-groups, female in all sample achieved the highest overall religiosity score ( $p < .0$ ), followed by Takaful holders only.

**Table 8.3 The Relationship between the R-Index and Location and Gender**

	Country Comparison			Gender Comparison		
	UK	KSA		Male	Female	
Different Sub-Groups	mean s.d	mean s.d	t-stat. p-value	mean s.d	mean s.d	t-stat. p-value
All Sample	3.79	4.19	9.973	4.01	4.17	-3.103-
	.715	.386	.000	.560	.606	.004
C Only	3.79	4.02	2.935	3.90	3.72	1.265
	.655	.411	.000	.542	.846	.207
T Only	3.92	4.25	3.987	4.14	4.36	-2.551-
	.733	.317	.000	.480	.475	.011
Both	3.68	4.21	5.856	3.78	4.01	-1.666-
	.762	.453	.000	.711	.795	.097
Non-holder	4.06	4.19	1.029	4.14	4.28	-2.315
	.482	.422	.319	.438	3.85	.022

Table 8.4 shows the strength of the relationship between the R-index as an overall measure and awareness of Islamic finance products and Takaful products. In regards to the awareness of Islamic financial products, it could be concluded that the more religious the person is the more aware of these products. In regards to family Takaful products, it can be noted that the differences between the level of respondent's religiosity who are aware or not aware of the FT.P is high as ( $p < .05$ ). In regards to general Takaful products, it can be noted that the differences between the level of respondent's religiosity who are aware or not aware of the GT.P is little as ( $p < .1$ ).

**Table 8.4 The Relationship between the R-Index and Awareness of Islamic Financial Products**

AWRNESS OF ISLAMIC FINACIAL PRODUCTS			AWRNESS OF FAMILY TAKAFUL PRODUCTS			AWRNESS OF General TAKAFUL PRODUCTS		
AWARE	NOT AWARE		AWARE	NOT AWARE		AWARE	NOT AWARE	
mean s.d	mean s.d	t-stat. p-value	mean s.d	mean s.d	t-stat. p-value	mean s.d	mean s.d	t-stat. p-value
4.16	3.92	3.814	4.12	3.96	2.325	4.06	3.99	1.872
.535	.673	.000	.680	.657	.021	.557	.598	.062

Table 8.5 shows the relationship between the R-index as an overall measure and perception of Takaful companies and products and conventional companies and products. From reading the finding it can be concluded that respondents who perceived Takaful companies and products highly are more religious. Although, the differences between the level of respondent's religiosity and perception of Takaful products is little as ( $p < .1$ ). It is

surprising to note that respondents who perceive conventional products highly they tend to be much more religious.

**Table 8.5 The Relationship between the R-Index and perception of Insurance Companies and Products**

PERCEPTION OF TC			PERCEPTION OF TP			PERCEPTION OF CC			PERCEPTION OF CP		
HIGH	LOW		HIGH	LOW		HIGH	LOW		HIGH	LOW	
Mean <i>s.d</i>	mean <i>s.d</i>	t-stat. <i>p-value</i>	mean <i>s.d</i>	mean <i>s.d</i>	t-stat. <i>p-value</i>	mean <i>s.d</i>	mean <i>s.d</i>	t-stat. <i>p-value</i>	mean <i>s.d</i>	mean <i>s.d</i>	t-stat. <i>p-value</i>
4.05	3.93	2.685	4.04	3.96	1.739	3.98	3.96	.412	3.92	4.09	-3.479-
.589	.589	.007	.585	.596	.082	.618	.582	.681	.645	.509	.000

## 8.4 Religiosity Chi-Squared Testing and Z-Test of Sample Proportions

In this section I have further analysed the data to investigate if there is a significant difference between low score and high score of R-index and choice of policy. I have carried out a chi-squared test to investigate whether the proportions of people with different types of insurance are different depending on their religiosity as measured by the R-index. I have produced contingency tables that show the numbers of people in the sample in each of the categories. Table number 1 set low scores group as  $\leq 3.8$ , middle group as 3.8 for the lower bound and 4.3 for the upper bound and finally high scores group as  $>4.3$ . These bounds were arrived at after some experimentation in order to generate three groups of roughly equal size. As nearly all the respondents had an R-index of 3 or more, the 'low' group covers a much wider range than the other groups.

**Table 8.6 Numbers of Participants In Each Group**

no.	Low	Medium	High	Total
<b>T only</b>	50	138	144	332
<b>C only</b>	74	80	39	193
<b>T&amp;C</b>	85	46	57	188
<b>Neither</b>	21	109	101	231
<b>Total</b>	230	373	341	944

Note: Lower bound:  $R < 3.8$ , Middle bound:  $3.8 < R\text{-index} < 4.3$ , Higher bound:  $R\text{-index} > 4.3$



**Table 8.7 The Proportions of People with Different Types of Insurance**

prop.	Low	Medium	High	Total
<b>T only</b>	0.217391	0.369973	0.422287	0.351695
<b>C only</b>	0.321739	0.214477	0.11437	0.204449
<b>T&amp;C</b>	0.369565	0.123324	0.167155	0.199153
<b>Neither</b>	0.091304	0.292225	0.296188	0.244703
<b>Total</b>	1	1	1	3

Note: Lower bound:  $R < 3.8$ , Middle bound:  $3.8 < R\text{-index} < 4.3$ , Higher bound:  $R\text{-index} > 4.3$

The data in table 8.6 are categorical, and the chi-squared statistic can be used to assess whether the differences in distribution across the various cells in the table could have occurred by chance or whether the different groups are distributed differently. The chi-squared statistic is calculated by estimating the numbers of subjects in each cell if every group is distributed across the four types of insurance in the same proportions. The squares of the differences between the observed and estimated values in each cell are scaled by the estimated values and summed. The total is the chi-squared statistic. Critical values of this statistic are available for different levels of significance and different degrees of freedom. In an  $n \times m$  contingency table, the number of degrees of freedom is  $(n - 1) \times (m - 1)$ . So in the present case, with a  $3 \times 4$  table, the number of degrees of freedom is  $2 \times 3 = 6$ .

In the case of the distribution in Table 8.7, the chi-squared statistic is 112.5. This is well above the critical value of the statistic for a significance level of 5% (for 6 degrees of freedom this is 12.592), so the chi-squared test shows clearly that the distributions are different in the three groups. Fewer people with lower religiosity have T only than would be expected if there was an equal distribution, and more have C only or T & C.

Restating the numbers as proportions, as in Table 8.7, makes it possible to investigate whether the differences in proportions of each type of insurance are statistically significant across the groups. This can be carried out by applying the z-test for sample proportions. The test statistic  $z$  is distributed as the normal distribution. Hence, for a significance level of 5%, the critical value is  $\pm 1.96$ . The figures in tables 8.8, 8.9 and 8.10 below show that the differences are all significant except for T only and neither in the medium v high comparison (the C only comparison is barely significant in the low v medium comparison), and this is consistent with the sample proportions as calculated.

**Table 8.8 Z-test Low v Medium Comparison**

<b>T only</b>	-3.92895
<b>C only</b>	2.933858
<b>T&amp;C</b>	7.122466
<b>Neither</b>	-5.82773

**Table 8.9 Z-test Low v High Comparison**

<b>T only</b>	-5.07016
<b>C only</b>	6.100035
<b>T&amp;C</b>	5.488048
<b>Neither</b>	-5.85818

**Table 8.10 Z-test Medium v High Comparison**

<b>T only</b>	-1.42835
<b>C only</b>	3.585224
<b>T&amp;C</b>	-1.66503
<b>Neither</b>	-0.11607

The data show that people who are highly religious are more likely to choose Takaful than people who are less religious, although there is no significant difference between medium and high religiosity for this group.

The data also show that people who are highly religious are less likely to choose conventional policies only than people who are less religious, although only the highly religious group make a particular point of avoiding holding only conventional policies.

The data provide partial support for the view that people who are highly religious are less likely to choose both Takaful and conventional policies than people who are less religious, but it is curious that subjects of medium religiosity are less likely to choose to mix Takaful and conventional policies than those of low religiosity.

Finally, the data suggest that people who are highly religious are more likely to avoid all insurance products than people who are less religious, although there is no significant difference between medium and high religiosity for this group.

Overall, these results provide support for both H7 (there is a significant relationship between acquiring a Takaful product and the level of religiosity among Muslims) and H8. (religious motives are an important factor in explaining Muslims' choice between

Takaful insurance and conventional insurance). However, the literature on religiosity suggests that it is not a uni-dimensional attribute, and hence it is likely that the relationship between religion and choice between Takaful and conventional insurance is more complex than the analysis so far suggests. This suggests that it would be appropriate to analyse the overall concept of religiosity to determine whether it is made up of more specific sub-concepts.

## **8.5 Factor Analysis**

The previous results have showed the weakness of using a uni-dimensional measure in this study. This confirms the argument in chapter four, which affirmed that a uni-dimensional measurement cannot provide a complete explanation of religiosity. The complexity of religiosity cannot be summed up in one statement. Religiosity is a multi-dimensional construct of meaning, where the various dimensions are likely to have different depth. Therefore, in this section I am using exploratory factor analysis to get a better understanding of the concept and measurement of religiosity,, hence a better understanding of what drives the choice of insurance policies.

### **8.5.1 Religiosity as a Multi-Dimensional Index**

An exploratory factor analysis (EFA) was run on the 57 religiosity questions. After the initial test using Kaiser's criterion (an Eigen-Value of 1), SPSS has extracted 9 factors. Kaiser's criterion<sup>45</sup> is a technique used in the factor analysis to determine the number of factors or components for consideration and possible rotation. Yeomans and Golder (1982: 222) state that Kaiser's criterion is 'The classic technique for determining the appropriate number of factors (or the number of "significant" components) is to take the number of components with eigenvalues greater than unity'. The Kaiser criterion is the default option in SPSS as in many standard packages and it has been widely used without reservation. I have looked into the Scree plot to decide the number of factors extracted, the Scree plot showed that five factors would be possibly more suitable for the test. The Scree plot is a criterion that SPSS provides to help determining how many factors to select when conducting a factor analysis. It basically shows the eigenvalues on the y-axis and the number of factors on the x-axis through displaying a downward curve. The point where the slope of the curve is clearly leveling off "the elbow" indicates the number of

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<sup>45</sup>This is a technique that was suggested by Guttman (1954) and adapted and popularised by Kaiser (1960, 1961) and is commonly known as the "Guttman-Kaiser criterion".

factors that should be generated by the analysis. Then (EFA) was rerun to extract 5 non-overlapping factors. After the initial test I decided to remove four gender related items that were creating problems in the analysis module and drove the reliability of the factors down. This problem might be caused due to the fact that the participants were confused when answering the gender related questions in the religiosity section in the survey since I have asked members of the not relevant gender to tick never and this may have caused bias responses. Thus, the EFA was rerun for the third time excluding the former items. It produced again five non-overlapping factors with a high loading on each item. Another decision been made to remove one item which was (I drink Alcohol). This item was creating a problem in the analysis module and drove the reliability of the factor down. Thus, the EFA was rerun for the fourth and final time excluding the former item. It produced again five non-overlapping factors with a high loading on each item (refer to appendix 4). After that I have created a correlation matrix by calculating the correlations between each pair of variables. With respect to the correlation matrix, two things are important: the variables have to be intercorrelated, but they should not correlate too highly (extreme multicollinearity and singularity) as this would cause difficulties in determining the unique contribution of the variables to a factor (Field 2000: 444). The intercorrelation can be checked by using Bartlett's test of sphericity in SPSS and this test has to be significant. Multicollinearity, then, can be detected via the determinant of the correlation matrix, which can also be calculated in SPSS: if the determinant is greater than 0.00001, then there is no multicollinearity (Field 2000: 445). The items correlated well when checking the correlation matrix; most of them correlate significantly with each other (correlation between .3 and .9). None correlated higher than .9 which rules out any possible multicollinearity in the data. The determinant is .021 which is greater than the necessary value of 0.00001. This further confirms that variables correlate reasonably and multicollinearity is ruled out.

#### **8.5.1.1 Naming the Islamic Religiosity Instrument Items**

An examination of Factor 1 suggested that this factor included all the 22 items that were conceptually linked to the construct, based on the prior research into religiosity, that had originally been labelled "ideological" (religious belief). This encompasses beliefs that are expected to be held by the followers; e.g. beliefs about God, Prophet, fate, etc. This factor reflects the sense of exclusivism and submission to Allah. Therefore, it was decided to retain the meaning of the original label but name it "Iman" which is the

Arabic name of belief. The reasons for using Arabic naming for this and other factors but one are as follows: 1) The sample of this study are inclusively Muslims thus it is only fair to use terms that are familiar to them and they can relate to them, and 2) Islamic teaching uses these terms, accordingly Muslims regardless of their languages use them.

Factor 2 included all but five (four gender related items that were creating problems in the analysis module and drove the reliability of the factors down plus the item 'I drink Alcohol') of the items (11) that originally composed the Islamic dimensions "consequential" (religious effects). This dimension includes the effects of religious belief, practice, experience and knowledge on the believer's everyday life. This factor pertains to a sense of obligation to please Allah that will reflect positively on one's life. In other words, it means avoiding the behaviour and thoughts that is considered to be sins or bad deeds, and following and applying Islamic injunctions in all matter of life that will certainly lead to good deeds. Therefore, it was decided to call this factor, "Avoiding Haram".

Factor 3 consisted of the 8 items that were conceptually linked to the construct "ritualistic" (religious practice). This includes the specific religious practices, such as worship, prayer, participation in special sacraments, fasting, pilgrimage and so on, which are expected to be performed by the believers. This factor pertains to a sense of Dutifulness. Therefore, I decided to retain the meaning of this label but use different naming: "Ibada", which is the Arabic term for worship.

Factor 4 included 8 items of the originally labelled "experiential" (religious feeling). The dimension refers to feelings, perceptions and sensations of having communication with a divine essence (i.e. with God), ultimate reality or transcendental authority. Basically, it describes the practicality of the religion. The items of the subscale that loaded on this factor (Sadaqa, fasting outside Ramadan, extra but necessary prayers etc.) reflect the sense of attachment to Allah. Their underlying common theme is the desire of being connected to Allah. Consequently, this factor was called "Sunan" (Prophet Muhammad practises). Factor 5 included 3 items of the subscale originally labelled "intellectual" (religious knowledge). Therefore, this factor was labelled "Islamic knowledge". This dimension encompasses the basic information and knowledge about the tenets of the faith and its sacred scriptures that are expected to be known by the believers.

The independent variables are the five religiosity factors (Iman “beliefs”, avoiding haram, Ibada “worship”, Sunan “Prophet Muhammad practises”, and Islamic knowledge). These dimensions that resulted from factor analysis map onto the dimensions identified by previous researchers using the Glock and Stark model. This result suggests that the Glock and Stark model is suitable for the Islamic context as well as for the Christian context in which it was originally developed. The five factors identified in the exploratory factor analysis have high reliability with Cronbach’s alpha ranging from (0.843 to 0.979) (see Table 8.11).

**Table 8.11 Religiosity Index of the Full Sample**

Factors	Factors load	Eigen-Value	% Variance explained	Cumulative per cent	Cronbach
<b>Iman (Beliefs)</b>		16.427	31.590	31.590	.979
<b>Avoiding Haram</b>		5.890	11.327	42.917	.901
<b>Ibada (Worship)</b>		4.513	8.678	51.595	.858
<b>Sunan (Practises of Prophet Muhammad)</b>		4.394	8.451	60.046	.843
<b>Islamic Knowledge</b>		2.623	5.044	65.090	.843

### 8.5.2 Awareness

This scale was designed to measure the level of consumers’ awareness of Islamic finance and Takaful products. Respondents were asked to indicate whether or not they were aware of particular Islamic non-insurance financial products and Takaful products. EFA produced two non-overlapping factors, each comprising exactly the 15 items in a priori operationalisation for measuring the level of consumers’ awareness of Islamic finance and Takaful products. These validations confirm that this measure is rigorous and robust. The two awareness factors; Islamic Insurance Products and Islamic Finance Products, were non-overlapping with a high loading on each item (see Table 8.12). The items correlated well when checking the correlation matrix; most of them correlate significantly with each other (correlation between .3 and .9). None correlated higher than .9 which rule out any possible multicollinearity in the data. These factors have high reliability with Cronbach’s alpha ranging from (0.835 to 0.886). Therefore, there was no need to rerun EFA. Although this factor analysis does not add greatly to the overall findings of the research, it confirms that respondents were differentiating Islamic insurance products from more generic Islamic financial products. Respondents who were familiar with specific Takaful products tended to be aware of other products, while respondents who were aware of particular Islamic financial products also tended to be aware of other products in the latter category.

**Table 8.12 Awareness Index of the Full Sample**

Indexes	Factors load	Eigen-Value	% Variance explained	Cumulative %	Cronbach's Alpha
<b>Islamic Insurance Products</b>		4.652	31.016	31.016	.886
Education Family Plan	.824				
Investment Family Type Products	.768				
Marriage Family Plan	.765				
Capital Family Plan	.755				
Risk Family Type Products	.732				
Waqf Family Plan	.673				
Retirement Family Plan	.672				
Family Takaful	.565				
General Takaful	.420				
<b>Islamic Finance Products</b>		3.540	23.598	54.614	.835
Qard Al-Hasan	.741				
Ijara	.728				
Murabaha	.720				
Muadaraba	.709				
Tawarruq	.695				
Musharaka	.664				

### 8.5.3 Perception

This scale was designed to measure consumers' perception of conventional and Takaful products and companies. Respondents were assessed using a five point Likert-type scale, as described in Chapter 5 (see appendix for more details). EFA produced four non-overlapping factors, each comprising exactly the 22 items in a priori operationalisation for measuring consumers' perception of conventional and Takaful products and companies. These validations confirm that this measure is rigorous and robust. The four perception factors; Conventional Insurance Products, Conventional Insurance Companies, Takaful Insurance Companies and Takaful Insurance Products, were non-overlapping with a high loading on each item (see Table 8.13). The items correlated well when checking the correlation matrix; most of them correlate significantly with each other (correlation between .3 and .9). None correlated higher than .9 which rule out any possible multicollinearity in the data. These factors have high reliability with Cronbach's alpha ranging from (0.826 to 0.847). Therefore, there was no need to rerun EFA. As in the analysis of awareness of products, this factor analysis should be regarded as supporting the categories used in the questionnaire, and as providing a means of data reduction for further analysis (regressions in Chapter 9 need use only single variables derived from the factor scores rather than attempting to use each response relating to awareness and/or to perception separately in the analysis).

**Table 8.13 Perception Index of the Full Sample**

Indexes	Factors load	Eigen-Value	% Variance explained	Cumulative %	Cronbach's Alpha
<b>Conventional Insurance Products</b>		3.518	50.264	50.264	.830
Products prices	.794				
Satisfaction of products	.785				
Variety of products	.745				
Benefit of products	.727				
Likelihood of recommending the products	.698				
Sharia-compliant products	.635				
Products profits	.544				
<b>Conventional Insurance Companies</b>		2.662	66.546	66.546	.826
Success of companies	.870				
Reputation of companies	.854				
Customer service	.803				
Familiarity of companies (unknown-well known)	.729				
<b>Takaful Insurance Companies</b>		2.701	67.535	67.535	.834
Success of companies	.884				
Reputation of companies	.856				
Customer service	.787				
Familiarity of companies (unknown-well known)	.754				
<b>Takaful Insurance Products</b>		3.700	52.860	52.860	.847
Products prices	.699				
Satisfaction of products	.781				
Variety of products	.781				
Benefit of products	.741				
Likelihood of recommending the products	.798				
Sharia-compliant products	.764				
Products profits	.472				

## 8.6 Normality Distribution of Multi-Dimensional Indexes

### 8.6.1 Religiosity

The construct “religiosity” has been analysed in terms of 5 indexes that include a total of 52 measurements that ranges from a minimum of -5 to a maximum of 5. Iman measurement ranges from a minimum of -5 to a maximum of 1, Therefore, using a plot range of -5.5 to 3.5 and an interval of 0.5 or 1.0 is considered good. Avoiding Haram measurement ranges from a minimum of -4 to a maximum of 2, Therefore, using a plot range of -4.5 to 2.5 and an interval of 0.5 or 1.0 is considered good. Ibada measurement ranges from a minimum of -4 to a maximum of 3, Therefore, using a plot range of -4.5 to 3.5 and an interval of 0.5 or 1.0 is considered good. Sunan and Islamic Knowledge measurement ranges from a minimum of -3 to a maximum of 3, Therefore, using a plot range of -3.5 to 3.5 and an interval of 0.5 or 1.0 is considered good (see Table 8.14).



**Table 8.14 Religiosity Measurement Range of Score**

		Iman	Avoiding Haram	Ibada	Sunan	Islamic Knowledge
<b>N</b>	<b>Valid</b>	967	967	967	967	967
	<b>Missing</b>	139	139	139	139	139
<b>Minimum</b>		-5	-4	-4	-3	-3
<b>Maximum</b>		1	2	3	3	3

Note: Data has been standardised, therefore the mean= zero and a standard deviation= one.

The Kolmogorov-Smirnov test validated the assumption of normality as the significance of 5 indexes ranges from 0.84-0.99 as shown in Table 8.15.

**Table 8.15 Kolmogorov-Smirnov Test for Religiosity**

Variables	X(the parameter of the K-S test)
<b>Iman</b>	0.841344
<b>Avoiding haram</b>	0.977218
<b>Ibada</b>	0.98618
<b>Sunan</b>	0.9973
<b>Islamic Knowledge</b>	0.9973

SPSS automatically standardises the data when I asked for histogram for each of the indexes. Standardization transforms each measurement  $x_i$  into a unitless measurement. Standardised data have a mean of zero and a standard deviation of one, and any standardised array of approximately normally distributed data can be plotted on the same histogram. From looking at the histogram it appeared that avoiding haram, Ibada, Sunan and Islamic knowledge were normally distributed and no evidence of multicollinearity. However, Iman's histogram is roughly bell-shaped but positively skewed (skewness=1.0).

### 8.6.2 Awareness

Awareness consists of 2 indexes that include a total of 15 measurements that ranges from a minimum of -5 to a maximum of 5. Islamic insurance products and Islamic finance products ranges from a minimum of -2 to a maximum of 2, Therefore, using a plot range of -2.5 to 2.5 and an interval of 0.5 or 1.0 is considered good (see Table 8.16). Looking at the histogram of the two indexes shows that the data is normally distributed. The Kolmogorov-Smirnov test validated the assumption of normality as the significance of the 2 indexes is 0.95 (see Table 8.17).

**Table 8.16 Awareness Measurement Range of Score**

		Islamic Insurance Products	Islamic Finance Products
<b>N</b>	<b>Valid</b>	1018	1018
	<b>Missing</b>	88	88
<b>Minimum</b>		-2	-2
<b>Maximum</b>		2	2

Note: Data has been standardised, therefore the mean= zero and a standard deviation= one.

**Table 8.17 Kolmogorov-Smirnov Test for Awareness**

Variables	X(the parameter of the K-S test)
Islamic Insurance Products	0.9545
Islamic Finance Products	0.9545

### 8.6.3 Perception

Awareness consists of 4 indexes that include a total of 22 measurements that ranges from a minimum of -5 to a maximum of 5. Takaful products measurement ranges from a minimum of -3 to a maximum of 2, Therefore, using a plot range of -3.5 to 2.5 and an interval of 0.5 or 1.0 is considered good. Takaful companies, conventional products and conventional companies measurements range from a minimum of -2 to a maximum of 2, Therefore, using a plot range of -2.5 to 2.5 and an interval of 0.5 or 1.0 is considered good (see Table 8.18). The histogram of the 4 indexes shows that the data is normally distributed. The Kolmogorov-Smirnov test validated the assumption of normality as the significance of the indexes range from 0.95-0.97 (see Table 8.19).

**Table 8.18 Perception Measurement Range of Score**

		Takaful Products	Takaful Companies	Conventional Products	Conventional Companies
<b>N</b>	<b>Valid</b>	586	586	586	586
	<b>Missing</b>	520	520	520	520
<b>Minimum</b>		-3	-2	-2	-2
<b>Maximum</b>		2	2	2	2

Note: Data has been standardised, therefore the mean= zero and a standard deviation= one.

**Table 8.19 Kolmogorov-Smirnov Test for Perception**

Variables	X(the parameter of the K-S test)
Takaful Products	0.971975
Takaful Companies	0.957528
Conventional Products	0.961847
Conventional Companies	0.964135

## 8.7 Mean Values and T-Test of Sub-Concepts of Religiosity, Awareness and Perception amongst Different Sub-Groups

In this section, I have divided the whole sample into three sub-groups: 1) Holders of Takaful and conventional policies, 2) Takaful holders only and 3) conventional holders only. The reason for doing so is to compare consumers' level of religiosity, awareness and perception in these three sub-groups. Also to analyse the responses to ascertain whether there are any consistent factors or dimensions to the overall notion of religiosity, awareness, and perception. Chapter Nine investigates whether there are any systematic explanations for choices between Takaful and conventional insurance policies.

**Table 8.20 Mean Values and T-Test of Sub-Concepts of Religiosity, Awareness and Perception amongst Different Sub-groups**

	Holders of Both Takaful and Conventional Policies		Takaful Holders Only		Conventional Holders Only	
	Number	Mean	Number	Mean	Number	Mean
<b>Religiosity:</b>						
<b>Iman</b>	208/215	4.00	349/376	4.66	194/206	4.30
<b>Avoiding Haram</b>	208/215	3.85	346	4.10	193	4.00
<b>Sunan</b>	208/215	3.43	346	3.13	193	3.14
<b>Ibada</b>	208/215	4.00	346	4.51	193	4.11
<b>Islamic Knowledge</b>	208/215	4.00	349	3.88	194	3.59
<b>Awareness:</b>						
<b>Islamic Finance Products</b>	212/215	1.30	357	1.32	203	1.55
<b>Islamic Insurance Products</b>	212/215	1.34	357	1.47	203	1.66
<b>Perception:</b>						
<b>Takaful Companies</b>	203/215	3.37	334	3.32	136	3.00
<b>Takaful Products</b>	204/215	3.33	334	3.34	135	3.20
<b>Conventional Companies</b>	203/215	3.43	267	3.38	172	3.53
<b>Conventional Products</b>	201/215	3.37	267	3.00	171	3.19

### 8.7.1 Religiosity

Respondents were asked to indicate their level of religiosity through 5 point likert-scale as it was described in chapter six. From Table 8.20 it appears that the overall mean responses for *Iman* factor is high in all three sub-groups, although Takaful holder only sub-group has the highest mean of 4.66 and this came with no surprise as it is assumed that holders of Takaful only would be more religious than the rest of sub-groups. The

overall mean responses for *Avoiding Haram* factor is relatively high in Takaful holders only and conventional holders only. The latter is surprising as it is expected that conventional holders only would be less religious therefore avoiding haram would not score high in terms of mean. A possible explanation for this is that UK respondents with conventional insurance policies are identifying these as Takaful products. These respondents may believe that Takaful is the Islamic version of insurance, and that necessity (for example, legal or contractual requirements to have motor or house insurance) permits Muslims, when there is no Sharia-compliant alternative, to follow practises that strictly are haram (Billah, 2001). This would lead them to regard their conventional insurance policies as being, in fact, Takaful. As a result, they are avoiding haram by doing so. When it comes to *Sunan*, it seems sitting on the middle range (3) for all of the three sub-groups. On the other hand, the overall mean responses for *Ibada* factor are high in holders of both Takaful and conventional policies sub-group. A possible explanation is that holders of both policies at the same time come from scientific and educational backgrounds, therefore they have based their choice on solid grounds. As I have interviewed a number of executives in the insurance industry and they explained that there is no difference between Takaful and conventional policies and they had regarded it to be similar. Hence, most probably responses came from knowledgeable consumers in the field of insurance and Islam.

### **8.7.2 Awareness**

Respondents were asked to indicate whether they are aware or not aware of Islamic finance products and Islamic insurance products. The overall mean responses for both factors seem sitting on the lower end for all of the three sub-groups ranging from 1.30-1.66, although the mean score is slightly higher in conventional holder only sub-group (1.55) for Islamic finance products and (1.66) for Islamic insurance products. This might be a result of that the use of Arabic terms for the products understated awareness, as some respondents might have been aware of the products without knowing what they are called in Arabic. On the other hand, some respondents might have indicated awareness of product names without necessarily being familiar with the detailed structure of particular products.

### **8.7.3 Perception**

Respondents were asked to indicate their perception of Takaful companies, Takaful products, conventional companies, and conventional products. The overall mean responses for all four factors seem sitting on the middle range (3) for all of the three sub-groups. In the conventional holder only sub-group, the overall mean score conventional companies is the highest (3.53) and this came with no surprise as conventional companies for those policy holders are better known than those offering Takaful. What is surprising is that Takaful holders only sub-group did not score high when it comes to perceiving Takaful companies and products. Two possible explanations could be drawn here. One: is that Takaful companies and products are relatively new in comparison with its conventional counterparts and therefore they are less worldly known and that their products is not entirely tailored to be 100% Islamic. Two: is that the reason for choosing such companies and products is purely because of religious reasons.

## **8.8 Summary**

The start of this Chapter looked into religiosity as an overall measure ('R-index') and the relationship between the R-index and demographic data. The analysis of differences in choice of Takaful and conventional insurance products shows that respondents with high R-index scores were more likely to have no insurance at all than respondents with low R-index scores. This suggests that more religious Muslims are not convinced that insurance, whether Sharia compliant or not, is preferable to 'trusting in Allah'. Respondents with low R-index scores are more likely to have conventional insurance, and less likely to have Takaful, than respondents with high R-index scores.

Before conducting more sophisticated analysis, a normality test has been done on three main scales: religiosity, awareness and perception. All were normally distributed and there was no evidence of multicollinearity. EFA was essential in constructing an index of 'religiosity', (Abdullah and Abd.Magid, 2003; Rehman and Shabbir, 2010) 'awareness' and 'perception', and analyses of the responses to ascertain whether there are any consistent factors or dimensions to the overall notion of religiosity, awareness and perception has been undertaken. As a result of series of tests I have reached a conclusion that a multi-dimensional religiosity measure gives better explanation and depth that uni-dimensional measure. The exploratory factor analysis has identified five factors that make up the overall concept of religiosity, which have been named as Imam, Avoiding haram, Sunan, Ibada, and Islamic Knowledge. Having identified the factors, in the

following chapter they, together with other variables, are used to investigate whether there are any systematic explanations for choices between Takaful and conventional insurance policies.

## **CHAPTER NINE: FACTORS AFFECTING INSURANCE POLICIES CHOICES**

### **9.0 Introduction**

The success of a study is dependent on the robustness and appropriateness of the methods employed to test the research topic. There are number of strategies that can be employed to examine the research. The choice of appropriate strategy could be derived from the research question and objectives (de Vaus, 1990: 121). The study questions consider the factors that affect acquisition of insurance policies among Muslims in two different locations: KSA and UK. Hence, this research is examining the causal relationship between the factors influencing the choice and usage of Takaful and conventional insurance policies. Logistic regression analysis is one of the most frequently used statistical procedures (King and Ryan 2002). Pohlman and Leitner state ‘The technique is becoming more popular in social science research’ (2003: 11). Logistic regression measures the relationship between a categorical dependent variable and one or more independent variables, which are usually (but not necessarily) continuous by using probability scores as the predicted values of the dependent variable. As such it treats the same set of problems as does probit regression using similar techniques (Pohlman and Leitner, 2003, p: 11). Hypotheses 7 & 8 were tested using logistic regression analysis. Normality and Multicollinearity were checked and mentioned previously in Chapter 8.

Section 9.1 of this Chapter discusses the used scale measures. This is followed by section 9.2 which discusses the used variables (or explanatory categories) in the analysis. Section 9.3 analyses the usage of Takaful and conventional products through four main approaches: first, usage is explained by reference to single explanatory categories (religiosity, awareness, perception), then control variables for gender and location are added. The third approach involves religiosity together with each of the two explanatory categories as well as control variables, and the fourth approach involves all three explanatory categories together with control variables. In addition, whether subjects are considering Takaful or conventional products is analysed by reference to single explanatory variables together with gender and location controls. There are six models using single explanatory categories, twelve models using single explanatory categories plus controls, four models using religiosity together with one of the other two

explanatory categories and controls, and two models using all three explanatory categories plus controls. Section 9.3.5 analyses the correlation of all variables. Section 9.4 provides a summary of this chapter.

## **9.1 Measures**

The main measure in this research is religiosity. The religiosity questions measure the relationship of Saudi and UK Muslim acquiring a Takaful products and the level of halal and haram. Religiosity was assessed using factors constituting of 57 items which measured the individual level of religiosity. Each question assessed using five point Likert-type scales, i.e. 1 ‘strongly disagree’ to 5 ‘strongly agree’ for belief statements and 1 ‘never’ to 5 ‘always’ for practise statements. The instrument is a development of instruments that had been used in previous studies (Glock and Stark 1965, Albehairi and Demerdash, 1988, Serajzadeh 1998, Krauss, et al. 2005 and Khraim, 2010). Respondents were also asked, using yes and no questions, whether they hold a Takaful policy or not. The instrument’s appropriateness was also tested during the pilot study. The data was obtained from 700 Saudi insurance holders, and 406 British Muslims insurance holders. The sample size was adequate to perform a sound analysis and to be able to generalise the data across the population.

## **9.2 Variables**

The following variables have been used in the analysis.

### **9.2.1 Dependent Variables**

The main dependent variable is Insurance Policy holders. Participants were asked whether they 1) acquire/use Takaful policy and 2) acquire/use conventional policy through (Yes/No) questions. “Yes” responses used as the base line. Another dependent variable has been used here: Considering an insurance policy. Participants were asked whether they 1) consider acquire/use Takaful policy and 2) consider acquire/use conventional policy through (Yes/No) questions. “Yes” responses used as the base line.

### **9.2.2 Independent Variables**

The following independent variables were used in the analysis.



**Religiosity:** Level of religiosity was measured by asking respondents 57 questions to indicate this level of religiosity. EFA produced 52 non-overlapping factors and the data of these questions were included when running the analysis techniques used in this chapter. The religiosity factors are the five religiosity factors: Iman “beliefs”, avoiding haram, Ibada “worship”, Sunan “Prophet Muhammad practises”, and Islamic knowledge. The construction of these factors and the rationale for identifying them are explained in Chapter 7.

**Awareness:** This scale was designed to measure the level of consumers’ awareness of Islamic finance and Takaful products. Respondents were asked to indicate whether or not they were aware of particular Islamic non-insurance financial products and Takaful products. EFA produced two non-overlapping factors, each comprising exactly the 15 items. The two awareness factors are: Islamic Insurance Products and Islamic Finance Products.

**Perception:** This scale was designed to measure consumers’ perception of conventional and Takaful products and companies. Respondents were assessed using a five point Likert-type scale, as described in Chapter 8. EFA produced four non-overlapping factors, each comprising exactly the 22 items. The four perception factors are: Conventional Insurance Products, Conventional Insurance Companies, Takaful Insurance Companies and Takaful Insurance Products.

Because religiosity has five factors (Imam, Avoiding haram, Ibada, Sunan and Islamic knowledge), awareness has two aspects (insurance products and financial products) and perception has four aspects (the 2 x 2 combinations of conventional versus Takaful and products versus companies), it is convenient to use the term “explanatory categories”, or just “categories” to refer to religiosity, awareness and perception.

### 9.2.3 Control Variables

Covariates assessed included; gender, this variable was entered as a dummy, coded 1 for male and 0 for female. Location was also entered as a dummy variable, coded 0 for United Kingdom (UK) and 1 for Saudi Arabia (KSA). These control variables form a fourth explanatory category. As mentioned in Chapter 8 that many of the other

demographic variables, such as income, age, education, were highly associated with location, so these variables are omitted to avoid problems with multicollinearity.

## 9.3 Usage of Takaful and Conventional Products

### 9.3.1 Single Category Logistic Regression Model

In this section, I use twelve single category models to test Hypothesis 7 and 8. The assumption is that the response variable is influenced only by one explanatory category. Here acquisition of Takaful policies is influenced by religiosity. Hence to test hypothesis 7 that as the level of religiosity rises, the acquisition of Takaful policies rises. I am assuming that religiosity level among Muslims is the only influence on the acquisition of Takaful. Hence to test hypothesis 7 that as the level of religiosity rises, the acquisition of Takaful policies rises. Also, I am testing the influence of the perception of Takaful and conventional companies and products on acquisition of Takaful insurance policies (each dependent variable separately). Also I am testing the influence of the awareness of Islamic finance and insurance on acquisition of Takaful insurance policies (each dependent variable separately).

In the single category case, as I am applying logistic regression, regression models are those models that are limited to a single criterion, response, dependent, or outcome variable. Single category regression models can be expressed mathematically as a regression function. Basically, single category case deals with 1 predictor variable.

The following section shows the analysis of twelve single category models of religiosity, awareness and perception.

#### 9.3.1.1 Religiosity

**Table 9.1 Iteration History of Takaful Holder**

Iteration		-2 Log likelihood	Coefficients					
			Constant	Islamic Knowledge	Avoiding Haram	Sunan	Iman	Ibada
Step 5	1	1232.116	.224	.389	-.291-	.226	-.215-	.165
	2	1230.940	.249	.424	-.348-	.247	-.231-	.193
	3	1230.938	.250	.425	-.351-	.248	-.231-	.195
	4	1230.938	.250	.425	-.351-	.248	-.231-	.195

Note: Method used is Forward Stepwise (Likelihood Ratio). The Constant is included in the model. The Initial -2 Log Likelihood: 1276.200 and estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

**Table 9.2 Iteration History of Conventional Holders**

Iteration		-2 Log likelihood	Coefficients			
			Constant	Iman	Ibada	Sunan
<b>Step 3</b>	1	1080.806	-.379-	-.640-	-.546-	.272
	2	1075.280	-.414-	-.775-	-.656-	.327
	3	1075.248	-.414-	-.788-	-.665-	.330
	4	1075.248	-.414-	-.788-	-.665-	.330

Note: Method used is Forward Stepwise (Likelihood Ratio). The Constant is included in the model. The Initial -2 Log Likelihood: 1120.153 and estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

Table 9.1 above shows the second and final iterations history in this analysis (religiosity as an independent variable and Takaful Holder as dependent variable) and this time the iteration history includes the predictors' variables that been included in the model (Islamic Knowledge, Avoiding Haram, Sunan, Iman, and Ibada). It can be noticed that there are four conducted "iterations" at each step. What this means is that the algorithm used to compute the estimates for the constant term took four "rounds" (iterations) to settle on an estimate that it deemed satisfactory. What is "satisfactory"? SPSS stops "iterating" when there is such a small change between iterations as to be negligible. That is what it is telling us in the note section above, 'Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.' That is, at iteration 1 of step 5, the algorithm estimated a constant term of .224. At iteration 2, it "refined" the estimate into a constant term of .249. The same process continues till the change from iteration to another is so small (less than .001), SPSS stopped "iterating" and settled on the coefficient of .250. In other words, it deemed the estimation process complete for a model with only the constant term included, and reported its final value of .250.

The first -2 log-likelihood value of 1276.200 is not telling us much as is. Table 9.1 shows how -2 Log likelihood value gets smaller as the number of steps increases as it is supposed to be (please refer back to Chapter 6, section 6.7.5). It goes from 1276.200 to 1230.938, stopping at step 5. The coefficients for constant, Islamic Knowledge, Avoiding Haram, Sunan, Iman, and Ibada are best estimated at step 5, where SPSS deemed that the difference between values at step 3 and step 4 were less than .001 (as noted in the note section). Actually, when looking at the steps it looks like the estimate did not change at all from step 4 to step 5, but that is simply because of the number of decimal places SPSS is reporting. If I am interested in seeing the differences between the values, I would be able to by double-clicking on the output box, then double-click on values of the coefficients. By doing this I have noticed that there is a difference between steps 3 and 4 after all, and I can see this when I force SPSS to provide me with more decimal places.

Similar conclusion could be reached when looking at Table 9.2 (religiosity as an independent variable and Conventional Holder as dependent variable). -2 Log likelihood value gets smaller as the number of steps increases. It goes from 1120.153 to 1075.248, stopping at step 3. The coefficients for constant, Iman, Ibada and Sunan are best estimated at step 3, where SPSS deemed that the difference between values at step 2 and step 3 were less than .001 (as noted in the note section).

**Table 9.3 Religiosity as Single Category Model**

	Dependent Variables	
	(1) Takaful Holder	(2) Conventional Holder
<b>Independent Variables</b>		
<b>Iman (Belief)</b>	<b>-.231***</b> (.072)	<b>-.788***</b> (.096)
<b>Avoiding Haram</b>	<b>-.351*** (.077)</b>	<b>1.478</b>
<b>Sunan (Prophet Muhammad's teaching)</b>	<b>.248***</b> (.069)	<b>.330***</b> (.81)
<b>Ibada (worship)</b>	<b>.195***</b> (.071)	<b>-.665***</b> (.089)
<b>Islamic Knowledge</b>	<b>.425***</b> (.070)	<b>.709</b>
<b>Constant</b>	<b>.250</b> (.068)	<b>-.414</b> (.218)
<b>-2 Log likelihood</b>	<b>1230.938</b>	<b>1075.248</b>
<b>Cox &amp; Snell R<sup>2</sup></b>	<b>.091</b>	<b>.191</b>
<b>Nagelkerke R<sup>2</sup></b>	<b>.122</b>	<b>.258</b>
<b>Hosmer and Lemeshow Chi Square</b>	<b>22.467**</b>	<b>31.230***</b>
<b>Number of cases processed</b>	<b>978</b>	<b>978</b>

Table 9.3 above represents two 'Model Summaries' for the two dependent variables Takaful Holders and Conventional Holders. Starting with Takaful Holders, the above is a summary statistics for the model at Step 5, which recall is the model with 6 predictors. The first statistic should look familiar, it is the -2 Log likelihood value, and is equal to 1230.938. Comparing this value to that of the 'constant-only' model. That -2 Log likelihood value was equal to 1276.200. In this sense, I can see that with the inclusion of the 6 predictors, the -2 Log likelihood value has decreased. This is considered a good thing and desirable. In this case, the log-likelihood value is good to be smaller at the final Step than at Step 1, because if it is, then it is reflective of a potential gain in model fit. And this is what it could be concluded from looking at log-likelihood value above.

In table 9.3 above it can be noted that Cox & Snell R Square value of .091. In this analysis, both pseudo R-squares tell us that the model the model fits increasingly well.

Cohen et al., suggest to report this issue if you interpret the Nagelkerke R-square in the research, since it's tempting to simply report the larger value (.330 looks more impressive than .244), but this is simply a matter of scaling, not actual 'size' difference (Cohen, et al., 2003). The Hosmer and Lemeshow Test here is statistically significant ( $p < .05$ ), suggesting that the probabilities of predicted vs. observed do not match up as nicely as it is desired. In sum, the Hosmer and Lemeshow Test in this case suggest that the model fit is not as good as I would like it to be.

It is noticeable that all independent variables are included in the equation. The coefficient 'B' under Iman is equal to -.231 and this means that given an increase of Iman by one unit, I can expect the log odds (or 'logit') of purchasing Takaful insurance policy to decrease by -.231. The logit is equal to the natural log of the odds. In this case interpreting the logit to a probability figure instead would be preferable. However, what is important right now is to realise that the logit is on a continuous scale, and not a categorical one. The logit can range from negative infinity to positive infinity, which means that the coefficient -.231 represents the expected change in a continuous quantity (the logit), and not a dichotomous response variable.

The results from Table 9.3 above show that the regression model has a significant Chi-square ( $p < .05$ ) which does not show goodness of fit. However, the model has Cox & Snell R<sup>2</sup> of (0.091) and Nagelkerke R<sup>2</sup> of (0.122), which provides a good support to Hypothesis 7 and 8 and shows that model is statistically significant. The result comes supporting the hypothesis. It is not surprising that being a Muslim affects choices between products since Halal and Haram elements play an important part of Muslims daily dealings. This will affect Muslims choice when it comes to financial products as well. Muslims do fear acquiring or dealing with haram elements when it comes to financial dealings, because it falsifies their earning and removes *barakah*<sup>46</sup>. Nevertheless, not all Muslims are religious and follow the exact teachings of Islam.

Thus, looking at the table above it is clear that the factor of "Islamic Knowledge" has the largest b-value, followed by 'Sunan'. This could be explained that any Muslim can be

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<sup>46</sup> Literaly Barakah means blessing. In Islam Barakah is the beneficent force from God that flows through the physical and spiritual spheres as prosperity, protection, and happiness (Colin, 1999). The continuity of spiritual presence and revelation that begins with God and flows through that and those closest to God is called Barakah. Von Denffer (1976: 168) defines Barakah as "nearness that allows prosperity", stresses the actual state or cause (i.e. nearness) together with its effects (i.e. allowing prosperity, not determining it though in any case!)

considered mua'min 'a believer' that practise Ibada as these are the condition for any individual to be a Muslim, and considered one. While factors like "Islamic Knowledge" and 'Sunan' are optional and could show a great sign of religiosity. Believing in Allah, performing your prayer and Ibada might not mean that the Muslim is deeply religious. It is actually the performance of "optional" practises that are the sign of religiosity. Individuals who are more religious will be most likely to comply with Islamic dealings when it comes to the acquisitions of Islamic products.

**Second,** Conventional Holders, this is a summary statistics for the model at Step 3, which recall is the model with 3 predictors. From comparing -2 Log likelihood value that of the 'constant-only' model, it can be noted that with the inclusion of the 3 predictors, the -2 Log likelihood value has decreased. Thus, it reflects a potential gain in model fit. Cox & Snell R Square value came to .191. The higher the value the better and this suggests that the model fits increasingly well. Nagelkerke R-square (0.258) is higher than Cox & Snell R Square. Thus the model predicts the fits well. This shows that model is statistically significant.

The Hosmer and Lemeshow Test is statistically significant ( $p < .001$ ), suggesting that the probabilities of predicted vs. observed do not match up as nicely as it is desired. In sum, the Hosmer and Lemeshow Test in this case suggest that the model fit is not as good as I would like it to be.

Table 9.3 shows that only Iman, Sunan and Ibada are included in the equation. The coefficient 'B' under Iman is equal to -.788 and this means that given an increase of Iman by one unit, I can expect the log odds (or 'logit') of purchasing conventional insurance policy to decrease by -.788. The result comes supporting hypothesis 7 and 8. This tells us that it is less likely to purchase a conventional policy when the level of Iman and Ibada increases. In other words, Iman and Ibada correlate negatively with usage of conventional insurance. Looking at the table above it is clear that the factor of 'Iman' has the largest b-value, followed by 'Ibada'. Again, this came with no surprise to me as I have expected this result. What came to surprise is the result of Sunan (.330). This means that given an increase of Sunan by one unit, I can expect the log odds (or 'logit') of purchasing conventional insurance policy to increase by .330. This does not seem right. In this case, this could be explained that Sunan practised by Muslims whom their level of Iman and Ibada is low are Muslims who seek the praise of the people and wanting to be

known. This is called *Al-Riyaa* ' (showing off). If the sole reason to perform Sunan is. In the narration reported by Imam Ahmed rahimahullaah that the Prophet (PBUH) said that Allah said, 'I am the best of those they ascribe partners to, so whoever does an action and by it seeks another partner besides Me, I am free from him and he is left to the one he associated partners with.' [Musnad Imam Ahmed (2/301), with an authentic chain]. (Al-Hakimi, 2011: 611). Another saying by the Prophet (PBUH) says: Allaah will say on the Day of Judgement when people are given their reward for their actions, 'Go to those whom you were showing off to in this life and see if you find with them any reward!' [Hadeeth Hasan similar to the Hadeeth in Musnad Imam Ahmed (4/215), (3/466)]. (Al-Hakimi, 2011: 611). These narrations show and confirm that *Al-Riyaa* ' is existing among Muslims, and that their religious action might not always seek Gods' reward and pleasure. Individuals who are more religious will be most likely to comply with Islamic guidance when it comes to Iman, Ibada and Sunan.

### 9.3.1.1.1 Comparison of Six Insurance Holders Sub-Groups

**Table 9.4 Logistic Regression Single Category Models**

	1	2	3	4	5	6
	T Only	C Only	Both	ANY	At Least 1 T	At Least 1 C
<b>Independent Variables</b>						
<b>Iman (Belief)</b>	.333*** (.82)	-.198*** (.075)	-.632*** (.074)	-.835*** (.160)	-.231*** (.072)	-.788*** (.090)
<b>Avoiding Haram</b>	-.184** (.073)	.970	2.177	-.516*** (.107)	-.351*** (.077)	.328
<b>Sunan (Prophet Muhammad's teaching)</b>	.000	.298	.486*** (.092)	.320*** (.085)	.248*** (.069)	.330*** (.075)
<b>Ibada (worship)</b>	.567*** (.082)	-.393*** (.077)	-.495*** (.084)	-.232** (.100)	.195*** (.071)	-.665*** (.082)
<b>Islamic Knowledge</b>	.286*** (.076)	-.161** (.078)	.387*** (.096)	.431*** (.83)	.425*** (.070)	.860
<b>Constant</b>	-.658*** (.072)	-1.451*** (.084)	-1.702*** (.102)	1.409*** (.068)	.250*** (.068)	-.414*** (.075)
<b>-2 Log likelihood</b>	1167.816	929.739	817.649	953.127	1230.938	1075.248
<b>Cox &amp; Snell R<sup>2</sup></b>	.092	.037	.133	.124	.091	.191
<b>Nagelkerke R<sup>2</sup></b>	.126	.059	.212	.185	.122	.258
<b>Hosmer and Lemeshow Chi Square</b>	13.087	17.197**	23.098**	16.088**	22.467***	31.230***
<b>Number of cases</b>	356	186	215	757	535	382

Note: T = Takaful, C = Conventional, Both= holders of both T and C policies, ANY= any policy whether T or C, At least one T = Those with at least one T (whether or not they have a C policy), At least one C = Those with at least one C (whether or not they have a T policy).

This section compares between six sub groups: Takaful Holders only, Conventional Holders only, Holders of Both Takaful and Conventional Policies, Holders of Any Type

of Policies, Holders of At Least One Takaful Policy and Finally, Holders of At Least of Conventional Policies. Table 9.4 shows summary statistics of six single category logistic regression models. I have numbered these models from 1-6 left to right which would be easier and clearer to follow when referring to in the analysis. After comparing -2 Log likelihood value that of the 'constant-only' model, it can be noted that the -2 Log likelihood values of the six models has decreased. Thus, it reflects a potential gain in model fit. Looking at Cox & Snell R Square values and Nagelkerke R-square values, it can be concluded that all models predicts fits well. This conclusion has been reached as Nagelkerke R-square values are higher than Cox & Snell R Square values. It is always tempting to report larger values of Nagelkerke R-square as Cohen et al. (2003) suggest, and the more tempting values to report here are (.258) of model 6, (.212) of model 3, and (.185) of model 4. However, this is simply a matter of scaling, not actual 'size' difference. As Table 9.4 above shows that the Hosmer and Lemeshow Test is only not statistically significant for model 1, suggesting that the probabilities of predicted vs. observed match up as nicely as it is desired. In sum, the Hosmer and Lemeshow Test only in this model suggest that the model fit is as good as I would like it to be.

Model 1 shows that only Iman, Avoiding Haram, Ibada and Islamic Knowledge are included in the equation. Ibada has the higher coefficient 'B' (.567) followed by Iman (.333) this means that given an increase of Ibada and Iman by one unit, increase purchasing Takaful insurance policy more than the rest factors in the model. This shows how the commitment of Ibada and Iman affect positively on purchasing insurance policies and choosing an Islamic option. Islamic knowledge correlates positively with holding Takaful polices. The result comes supporting hypothesis 7 and 8. It is interesting to note that it is less likely to purchase a Takaful policy when the level of avoiding haram increases. Religious Muslims always ask god for forgiveness and thinks that they are falling short in terms of being devout Muslim even though they rigidly follow Allah's rules. This shows their modesty as Islam urges Muslims to be modest and not brag about how good of a Muslim they are. This could be one justification to this result. Another justification is that avoiding haram is a general factor that many major and minor sins fall under it which means that a religious Muslim could commit minor sins and expose to making mistakes as other people. Islamic Knowledge correlates positively with holders of Takaful Holders Only which shows that the purchasers of Takaful policies are associated with greater knowledge of Islam.



Model 2 shows that only Iman, Ibada, and Islamic knowledge are included in the equation. Ibada has the higher coefficient 'B' (-.393), this means that given an increase of Ibada and by one unit, purchasing of Conventional insurance policy will decrease by (-.393). The three predictors correlate negatively with the usage of conventional insurance policies. The result here comes with no surprise and support the assumption that religious Muslims will avoid purchasing non Islamic insurance products. Therefore, it can be concluded that the level of religiosity of conventional insurance policy holders only are low.

Model 3 displays that Iman, Sunan, Ibada, and Islamic knowledge are included in the equation. Iman has the higher coefficient 'B' (-.632) followed by Ibada (-.495). Iman and Ibada correlate negatively with the dependent variable. This support the previous argument, that less religious Muslims tends to acquire conventional insurance policies. Islamic knowledge correlate positively with the dependent variable which might be justifies similarly to the result in Model 1 that purchaser of Takaful policies associated with greater knowledge of Islam. What is the justification for purchasing Takaful policies at the same time? possible justifications are that those of the KSA respondents hold a Takaful policy either because of being forced to it by law, or lack of availability of certain insurance products at the conventional insurance companies in Saudi that they would like to acquire, and that the product is available at a Takaful company. Those of the UK respondents hold a Takaful policy might be because of pricing reasons as there was a Takaful motor insurance company in the UK market and it used to offer competitive pricing to those of conventional motor insurance companies in the region. I would encourage researchers to tackle this area and ask the Muslim holders of both policies of their reason of by choosing to hold Takaful and conventional insurance policies at the same time. Therefore, I see that this should be further investigated.

Model 4 displays that all five predictors (Iman, Avoiding Haram, Sunan, Ibada, and Islamic knowledge) are included in the equation. Again Iman has the higher coefficient 'B' (-.835) followed by Avoiding Haram (-.516) and Islamic knowledge (.431). Iman, Avoiding Haram, and Ibada correlate negatively with the independent variable. This result is somewhat similar to what mentioned previously that non-religious Muslims would not mind purchasing any type of policy. Islamic Knowledge correlate positively with the usage of Any Policy which also similar to what mentioned in the justification of Model 3 results, that purchasers of Takaful policies are associated with greater

knowledge of Islam. Sunan also correlate positively with holding any type of policy. This could be justified as mentioned earlier that Sunan practised by Muslims whom their level of religiosity is low are Muslims who seek the praise of the people and wanting to be known.

Model 5 displays that all five predictors are included in the equation. Islamic knowledge has the higher coefficient 'B' (.425) followed by Avoiding Haram (-.351). Islamic knowledge correlates positively with holders of at least one Takaful policy, which means that given an increase of Islamic knowledge by one unit, purchasing of at least one Takaful policy will increase by (.425). This result is consistence with the results of the previous Models but Model 2. This shows that purchasers of Takaful policies are associated with greater knowledge of Islam. Sunan and Ibada also correlate positively with the dependent variable. The stronger the religiosity level of Muslims the more they purchase Takaful policies. Avoiding Haram and Iman correlate negatively with the independent variable. This could be justified that who have at least one Takaful policy might have as well conventional policy and as the previous results shows that purchasers of conventional insurance have low religiosity level.

Model 6 shows that Iman, Sunan, and Ibada predictors are included in the equation. Iman has the higher coefficient 'B' (-.788) followed by Ibada (-.665). These two predictors correlate negatively with purchasers of at least one conventional insurance policy. This comes with no surprise as level of religiosity affect the choice of an insurance policy. Sunan correlate positively with the dependent variable and this again might be justified that Sunan practised by Muslims whom their level of religiosity is low are Muslims who seek the praise of the people and wanting to be known.

Overall, it was found that the purchase of Takaful policies was associated with greater *knowledge* of Islam, while purchase of conventional policies was associated with lower adherence to Islamic *practises*. Thus we could say that the 6 models support Hypothesis 7 and 8.

### 9.3.1.2 Awareness

**Table 9.5 Awareness as Single Category Model**

	Dependent Variables	
	(1) Takaful Holder	(2) Conventional Holder
<b>Independent Variables</b>		
<b>Islamic Insurance Products</b>	<b>-.683***</b> (.072)	<b>-.283***</b> (.066)
<b>Islamic Finance Products</b>	<b>-.571***</b> (.069)	<b>.175***</b> (.066)
<b>Constant</b>	<b>.201***</b> (.069)	<b>.434***</b> (.066)
<b>-2 Log likelihood</b>	<b>1232.090</b>	<b>1312.551</b>
<b>Cox &amp; Snell R<sup>2</sup></b>	<b>.151</b>	<b>.025</b>
<b>Nagelkerke R<sup>2</sup></b>	<b>.202</b>	<b>.034</b>
<b>Hosmer and Lemeshow Chi Square</b>	<b>20.673***</b>	<b>28.492***</b>
<b>Number of cases processed</b>	<b>1014</b>	<b>996</b>

Table 9.5 above shows summary statistics of two single category logistic regression models each model has different dependent variable. From comparing -2 Log likelihood values of both models to that of the ‘constant-only’ models, it can be noted that with the inclusion of the 2 predictors each, the -2 Log likelihood values has decreased. Thus, it reflects a potential gain in model fit. The Nagelkerke R-square values are higher than Cox & Snell R Square. Thus, the models predict the fits well. This shows that model is statistically significant. The Hosmer and Lemeshow Test is statistically significant ( $p < .001$ ) in both models, suggesting that the probabilities of predicted vs. observed do not match up as nicely as it is desired. In sum, the Hosmer and Lemeshow Test in this case suggest that the model fit is not as good as I would like it to be.

Model 1 shows that both predictors are included in the equation. The coefficient ‘B’ under Islamic Insurance Products is the highest (-.683) and this means that given an increase of Islamic Insurance Products by one unit, I can expect the log odds (or ‘logit’) of purchasing conventional insurance policy to decrease by -.683. Both predictors correlate negatively with holding Takaful policies. This makes sense that lack of awareness of Islamic finance and insurance products will result in lower Takaful holders.

Model 2 also shows that both predictors are included in the equation. The coefficient ‘B’ under Islamic Insurance Products is the highest (-.283) and this means that given an increase of Islamic Insurance Products by one unit, I can expect the log odds (or ‘logit’)

of purchasing Takaful insurance policy to decrease by -.283. Islamic Insurance Products correlates negatively with holding conventional policies. This makes sense that when the awareness of Islamic insurance products decreases the more Muslim consumers will purchase conventional policies. Islamic Finance Products correlates positively with conventional holders. This might be explained that the Muslim consumer financial products knowledge is higher which enable then to compare the products objectively and chose the more financial sound products.

### 9.3.1.3 Perception

**Table 9.6 Perception as Single Category Model**

	Dependent Variables	
	(1) Takaful Holder	(2) Conventional Holder
<b>Independent Variables</b>		
Conventional insurance products	1.374	.885*** (.154)
Conventional insurance companies	.222	-.279* (.142)
Takaful insurance products	.014	-.354*** (.120)
Takaful insurance companies	.416*** (.095)	-.216* (.108)
Constant	.789*** (.091)	-.071 (.087)
-2 Log likelihood	707.696	756.667
Cox & Snell R <sup>2</sup>	.034	.076
Nagelkerke R <sup>2</sup>	.047	.102
Hosmer and Lemeshow Chi Square	15.808**	15.851*
Number of cases processed	584	579

Table 9.6 above shows summary statistics of two single category logistic regression models each model has different dependent variable. From comparing -2 Log likelihood values of both models to that of the ‘constant-only’ models, it can be noted that with the inclusion of the 1 predictor of model one and 4 predictors of model 2, the -2 Log likelihood values has decreased. Thus, it reflects a potential gain in model fit. The Nagelkerke R-square values are higher than Cox & Snell R Square. This shows that model is statistically significant. The Hosmer and Lemeshow Test is statistically significant (Model 1:  $p < .05$ , Model 2:  $p < .1$ ) in both models, suggesting that the probabilities of predicted vs. observed do not match up as nicely as it is desired. In sum,

the Hosmer and Lemeshow Test in this case suggest that the model fit is not as good as I would like it to be.

Model 1 shows that only Takaful insurance companies predictor is included in the equation. Takaful insurance companies has a coefficient 'B' of (.416) and this means that given an increase of Takaful insurance companies by one unit, I can expect the log odds (or 'logit') of purchasing Takaful insurance policy to increase by .416. This shows how Takaful insurance companies matters to Muslim consumers when coming to Purchasing Takaful policies.

Model 2 shows that all perception predictors (Conventional insurance products, Conventional insurance companies, Takaful insurance products, and Takaful insurance companies) are included in the equation. Conventional insurance products has the higher coefficient 'B' (.885) and this means that given an increase of Conventional insurance products by one unit, I can expect the log odds (or 'logit') of purchasing Takaful insurance policy to increase by -.885. Islamic Insurance Products correlates negatively with holding conventional policies. This could be explained that Muslims conventional insurance holders perceive conventional insurance products highly. Consumers who hold knowledge of different conventional products and holds positive view of the different products and conventional insurance companies are more likely to buy conventional insurance products. This shows that the quality of the products and reputation of the companies plays higher role in consumer acquisition of conventional insurance products.

### **9.3.2 Two Category Logistic Regression Model**

In this section, I use twelve two category models to test Hypothesis 7 and 8. In each case, one of the categories is represented by the control variables of country and gender, and it is assumed that the response variable is influenced only by the control variables and one of the other explanatory categories. Here acquisition of Takaful policies is influenced by religiosity and control variables (gender and location). Hence to test hypothesis 7 that as the level of religiosity rises, the acquisition of Takaful policies rises. I am assuming that religiosity level among Muslims is not the only factor that predicts the acquisition of Takaful. The other factor is the control variable (gender and location). In another model I am assuming that the consideration of acquiring Takaful policies is influenced by the religiosity level among Muslims and control variables. Hence to test hypothesis 7 that as

the level of religiosity rises, the acquisition of Takaful policies rises. Here I am assuming that religiosity is the only factor influencing consideration of Takaful policies. Moreover, I am testing the influence of the perception and control variables of Takaful and conventional companies and products on acquisition/consideration of Takaful insurance policies (each dependent variable separately). Also I am testing the influence of the awareness and control variables of Islamic finance and insurance on acquisition/consideration of Takaful insurance policies (each dependent variable separately).

In the two-category case, regression models are those models that are limited to two criteria, responses, dependents, or outcome variables. This type of analysis also leads to possibilities of “cross terms”, meaning there is some effect of being male and acquire a certain insurance policy on religiosity vs. being female and having a certain insurance policy. The following section shows the analysis of twelve two-category models of religiosity + control variables, awareness + control variables and perception + control variables.

### 9.3.2.1 Religiosity plus Control Variables

**Table 9.7 Two-Category Model (A): Religiosity plus Control Variables**

Independent Variables	Dependent Variables	
	Takaful Holder	Conventional Holder
<b>Iman (Belief)</b>	<b>-.217***</b> (.072)	<b>-.333***</b> (.096)
<b>Avoiding Haram</b>	<b>-.333***</b> (.077)	<b>1.478</b>
<b>Sunan (Prophet Muhammad’s teaching)</b>	<b>.293***</b> (.071)	<b>1.175</b>
<b>Ibada (worship)</b>	<b>.159**</b> (.072)	<b>-.431***</b> (.089)
<b>Islamic Knowledge</b>	<b>.407***</b> (.071)	<b>.709</b>
<b>Constant</b>	<b>-.207</b> (.173)	<b>.009</b> (.218)
<b>Control Variable</b>		
<b>Gender Control</b>	<b>.549***</b> (.191)	<b>.648***</b> (.213)
<b>Location Control</b>	<b>.003</b>	<b>-1.601***</b> (.188)
<b>-2 Log likelihood</b>	<b>1222.662</b>	<b>1011.222</b>
<b>Cox &amp; Snell R<sup>2</sup></b>	<b>.099</b>	<b>.244</b>
<b>Nagelkerke R<sup>2</sup></b>	<b>.133</b>	<b>.330</b>
<b>Hosmer and Lemeshow Chi Square</b>	<b>24.054***</b>	<b>69.812***</b>
<b>Number of cases processed</b>	<b>963</b>	<b>946</b>

The results from Table 9.7 above show that the regression models have significant Chi-square. This shows that model is statistically significant. Nagelkerke R<sup>2</sup> values in both models are higher than Cox & Snell R<sup>2</sup> values which shows goodness of fit.

Model 1 in table 9.7 above shows that there are six predictors are included in the equation. Looking at the results it is clear that the factor of “Islamic Knowledge” has the largest b-value. This could be explained that any Muslim can be considered *mua'min* ‘a believer’ that practise *Ibada* as these are the condition for any individual to be a Muslim, and considered one. While factors like “Islamic Knowledge” and ‘*Sunan*’ are optional and could show a great sign of religiosity. Believing in Allah, performing your prayer and *Ibada* might not mean that the Muslim is deeply religious. It is actually the performance of “optional” practises that are the sign of religiosity. Individuals who are more religious will be most likely to comply with Islamic dealings when it comes to the acquisitions of Islamic products. This comes similar to the results of the single category model 1 of section: 9.3.1.1 Religiosity. The result comes supporting the hypothesis. This is not surprising since I have already concluded that level of religiosity has statistically significant explanatory power in explaining the acquisition of Takaful insurance policy. The results also shows that gender control variable has the coefficient ‘B’ of (.549) and it correlate positively with the usage of Takaful policy. This means that men are more likely to purchase Takaful insurance policy than female.

Model 2 shows that four predictors are included in the equation (*Iman*, *Ibada*, gender and location control variables). The coefficient ‘B’ under *Iman* is equal to -.333 and this means that given an increase of *Iman* by one unit, I can expect the log odds (or ‘logit’) of purchasing conventional insurance policy to decrease by -.333, controlling for nationality and gender.

The standard error *Iman* is equal to .096. Based on the p-value of .001, I have evidence to suggest that the ‘B’ coefficient is not equal to 0 in the population. Thus, I have evidence to suggest that *Iman* after controlling for nationality and gender predicts the response variable better than chance alone. None adhering to Islamic rules seems correlation with the purchase of conventional insurance policy. This comes similar to the results of the single category model 2 of section: 9.3.1.1 Religiosity. Although *Sunan* was included in the equation of the mentioned model. The results show that male and UK respondents are more likely to purchase conventional insurance than female and KSA respondents.

**Table 9.8 Two-Category Model (B): Religiosity plus Control Variables**

	Dependent Variables	
	(1) Considering Takaful	(2) Considering Conventional
<b>Independent Variables</b>		
<b>Iman (Belief)</b>	<b>.168</b>	<b>-.617***</b> (.162)
<b>Avoiding Haram</b>	<b>-.405***</b> (.133)	<b>-.229***</b> (.090)
<b>Sunan (Prophet Muhammad's teaching)</b>	<b>.259***</b> (.108)	<b>.567***</b> (.114)
<b>Ibada (worship)</b>	<b>.736</b>	<b>2.921</b>
<b>Islamic Knowledge</b>	<b>.360***</b> (.102)	<b>3.241</b>
<b>Constant</b>	<b>-.278</b> (.106)	<b>-1.039</b> (.111)
<b>Control Variable</b>		
<b>Gender Control</b>	<b>1.255</b>	<b>2.993</b>
<b>Location Control</b>	<b>.212</b>	<b>.742</b>
<b>-2 Log likelihood</b>	<b>544.522</b>	<b>566.577</b>
<b>Cox &amp; Snell R<sup>2</sup></b>	<b>.057</b>	<b>.077</b>
<b>Nagelkerke R<sup>2</sup></b>	<b>.077</b>	<b>.116</b>
<b>Hosmer and Lemeshow Chi Square</b>	<b>34.669***</b>	<b>52.099***</b>
<b>Number of cases processed</b>	<b>425</b>	<b>560</b>

The results from Table 9.8 above show that the regression models have significant Chi-square. As Nagelkerke R<sup>2</sup> values in both models are higher than Cox & Snell R<sup>2</sup> values which show goodness of fit. Model 1 in table 9.8 above shows that there are only three predictors included in the equation (Avoiding haram, Sunan and Islamic knowledge). Avoiding haram has the largest b-value (-.405). However, it correlates negatively with considering Takaful. This means that it is less likely to consider Takaful if level of avoiding haram increases. This is surprising. But this could be explained that large segments of Muslims consider insurance as a whole as haram. They believe that *Al-Ajl min Allah* (death is from Allah) *Al-Rizq min Allah* (provisions are from Allah) and *Al-Tawakkul ala Allah* (fatalism). All of these are fixed by Allah (SWT). From here comes their disapproval of insurance products and especially life plans. On the other hand, Islamic knowledge and Sunan correlate positively with considering purchasing Takaful products.

Model 2 shows that three predictors are included in the equation (Iman, Avoiding Haram, and Sunan). Iman has the highest coefficient 'B' value -.617 and this means that given an increase of Iman by one unit, I can expect the log odds (or 'logit') of considering purchasing conventional insurance policy to decrease by -.617. Avoiding Haram



correlates negatively with considering purchasing conventional products. This is not surprising since level of religiosity affected earlier the acquisition of conventional insurance policy. Sunan on the other hand correlated positively again this might be justified that Sunan practised by Muslims whom their level of religiosity is low are Muslims who seek the praise of the people and wanting to be known.

### 9.3.2.2 Awareness plus Control Variables

**Table 9.9 Two-Category Model (A): Awareness plus Control Variables**

	Dependent Variables	
	(1) Takaful Holder	(2) Conventional Holder
<b>Independent Variables</b>		
Islamic Insurance Products	-.675*** (.077)	.256
Islamic Finance Products	-.572*** (.072)	.227
Constant	.201*** (.069)	.387** (.200)
<b>Control Variable</b>		
Gender Control	.756*** (192)	.551*** (.205)
Location Control	-.352** (157)	-2.119*** (150)
-2 Log likelihood	1210.484	1106.860
Cox & Snell R <sup>2</sup>	.169	.207
Nagelkerke R <sup>2</sup>	.226	.280
Hosmer and Lemeshow Chi Square	5.848	22.245***
Number of cases processed	1014	996

Table 9.9 above shows summary statistics of two category logistic regression models each model has different dependent variable. From comparing -2 Log likelihood values of both models to that of the 'constant-only' models, it can be noted that with the inclusion of the 2 predictors each, the -2 Log likelihood values has decreased. Thus, it reflects a potential gain in model fit. The Nagelkerke R-square values are higher than Cox & Snell R Square. Thus the models predict the fits well. This shows that model is statistically significant. The Hosmer and Lemeshow Test of the model 1 is not statistically significant, suggesting that the probabilities of predicted vs. observed do match up as nicely as it is desired. In sum, the Hosmer and Lemeshow Test in this case suggest that the model fit is as good as I would like it to be. The opposite results reached with Model 2.

Model 1 shows that all predictors are included in the equation (Islamic Insurance Products, Islamic Finance Products, and gender and Location control variables). The coefficient 'B' under gender is the highest (.756) and this means that given an increase of male by one unit, I can expect the log odds of purchasing of Takaful insurance policy to increase by .756. This shows that males are more likely to purchase Takaful policies than females. This might be a reflection of the sample distribution as more males had responded to survey than females. Location correlates negatively with Takaful Holders. This means that UK respondents are more likely to purchase Takaful insurance than KSA respondents. Islamic Insurance Products and Islamic Finance Products both correlate negatively with holding Takaful policies. This makes sense that lack of awareness of Islamic finance and insurance products will result in lower Takaful holders.

Model 2 shows only control variables are included in the equation. The coefficient 'B' under Islamic Insurance Products is the highest (.551). This shows those males are more likely to purchase conventional products than females. This again might reflect sample distribution as more males had responded to survey than females. The results also show that UK respondents are more likely to purchase conventional policies. This came with no surprise as there are no Takaful insurance companies in the UK.

**Table 9.10 Two-Category Model (B): Awareness plus Control Variables**

	Dependent Variables	
	Considering Takaful	Considering Conventional
<b>Independent Variables</b>		
<b>Islamic Insurance Products</b>	<b>2.573</b>	<b>.235</b>
<b>Islamic Finance Products</b>	<b>2.097</b>	<b>.109</b>
<b>Constant</b>	<b>-.101</b> (.170)	<b>-.437**</b> (.198)
<b>Control Variable</b>		
<b>Gender Control</b>	<b>2.395</b>	<b>3.102</b>
<b>Location Control</b>	<b>-.496***</b> (.206)	<b>-.950***</b> (.228)
<b>-2 Log likelihood</b>	<b>610.009</b>	<b>633.745</b>
<b>Cox &amp; Snell R<sup>2</sup></b>	<b>.012</b>	<b>.027</b>
<b>Nagelkerke R<sup>2</sup></b>	<b>.017</b>	<b>.041</b>
<b>Hosmer and Lemeshow Chi Square</b>	<b>.000</b>	<b>.000</b>
<b>Number of cases processed</b>	<b>460</b>	<b>597</b>

Table 9.10 above shows that the Nagelkerke R-square values are higher than Cox & Snell R Square values. Thus, the models predict the fits well. This shows that model is statistically significant. The Hosmer and Lemeshow Test value of both models strangely

is (.000). If the Hosmer and Lemeshow goodness-of-fit test statistic is greater than .05, it fails to reject the null hypothesis that there is no difference between observed and model-predicted values, implying that the model's estimates fit the data at an acceptable level. That is, well-fitting models show non significance on the goodness-of-fit test, indicating model prediction that is not significantly different from observed values (The Applied Educational Research Scheme).

Model 1 and 2 shows that there is only one predictor included in the equation (Location control variable). In Model 1 the coefficient 'B' of location is (-.496) and this means that given an increase of location by one unit, I can expect the log odds of purchasing Takaful insurance policy to decrease by -.496. This shows that UK respondents are more likely to consider purchasing Takaful policies than KSA respondents. In Model 2 the coefficient 'B' of location is (-.950) and this means that given an increase of location by one unit, I can expect the log odds of purchasing Takaful insurance policy to decrease by -.950. This shows that UK respondents are more likely to consider purchasing conventional policies than KSA respondents. This is related with the descriptive analysis included in Chapter 7 that those respondents who replied 'no' to having either a Takaful or a conventional policy were asked whether they had considered acquiring such a policy. About half (46%) of the UK respondents without Takaful had considered (but presumably rejected or deferred) buying a Takaful insurance policy, while about one third (34%) of the KSA respondents without Takaful had considered such a policy. Of the KSA respondents without a conventional policy, as many as 80% had not considered acquiring such a policy, while only 61% of the UK respondents without a conventional policy had not considered such a policy.

### 9.3.2.3 Perception plus Control Variables

**Table 9.11 Two-Category Model (A): Perception plus Control Variables**

	Dependent Variables	
	(1) Takaful Holder	(2) Conventional Holder
<b>Independent Variables</b>		
Conventional insurance products	1.374	.605*** (.127)
Conventional insurance companies	.222	1.127
Takaful insurance products	.014	-.354*** (.120)
Takaful insurance companies	.416*** (.095)	.103
Constant	.789*** (.091)	.387** (.200)
<b>Control Variable</b>		
Gender Control	.274	-1.532*** (.469)
Location Control	.002	-1.764*** (.197)
-2 Log likelihood	707.696	637.744
Cox & Snell R <sup>2</sup>	.034	.248
Nagelkerke R <sup>2</sup>	.047	.330
Hosmer and Lemeshow Chi Square	15.808**	17.994**
Number of cases processed	584	579

Table 9.11 above shows that the Nagelkerke R-square values are higher than Cox & Snell R Square values. This shows that model is statistically significant. The Hosmer and Lemeshow Test in both models are statistically significant ( $p < .05$ ), suggesting that the probabilities of predicted vs. observed do not match up as nicely as it is desired. In sum, the Hosmer and Lemeshow Test in this case suggest that the model fit is not as good as I would like it to be.

Model 1 shows that only Takaful insurance companies predictor is included in the equation. Takaful insurance companies has a coefficient 'B' of (.416) and this means that given an increase of Takaful insurance companies by one unit, I can expect the log odds of purchasing Takaful insurance policy to increase by .416. This shows how Takaful insurance companies matters to Muslim consumers when coming to Purchasing Takaful policies. This result is identical to the single category model 1 in section 8.3.1.3 Perception.

Model 2 shows that four predictors (Conventional insurance products, Takaful insurance products, and gender and location variables) are included in the equation. Location has the higher coefficient 'B' (-1.764) followed by gender (-1.532). Location and gender correlate negatively with conventional holder. This means that female and UK respondents are more likely to purchase conventional policy than male and KSA respondents. Takaful Insurance Products correlates negatively with holding conventional policies. As argued in section 8.3.1.3 Perception that this could be explained that Muslims conventional insurance holders perceive conventional insurance products highly. Consumers who hold knowledge of different conventional products and holds positive view of the different products and are more likely to buy conventional insurance products. This shows that the quality of the products plays higher role in consumer acquisition of conventional insurance products.

**Table 9.12 Two-Category Model (B): Perception plus Control Variables**

	Dependent Variables	
	(1) Considering Takaful	(2) Considering Conventional
<b>Independent Variables</b>		
Conventional insurance products	3.058	1.133
Conventional insurance companies	.019	.274
Takaful insurance products	1.406*** (.333)	.846
Takaful insurance companies	-1.092*** (.303)	-.387*** (.142)
Constant	.006 (.231)	-.259 (.243)
<b>Control Variable</b>		
Gender Control	.442	.119
Location Control	-.777*** (.327)	-.897*** (.300)
<b>-2 Log likelihood</b>	222.523	340.560
<b>Cox &amp; Snell R<sup>2</sup></b>	.145	.045
<b>Nagelkerke R<sup>2</sup></b>	.195	.064
<b>Hosmer and Lemeshow Chi Square</b>	13.646**	21.218***
<b>Number of cases processed</b>	184	292

Table 9.12 above shows that the Nagelkerke R-square values are higher than Cox & Snell R Square values. This shows that model fit adequately well. The Hosmer and Lemeshow Test in both models are statistically significant, suggesting that the probabilities of predicted vs. observed do not match up as nicely as it is desired. In sum,

the Hosmer and Lemeshow Test in this case suggest that the model fit is not as good as I would like it to be.

Model 1 shows that three predictor are included in the equation (Takaful insurance products, Takaful insurance companies and location control variable). Takaful insurance products has the higher coefficient 'B' (1.406) and this means that given an increase of the perception of Takaful insurance products by one unit, I can expect the log odds of considering Takaful insurance policy to increase by 1.406. This shows how Takaful insurance products matters to Muslim consumers when considering purchasing Takaful policies. Takaful insurance companies correlates negatively with considering Takaful. This might be justified that companies matters less for consumers than the products it self. Location correlates negatively as well. This means that UK respondents are more likely to consider purchasing Takaful.

Model 2 shows that two predictors (Takaful insurance companies and location variable) are included in the equation. Location has the higher coefficient 'B' (-.897). Location correlates negatively with conventional holder. This means that UK respondents are more likely to consider purchasing conventional policy than KSA respondents. Takaful insurance companies predictor also correlates negatively with conventional holders. The result of the second predictor is not surprising as is if Takaful insurance companies are perceived low the higher the chances to consider conventional insurance.

### **9.3.3 Three-Category Logistic Regression Model**

In this section, I use four three explanatory categories models to test Hypothesis 7, and 8. In each case, one of the categories is represented by the control variables of country and gender, and it is assumed that the response variable is influenced only by the control variables and two of the other explanatory categories. Here acquisition of Takaful policies is influenced by religiosity, awareness and control variables (gender and location). Also the acquisition of Takaful policies is influenced by religiosity, perception and control variables (gender and location). Hence to test hypothesis 7 that as the level of religiosity rises, the acquisition of Takaful policies rises. I am assuming that religiosity level among Muslims is not the only factor that predicts the acquisition of Takaful. The other factor is the control variable (gender and location) and perception/awareness.

In the three explanatory categories case, regression models are those models that are limited to three criteria, responses, dependents, or outcome variables. This type of analysis also leads to possibilities of cross terms, meaning there is some effect of being male and acquire a certain insurance policy vs. being female and having a certain insurance policy. The following section shows the analysis of three explanatory categories models of religiosity + awareness + control variables, and religiosity + perception + control variables.

### 9.3.3.1 Religiosity plus Awareness plus Control Variables

**Table 9.13 Three-Category Model: Religiosity plus Awareness plus Control Variables**

	Dependent Variables	
	(1) Takaful Holder	(2) Conventional Holder
<b>Independent Variables</b>		
<b>Iman (Belief)</b>	<b>-.213**</b> (.098)	<b>-.357***</b> (.102)
<b>Avoiding Haram</b>	<b>-.386***</b> (.085)	<b>.096</b>
<b>Sunan (Prophet Muhammad's teaching)</b>	<b>.145</b>	<b>.106</b>
<b>Ibada (worship)</b>	<b>.070</b>	<b>-.454***</b> (.093)
<b>Islamic Knowledge</b>	<b>.350***</b> (.080)	<b>-.081</b>
<b>Control Variable</b>		
<b>Gender Control</b>	<b>.564***</b> (.209)	<b>.707***</b> (.218)
<b>Location Control</b>	<b>.163</b>	<b>-1.617***</b> (.228)
<b>Awareness</b>		
<b>Islamic Insurance Products</b>	<b>-.686***</b> (.086)	<b>.074</b>
<b>Islamic Finance Products</b>	<b>-.569***</b> (.081)	<b>-.048</b>
<b>Constant</b>	<b>-.302</b> (.246)	<b>.009</b> (.218)
<b>-2 Log likelihood</b>	<b>1088.973</b>	<b>1007.068</b>
<b>Cox &amp; Snell R<sup>2</sup></b>	<b>.216</b>	<b>.248</b>
<b>Nagelkerke R<sup>2</sup></b>	<b>.289</b>	<b>.334</b>
<b>Hosmer and Lemeshow Chi Square</b>	<b>22.882***</b>	<b>27.432***</b>
<b>Number of cases processed</b>	<b>963</b>	<b>946</b>

Table 9.13 above shows that the Nagelkerke R-square values are higher than Cox & Snell R Square values. This shows that model fit adequately well. The Hosmer and Lemeshow Test in both models are statistically significant, suggesting that the

probabilities of predicted vs. observed do not match up as nicely as it is desired. In sum, the Hosmer and Lemeshow Test in this case suggest that the model fit is not as good as I would like it to be.

Model 1 shows that six/nine predictors are included in the equation (Iman, avoiding haram, Islamic knowledge, gender control variable, Islamic insurance products and Islamic finance products). Islamic insurance products has the higher coefficient 'B' (-.686) and this means that given an increase of the awareness of Takaful insurance products by one unit, I can expect the log odds of purchasing Takaful insurance policy to decrease by -.686. This is followed by Islamic finance products. Both predictors correlate negatively with Takaful holder. Iman and avoiding haram also correlate negatively with Takaful holder. This is not easy to explain as I assume that awareness of the Islamic products and the level of religiosity affect choice and purchase of Takaful. On the other hand, Islamic knowledge correlates positively with Takaful holder. This is consistent with the previous results that show that Islamic knowledge has the greater impact on acquisition of Takaful. Gender correlates positively with Takaful holder which means that male are more likely to purchase Takaful than female. This result is also consistent with the previous results that men are the most acquirer of Takaful.

Model 2 shows that four/nine predictors (Iman, Ibada and gender and location variable) are included in the equation. Location has the higher coefficient 'B' (-1.617) followed by gender (.707). Location correlates negatively with conventional holder. This means that UK respondents are more likely to consider purchasing conventional policy than KSA respondents. Again this is consistent with the results of previous models. Male are more likely to purchase conventional insurance which shows consistency to the previous results. Iman and Ibada correlate negatively with conventional holders which is not surprising as adhering to Islamic teachings affect the usage of conventional insurance.



### 9.3.3.2 Religiosity plus Perception plus Control Variables

**Table 9.14 Three-Category Model: Religiosity plus Perception plus Control Variables**

Independent Variables	Dependent Variables	
	(1) Takaful Holder	(2) Conventional Holder
<b>Iman (Belief)</b>	<b>-.281</b>	<b>-.361***</b> (.130)
<b>Avoiding Haram</b>	<b>-.272***</b> (.103)	<b>.090</b>
<b>Sunan (Prophet Muhammad's teaching)</b>	<b>.064</b>	<b>.167</b>
<b>Ibada (worship)</b>	<b>.323***</b> (.109)	<b>-.631***</b> (.126)
<b>Islamic Knowledge</b>	<b>.426***</b> (.106)	<b>-.386***</b> (.118)
<b>Control Variable</b>		
<b>Gender Control</b>	<b>-.281</b>	<b>-1.563***</b> (.486)
<b>Location Control</b>	<b>.163</b>	<b>-.988***</b> (.318)
<b>Perception</b>		
<b>Conventional insurance products</b>	<b>-.205</b>	<b>.764***</b> (.189)
<b>Conventional insurance companies</b>	<b>.226</b>	<b>-.283</b>
<b>Takaful insurance products</b>	<b>-.041</b>	<b>-.283</b>
<b>Takaful insurance companies</b>	<b>.519***</b> (.143)	<b>.026</b>
<b>Constant</b>	<b>.929**</b> (.373)	<b>1.854***</b> (.495)
<b>-2 Log likelihood</b>	<b>651.649</b>	<b>577.419</b>
<b>Cox &amp; Snell R<sup>2</sup></b>	<b>.108</b>	<b>.314</b>
<b>Nagelkerke R<sup>2</sup></b>	<b>.152</b>	<b>.418</b>
<b>Hosmer and Lemeshow Chi Square</b>	<b>34.631***</b>	<b>51.721***</b>
<b>Number of cases processed</b>	<b>577</b>	<b>572</b>

Table 9.14 above shows that the Nagelkerke R-square values are higher than Cox & Snell R Square values. This shows that model fit adequately well. The Hosmer and Lemeshow Test in both models are statistically significant, suggesting that the probabilities of predicted vs. observed do not match up as nicely as it is desired. In sum, the Hosmer and Lemeshow Test in this case suggest that the model fit is not as good as I would like it to be.

Model 1 shows that four/eleven predictors are included in the equation (Avoiding haram, Ibada, Islamic knowledge, and Takaful insurance companies). Takaful insurance companies has the higher coefficient 'B' (.519) and this means that given an increase of

the perception of Takaful insurance companies by one unit, I can expect the log odds of purchasing Takaful insurance policy to increase by .519. This is followed by Islamic Knowledge. Takaful insurance companies, Islamic Knowledge and Ibada correlate positively with Takaful holders. This shows that perception of Takaful companies is important to Muslim consumer and their purchase of Takaful policies. Islamic knowledge serves an important factor toward purchasing Takaful policies. Avoiding haram appears negative, which this follow the same argument that mentioned in two category Model 1 section 8.3.2.1 Religiosity plus Control Variables.

Model 2 shows that six/eleven predictors (Iman, Ibada, Islamic knowledge, gender and location variables, and conventional insurance products) are included in the equation. Gender has the higher coefficient 'B' (-1.563) followed by location (.988). Both correlate negatively with conventional holder. This means that female and UK respondents are more likely to consider purchasing conventional policy than male and KSA respondents. The result of location is consistent with the results of previous models. Iman, Ibada, Islamic knowledge correlate negatively which came with no surprise and support hypothesis 7 and 8. Conventional insurance products correlate positively with conventional holders which is not surprising as perception of conventional products matter to Muslim consumer.

#### **9.3.4 Full Logistic Regression Model**

In this section, I use two full models to test Hypothesis 7, and 8. The term "full model" assumes that the response variable is influenced by all the explanatory categories (and even combinations of categories). I assume here that the acquisition of insurance policies is influenced by religiosity, perception, awareness and gender and location control variables. Hence to test hypothesis 7 and 8 that as the level of religiosity rises, the acquisition of Takaful policies rises.

In the full model case; as I am applying logistic regression, regression models are those models that are limited to multiple criterion, response, dependent, or outcome variable. Full regression models can be expressed mathematically as multiple regression functions. This full model deals with multiple predictor variables. The following section shows the analysis of two full models: religiosity + awareness + perception + control variables.

### 9.3.4.1 Religiosity plus Awareness plus Perception plus Control Variables

**Table 9.15 Full Logistic Regression Model**

	Dependent Variables	
	(1) Takaful Holder	(2) Conventional Holder
<b>Independent Variables</b>		
Iman (Belief)	-.180	-.332** (.131)
Avoiding Haram	-.269* (.107)	.110
Sunan (Prophet Muhammad's teaching)	-.065	.116
Ibada (worship)	.214	-.649*** (.128)
Islamic Knowledge	.416*** (.113)	-.380*** (.121)
<b>Control Variable</b>		
Gender Control	-.317	-1.539*** (.485)
Location Control	.247	-.956*** (.322)
<b>Awareness</b>		
Islamic Insurance Products	-.622*** (.122)	-.172
Islamic Finance Products	-.404***(.115)	-.007
<b>Perception</b>		
Conventional insurance products	-.251	.744*** (.191)
Conventional insurance companies	.084	-.318* (.190)
Takaful insurance products	-.091	-.295* (.165)
Takaful insurance companies	.519*** (.148)	.019
Constant	.852* (.397)	1.792*** (.494)
-2 Log likelihood	607.122	575.368
Cox & Snell R <sup>2</sup>	.175	.316
Nagelkerke R <sup>2</sup>	.245	.422
Hosmer and Lemeshow Chi Square	40.951***	27.207***
Number of cases processed	577	572

Table 9.15 above shows that the Nagelkerke R-square values are higher than Cox & Snell R Square values. This shows that model fit adequately well. The Hosmer and Lemeshow Test in both models are statistically significant, suggesting that the probabilities of predicted vs. observed do not match up as nicely as it is desired. In sum, the Hosmer and Lemeshow Test in this case suggest that the model fit is not as good as I would like it to be.

Model 1 shows that five/thirteen predictors are included in the equation (Avoiding haram, Islamic knowledge, and Islamic insurance products, Islamic finance products, and Takaful insurance companies). Islamic insurance products have the higher coefficient 'B' (-.622) this is followed by Takaful insurance companies. Islamic insurance products and Islamic finance products correlate negatively with Takaful holder and this is consistent with the results of the single category, two category and three explanatory categories models. Takaful insurance companies, correlate positively with Takaful holder. This is again consistent with the results of the single category, two category and three explanatory categories models. Avoiding haram and Islamic knowledge are also consistent with the results of the single category, two category and three explanatory categories models.

Model 2 shows that eight/ thirteen predictors (Iman, Ibada, Islamic knowledge, gender and location variables, conventional insurance products, conventional insurance companies, and conventional insurance products) are included in the equation. Gender has the higher coefficient 'B' (-1.539) followed by location (.956). Both correlate negatively with conventional holder. This means that female and UK respondents are more likely to consider purchasing conventional policy than male and KSA respondents. The result of location is consistent with the results of previous models. Iman, Ibada, Islamic knowledge correlate negatively which came with no surprise and support hypothesis 7 and 8. Conventional insurance products correlate positively with conventional holders which is not surprising as perception of conventional products matter to Muslim consumer. This is again consistent with the results of the single category, two category and three explanatory categories models.

### 9.3.5 Correlation Between Religiosity as a Multi-dimensional Measure and All Variables

**Table 9.16 Correlation Matrix of All Variables**

	T.H	C.H	Cn.T	Cn.C	Iman	Avoidin g Haram	Sunan	Ibada	Islamic K.	Male vs. Female	Saudi vs. UK	Awareness: Islamic I.P	Awareness: Islamic F.P	Perception C.P	Perception C.C	Perception T.C	Perception T.P
Takaful Holder	1.000																
Conventional Holder	.351***	1.000															
Considering Takaful	.281**	.069	1.000														
Considering Conventional	-.155	.076*	.596**	1.000													
Iman	-.039	-.208**	.115	.294***	1.000												
Avoiding Haram	-.0291*	.154	.053	.134	.013	1.000											
Sunan	-.132	.071	.080	-.098	.148**	.003	1.000										
Ibada	.091	-.208***	.003	.062	.016	.033	-.071-*	1.000									
Islamic Knowledge	.266***	-.147***	.106***	.164*	-.104-**	.030	.032	-.027-	1.000								
Male vs. Female	-.332	-.029***	-.029	.227**	-.176-**	-.115-**	-.208-**	.225**	.064*	1.000							
Saudi vs. UK	-.313***	-.021***	-.021**	-.037***	.464**	.186**	-.344-**	.389**	-.136-**	.008	1.000						
Awareness: Islamic I.P	.218**	-.131**	.131	-.227**	.097**	.072*	-.351-**	.118**	.011	.095**	.336**	1.000					
Awareness: Islamic F.P	.102	.087***	.056	.269***	-.042-	-.106-**	.081*	-.233-**	-.204-**	-.148-**	-.173-**	-.038-	1.000				
Perception C.P	-.243	.543***	.135	.077	.034	-.113-**	.169**	-.275-**	.070	-.124-**	-.266-**	-.352-**	.114**	1.000			
Perception C.C	.087	.871	.091	.123	.164**	-.042-	.140**	-.210-**	.077*	.029	-.156-**	-.290-**	-.024-	.742**	1.000		
Perception T.C	-.071	.123	-.215**	-.568**	.104**	.093*	.219**	-.113-**	.132**	-.048-	-.101-**	-.273-**	-.096-**	.397**	.399**	1.000	
Perception T.P	.341***	-.091**	.345***	.030	.162**	.034	.195**	-.109-**	.159**	-.037-	-.146-**	-.301-**	.009	.467**	.475**	.687**	1.000

Table 9.16 shows the correlation matrix of all variables. Spearman's rho correlations method was used. It can be concluded that there is a significant relationship between Takaful holder and Islamic knowledge, UK respondents, awareness of Islamic insurance products and perception of Takaful products. This result is supporting the outcome of the regression models.

There is also a significant relationship between Conventional holder and Iman, Ibada, Islamic knowledge, female respondents, UK respondents, awareness of Islamic insurance products, awareness of Islamic finance products, perception of conventional product and perception of Takaful products. This again supports the outcome of the regression models. Therefore, hypothesis 7 and 8 are supported.

## **9.4 Summary**

The phase of the analysis used in this chapter is forward stepwise logistic regression. This study is the first on the field and there is not previous studies have used the same variables. Forward stepwise was selected in this analysis to enter only the reliable predictors. In this chapter, religiosity, awareness, perception, gender and location variables were used to investigate whether there are any systematic explanations for choices between Takaful and conventional insurance policies. The results reported in this chapter show some interesting results. Religiosity Single Category Model shows that the main factors that influence Takaful usage are Islamic Knowledge, Ibada and Sunan. And that the low levels of Iman and Ibada are the main factors that influence conventional usage. Overall, it was found similarly in all models that the purchase of Takaful policies was associated with greater knowledge of Islam, while purchase of conventional policies was associated with low adherence to Islamic practises. Male respondents report the use of Takaful and conventional policies. Although that the Full Model reports the opposite. UK respondents report the use of conventional policies. This result is not consistent with the surprising result of Chapter 8 that UK respondents report the use of Takaful policies. The main justification to this is as these respondents may believe that Takaful is the Islamic version of insurance, and that necessity permits Muslims, when there is no Sharia-compliant alternative, to follow practises that strictly are haram (Billah, 2001). Thus, they would regard their conventional insurance policies as being, in effect, Takaful. The results from this chapter show that there is no systematic misidentification of conventional policies as Takaful.

In terms of the hypotheses, as shown in the previous chapter, Hypothesis 7 and 8 is generally supported. It has been found that there is a significant relationship between acquiring/considering a Takaful product and the level of religiosity among Muslims. Hypothesis 8 is also supported. Religious motives were found, as in the previous chapter, to be an important factor in explaining Muslims choice between Takaful insurance and conventional insurance. Degrees of awareness of Islamic insurance and finance products were not an important factor in explaining Muslims choice of Takaful insurance, but it was a factor in explaining conventional insurance. Level of perception of Takaful insurance companies is the only predictor of perception scale that explains Muslim choice of Takaful policies. However level of perception of insurance companies and products were important factor in explaining Muslims choice of conventional insurance.

## **CHAPTER TEN: CONCLUSIONS AND RECOMMENDATIONS**

### **10.0 Introduction**

This empirical study has attempted to identify the conceptual and operational differences between Takaful and conventional general insurance, investigate the extent to which Takaful products are distinctive in substance from conventional insurance products and test the effect of the level of religiosity on usage of insurance policies with a view to expanding the body of knowledge in Islamic finance, as this study is considered to be a first in this research area. At the causality level, the results reported in the preceding two chapters provide support for the conclusions of earlier studies that indicate religiosity as a significant factor that affects Muslim consumers' choice of financial products.

This chapter provides an overview of the entire study, summarises and draws conclusions on the main findings of the study, and discusses their implications for the literature as well as the limitations of the study. It also suggests some recommendations for future research endeavours and recommends refinements to related policies in existence, and also outlines interested parties that would benefit from this research. Concluding remarks is provided at the end of this chapter.

### **10.1 Summary of the Thesis**

This section provides a summary and an overview of this thesis. Chapter 1 briefly introduces Takaful and Conventional insurance. Takaful is considered as the Islamic alternative to conventional insurance which its concept based on taking care of one's needs against loss or damage. As the name implies, Takaful is an insurance that is 'Islamic', in other words it has to conform to Sharia law. Whereas, conventional is a term which the Islamic finance specialists use for non-Islamic financial services such as banking and insurance. Conventional insurance is the non-Islamic version that is basically a contract in the form of a sale and purchase agreement concerning the insurer and the insured. Conventional insurance is considered unacceptable from an Islamic point of view because it contains prohibited elements that do not comply with Sharia rules. The overall research aim, research objectives, and research questions were discussed in that chapter. A major focus of this study was to compare between Takaful general insurance and conventional general insurance and explore the major differences



between the two models. In addition, the study investigated the effect of the religiosity factor on Muslim consumers' choice of Takaful and conventional insurance products.

In order to achieve the objective of establishing the current state of knowledge with respect to the key features of the study, the relevant literature and empirical findings from past studies were reviewed. I used a questionnaire survey to answer the empirical set of research questions. On the other hand, conceptual and producer-oriented questions were answered through literature review and interviews. The concept of focused literature research was employed to ensure that the study can be completed within a reasonable time frame. In addition, searches were made through a broad base of electronic and traditional databases and libraries to ensure that the literature search process was rigorous and extensive. Most of the text has concentrated on the theoretical part of this issue, ranging from the development of an appropriate insurance structure that fulfils Islamic principles and highlighting core theoretical and operational differences between Takaful and conventional insurance.

The review of the relevant literature was presented in three chapters: chapter 2, 3 and 4. Chapter 2 presented an introduction to the essence of Islam and the main sources of Islamic values and beliefs. A wide angle on the historic development of the Islamic economic system was examined. This examination took the reader from Prophet Muhammad's mission of spreading Islam to the spreading of Medieval Islamic economic ideology from East to West. Every community has its own unique values, which are generally affected by various factors, such as religion, demography and culture. The needs of individuals differ from one community to another depending on these values and ethics. Theoretically Muslim society as a whole has a typical set of financial needs which are resultant from Islamic principles. One of the vital concerns in examining Islamic finance is to understand how Islamic religious rulings affect business operations in a commercial setting. According to Islamic teaching, the existing western financial services and activities are not Islamic because they include certain financial activities which are prohibited. Therefore it was felt necessary to visit the Islamic Socio-economic Principles alongside with Economic Scenario in the Neoclassical Framework. Muslims' growing awareness of the application of Islamic principles to the financial system has led to the recent development of Islamic finance services and activities. The principles, features and philosophy upon which Islamic finance operates were discussed in detail, especially the strict ban on *Riba* (interest or usury). Spiritual, social and economic

grounds are clearly the reasons for the prohibition on *riba* in Islamic Sharia. The prohibition of interest in other old religions was examined. The prohibition of *Gharar* and *Maisir* were also examined. Nevertheless, building a sound and efficient economic base and assuring the stability of the financial system must have more than the religious factor. Therefore, a criticism of Islamic finance was provided at the end of this chapter.

Chapter 3 examined the conceptual and operational Differences between Takaful and conventional general insurance. This Chapter introduced insurance and Takaful insurance. The origin and history of insurance goes back to the Babylonian era where it provided protection against loss from certain risk. However, nowadays, it is also used as an investment and estate planning tool. The word Takaful does not appear in the Qur'an as the case in Sunnah, however it is derived from the term Ta'awun or mutual assistance which consists the same meaning. Takaful insurance is nearly as old as the Islamic banking system and dates back to 1979 and it is perceived as cooperative insurance. The 'donation system' is the main heart of the Takaful system. On the other hand, conventional insurance is defined as a contract of exchange in the form of a sale and purchase agreement, between the insurers or company who sells and the insured or policyholder. A critical review of the concept of insurance was included to help finding and understanding if insurance is acceptable or unacceptable in Islam which then found to be supported by Islamic evidence from the Qur'an, *Sunnah* and Islamic history. Reflection of some examples of the extant practises by Muslims that carry the meaning of Takaful and the concept of cooperation among a group of people such as Diya, Acqela and Qasama were examined. Relevant contracts for Takaful were examined. Mudharabah, Wakalah, and hybrid model are most used contracts in Takaful. The main features of Takaful insurance are divided into three elements: cooperative risk-sharing, clear financial segregation between the interests of the Participants and the Operator, and Sharia-compliant underwriting policies and investment strategies. Reinsurance and ReTakaful were discussed and a list of the current existing ReTakaful operators was included. Finally, the differences between insurance and hedging were touched upon.

Chapter 4 presented the theoretical and conceptual framework and a model which forms the basis of the study. The current literature on religion and religiosity in the context of consumer behaviour were reviewed. These perspectives are key features of the present research into the influence of religiosity on consumer choice and perspective of insurance policies. Existing measures of Islamic religiosity were critically reviewed.

Operationalizing religiosity was explained. The model of Glock and Stark (1965) has been the main model employed either partly or completely in different fields. In this study, the Glock and Stark (1965) model of religiosity has been extended and developed. One item combines the overall belief associated with Islamic religion, the practicality of Islamic religion and the importance of Islamic religion (ideological, experiential and consequential dimensions). The second item consists of the actions prescribed by Islamic religion and individuals' knowledge about Islamic religion (ritualistic and intellectual). New religiosity statements were formulated that would capture the meaning of each dimension. These statements are considered to be more detailed and in relation with the Islamic religion in particular. Religiosity was used, together with other variables, to investigate whether there are any systematic explanations for choices between Takaful and conventional insurance policies. The background on Muslims and Islam in UK and KSA and the key differences that might lead to differences in perceptions and choices regarding insurance were discussed.

The purpose of Chapter 5 was to explain the methodological aspect of this study. In this chapter, the research methodology including paradigm, hypotheses and method of the study, data collection process, survey instrument, sampling process and fieldwork management were presented in detail. The survey method was chosen as the most appropriate data collection technique. Structured interview were devised for the insurers in order to investigate the extent to which Islamic products are distinctive in substance from conventional products, and also to understand the conceptual and operational differences between Takaful and conventional general insurance. A structured questionnaire developed based on the customer-oriented questions. Most of the variables, with the exception of demography, were measured using the five-point Likert scale. The rest were measured using yes/no questions and two-point Likert scale. The questionnaire was produced in two versions, English and Arabic. The translation process was carried out using the back-translation procedure. This method ensures that any problems with language equivalency can be identified and resolved. Both versions were then pilot tested in order to examine its clarity and relevance to the purpose of the research, which resulted in some modifications to the questions. This chapter goes on to discuss the research design and the study population. 1106 respondents of UK and KSA Muslims were secured for statistical analysis. This chapter goes on to discuss the analytical techniques for the purpose of quantitative data analysis. The statistical techniques employed in this study for analysing the survey data are contained in the Statistical

Package for the Social Science (SPSS) version 19. Theoretical assumptions underpinning the research methodology were discussed. Procedures and assumptions pertaining to descriptive statistics, factor analysis, correlations logistic regression and normality distribution techniques used in this study were discussed.

The empirical chapters were presented in four chapters: Chapter 6, 7, 8 and 9. Chapter 7 presents the results of the used three methods as a triangulation technique: literature review, the coding and thematic analysis conducted with the data gathered through structured interviews and comparison of insurance policies documents. The results answer the two producer-oriented research questions in this study. The literature summary included in this chapter is related to these two research questions. The sample of the interview included various stakeholders, which included insurers of both Takaful and conventional industry, and Sharia and Islamic finance specialists. Four insurance policies documents were looked at, two of Life insurance and the other two of general insurance each consist of one from Takaful insurance company and other from conventional insurance company. A critical examination of the difference between Takaful and conventional insurance policies was undertaken. This highlighted the major differences and similarities between both insurance models.

Chapter 7 provided an overview of the descriptive analysis of the data, discussed the respondent's demographic dimensions. This Chapter focused on four issues: awareness, attribute salience, perceptions and usage that answers the following four research questions: 1. How far are Muslims aware of Islamic financial products (including Takaful)? 2. What do Muslims consider to be the most important attributes of financial products? 3. How do Muslims perceive Takaful and conventional insurance products? 4. What types of insurance products do Muslims consider and actually buy? This Chapter was followed by Chapter 8 that looked at religiosity ("R-index") as an overall measure and the relationship between the R-index and demographic data. Then this was followed by factor analysis of the main variables of this study. Mean values and t-test of sub-concepts of religiosity, awareness and perception amongst different sub-groups were presented. The final section of this chapter discussed the empirical results of normality in this research suggesting a satisfactory degree of no evidence of multicollinearity. As a result of series of tests I have reached a conclusion that a multi-dimensional religiosity measure gives better explanation and depth than uni-dimensional measure.

Chapter 9 investigated whether there are any systematic explanations for choices between Takaful and conventional insurance policies and identified the factors influencing customers' actual choice between Takaful and conventional insurance. The start of the chapter discussed the scale measures and variables used in the analysis. The analyses of the usage of Takaful and conventional products were done through four main approaches: first, usage is explained by reference to single explanatory categories (religiosity, awareness, perception), then control variables for gender and location are added. The third approach involved religiosity together with each of the two explanatory categories as well as control variables, and the fourth approach involved all three explanatory categories together with control variables. In addition, whether subjects are considering Takaful or conventional products is analysed by reference to single explanatory variables together with gender and location controls. There are six models using single explanatory categories, twelve models using single explanatory categories plus controls, four models using religiosity together with one of the other two explanatory categories and controls, and two models using all three explanatory categories plus controls. This chapter ends with a correlation analysis of all variables. Limitations and recommendations are discussed later in this chapter.

## **10.2 Discussion of Findings**

This study has advanced an understanding and analysis of the conceptual and operational differences between Takaful and conventional general insurance. In addition, it has gained an insight into Islamic financial products and investigated whether Takaful is distinctive in substance as well as in form from conventional insurance. Furthermore, this study has attempted to explore and analyse the myriad of issues of choice of insurance policy in two locations UK (Muslim communities) and KSA and the relationship between acquiring a Takaful policy and the depth of religiosity among Muslims. The aim of this section is to review the major findings of this study. In order to do so each of the research questions is stated, in the same order as it were listed in Chapter One, a chronological order, and the overall answers is provided.

*Q1. What are the conceptual and operational differences between Takaful and conventional general insurance?*

For answering the two conceptual and producer-oriented research questions; question 1 and 2, I have applied a triangulation technique and used three methods; literature review, structured interviews for insurance providers, reviewing insurance policies documents. Takaful is different in concept from conventional insurance. The concept of Takaful is based and supported by Islamic evidence from the Qur'an, *Sunnah* and Islamic history. Ta'awun or mutual assistance is the main concept of Takaful. Takaful is seen as a system based on solidarity, peace of mind and mutual protection which provides mutual financial and other forms of aid to members (of the group) in case of specific need. The *Tabarru'* or donation system is the main heart of the Takaful system. Takaful is also different operationally from conventional insurance. There are three main features and elements of Takaful. First, the cooperative risk-sharing element, by using charitable donations, based on the concept of *Tabarru'*, to eliminate Gharar and Riba. Second, clear financial segregation between the interests of the Participants (insured/insurer) and the Operator (insurance company). Third, underwriting policies and investment strategies should be based on Sharia rulings. Takaful contract is considered to be invalid when any prohibited financial transactions or forbidden activities appear to be involved. Takaful uses one of four Sharia compliant contracts: Musharaka, Mudaraba, Wakala and Hybrid Model.

*Q2. Can Takaful be distinctive in substance as well as in form from its conventional counterparts?*

The findings of the qualitative analysis show that there is no significant distinction in substance between Takaful and conventional insurance products. Takaful could be distinctive in substance if it is designed and managed according to its theoretical concept. However, Takaful operators seemed to be not able to break away from the conventional insurance model. Takaful products may have been influenced by the design and contract wording, even by the strategic marketing, of conventional insurance products. Therefore, the Takaful industry lack creativity and is stuck with renaming existing conventional insurance products instead of creating unique products of its own. Furthermore, the marketing of Takaful insurance products does not adequately explain the distinctiveness of their features from those of conventional products. For instance, Takaful is a profitable product for the providers but this fact is not mentioned explicitly. Hence Takaful is often perceived as unprofitable. Takaful products are not seen as unique products. This is not surprising as conventional insurance industry is older, well established, and more widely

accepted than Takaful. The findings also demonstrate that Takaful providers were in greater agreement with Takaful being marketed more through selling their product features rather than designing their products accordingly to Islamic ethical values. Product differentiation is very important for Takaful to be distinct in substance from conventional insurance products.

*Q3. How far are Muslims aware of Islamic financial products (including Takaful)?*

A quantitative method; questionnaire survey has been used for answering the consumer-oriented research questions: questions 3, 4, 5, 6, 7 and 8. Awareness of Islamic products on the part of respondents varies, with high awareness of general Takaful, much lower awareness of family Takaful, and mixed awareness of other products. This may reflect the relative availability of such products, as family Takaful products are more associated with Malaysia than with either KSA or the UK. An unexpected finding was that respondents in the UK were significantly more aware of family and investment-type Takaful products than respondents in KSA, although there is no significant difference between the two sets of respondents regarding general Takaful. Generally, males were more aware of Islamic financial products than females.

*Q4. What do Muslims consider to be the most important attributes of financial products?*

Respondents were asked to indicate the importance of various factors in assessing Islamic financial products, including factors relating to the provider of the product and factors relating to the specification of the product. The most important factor to the respondents was customer care, with Islamic credibility (that is, compliance with Sharia) coming a close second.

*Q5. How do Muslims perceive Takaful and conventional insurance products?*

In regard to consumers' perception, it was observed that conventional companies are regarded as better known than those offering Takaful. Conventional insurance products are seen as less beneficial. Possibly, respondents took into account the benefits in the hereafter of using Sharia-compliant products as well more 'worldly' benefits such as lower prices – the distinction was clearly drawn by respondents from KSA, but

respondents from the UK did not make a distinction. On the other hand, conventional products were regarded as more profitable and offering greater variety. There were some noteworthy differences between the national sub-samples, with respondents from KSA indicating significantly higher (though not particularly high in absolute terms) satisfaction with Takaful products as compared with conventional products, while UK respondents did not differ in their overall satisfaction scores.

*Q6. What types of insurance products do Muslims consider and actually buy?*

The analysis of the relevant data provided the necessary evidence to argue and conclude that insurance policies were more common in the UK than in KSA. This is to be expected, as there are more contexts in which insurance is required or difficult to avoid in the UK than in KSA. UK respondents report the higher use of Takaful policies which was found to be surprising as Islamic insurance companies have found it difficult to establish themselves in the UK, so the providers of such policies are unclear at present. It has been found that general insurance plans were much more common than family plans in both the UK and KSA. This was consistent with the relative lack of awareness of family Takaful compared with general. Male respondents reported higher percentage in holding Takaful and conventional policies than females. Again, this was not a surprising result, as, particularly in KSA, men are more likely to own assets that they wish to insure than women, and women are less likely to be the primary customers for financial products. General Takaful and conventional policies showed higher popularity amongst male and female than family and life plans.

*Q7. Is there a relationship between acquiring a Takaful policy and the depth of religiosity among Muslims?*

The study measured consumers' level of religiosity, awareness and perception of three sub-groups: Holders of both Takaful and conventional policies, Takaful holders only and conventional holders only. First, religiosity was treated as a uni-dimensional construct, and measured by an unweighted index (scaled to take a value between 1 and 5) derived from responses to 57 questions on religious beliefs and practices included in the questionnaire. It was found that most of the respondents scored highly on the religiosity index, which may imply that Muslims are in general religious, but may reflect biases induced by the way in which the questionnaire was circulated. The respondents were



divided into three groups: “low”, “medium” and “high” religiosity. The respondents in the “high” religiosity group were more likely to avoid insurance altogether, but those with insurance policies were more likely to purchase Takaful. Respondents in the “low” religiosity group were less likely to purchase Takaful, and more likely to purchase conventional insurance policies.

Analysing religiosity as a multi-dimensional construct, five factors were found to explain around 65% of the variation in the overall religiosity index. These factors were in general similar to the factors identified in previous literature using the Glock and Stark model. This provides support for the applicability of the model outside the context of Christianity. The factors were identified as “Iman” (religious belief), “Avoiding Haram” (following religious – Shariah – rules as to what sort of behaviour is required or prohibited), “Ibada” (practices of worship), “Sunan” (following additional religious and other practices encouraged by the life of the Prophet Muhammad), and “Islamic knowledge”). It was found that the level of Iman was high in all sub-groups and avoiding haram factor was relatively high in Takaful holders only and conventional holders’ only sub-groups. Awareness of Islamic finance products and Islamic insurance products were very low in all sub-groups. These results imply that the use of Arabic terms for the products understated awareness, as some respondents might have been aware of the products without knowing what they are called in Arabic and that some respondents might have indicated awareness of product names without necessarily being familiar with the detailed structure of particular products. The overall mean responses of perceptions of Takaful companies, Takaful products, conventional companies, and conventional products seemed sitting on the middle range for all of the three sub-groups. This study found evidence indicating that there is a significant relationship between acquiring and considering a Takaful product and the level of religiosity among Muslims.

*Q8. Why do consumers choose between Takaful insurance and conventional insurance?*

In the second stage of the research, religiosity, awareness, perception, gender and location variables were used to investigate whether there are any systematic explanations for choices between Takaful and conventional insurance policies. The uniqueness of this study lies in the multiple models used to examine the relationship between acquiring a Takaful policy and level of religiosity alongside other factors. There are six models using

single explanatory categories, twelve models using single explanatory categories plus controls, four models using religiosity together with one of the other two explanatory categories and controls, and two models using all three explanatory categories plus controls. The findings, thus, can be summarised as follows: The Religiosity Single Category Model shows that the main factors that influence Takaful usage are Islamic Knowledge, Ibada and Sunan. And that the low levels of Iman and Ibada are the main factors that influence conventional usage. Overall, it was found similarly in all models that the purchase of Takaful policies was associated with greater knowledge of Islam, while purchase of conventional policies was associated with low adherence to Islamic practises. Male respondents were more likely to acquire Takaful and conventional policies than female. However, the opposite was found in the Full Model when female came surprisingly ahead of men in acquiring such policies. UK respondents report the use of conventional policies. Religious motives were found an important factor in explaining Muslims choice between Takaful insurance and conventional insurance. The degrees of awareness of Islamic insurance and finance products were not an important factor in explaining Muslims choice of Takaful insurance, but it was a factor in explaining conventional insurance. The level of perception of Takaful insurance companies is the only predictor of perception scale that explains Muslim choice of Takaful policies. However level of perception of insurance companies and products were important factor in explaining Muslims choice of conventional insurance.

As closure to this discussion, it is useful to review all of the hypotheses put forward as well as the decisions reached as a result of the analyses conducted. It should be remembered that the word “hypothesis” is used in the broad sense of a “guess” about reality, not limited to statements that can be tested using statistical methods. These are simplified and organised in Table 10.1 as follows.

**Table 10.1 The Review of the Study**

<b>Hypothesis</b>	<b>Decision</b>
Hypothesis 1: Insurance operators identify conceptual and operational differences between Takaful and conventional general insurance.	Supported
Hypothesis 2: There is a significant distinction in substance between Takaful and conventional insurance products.	Not supported
Hypothesis 3: Muslims are aware of a range of Islamic financial products, including Takaful.	Supported

<b>Hypothesis</b>	<b>Decision</b>
Hypothesis 4: Muslims are likely to consider compliance with Sharia to be an important attribute of Islamic financial products.	Supported
Hypothesis 5: Muslims' perceptions of Takaful and conventional insurance are not significantly different in the UK and KSA.	Not supported
Hypothesis 6: Usage of Takaful is greater in KSA than in the UK.	Clearly rejected
Hypothesis 7: There is a significant relationship between acquiring a Takaful product and the depth of religiosity among Muslims.	Supported
Hypothesis 8: Religious motives are an important factor in explaining Muslims' choice between Takaful insurance and conventional insurance.	Supported

## 10.3 Research Contributions

This section discusses the theoretical, methodological and practical contributions of the thesis. This thesis provides a complete review of the theories regarding the essence, values of Islam and objective of Sharia in general (e.g. Al-Gazali, 1111 AD, Morgan, 1987, Vogel and Hayes, 1998, Abod, Agil, and Ghazali, 1992,) and the history of the Islamic economic system in particular (e.g. Al-Mawdudi, 1970, Al-Hamadani, 1885, Clover and et al, 1989, Hallaq, 2005, and Heck, 2006). The study contributed to the effect of Islamic religious rulings on business operations in a commercial setting in general and the effect of religion as a cultural element, on Islamic finance in particular (e.g. Al-Mawdudi, 1970, Ahmed, Iqbal and Khan, 1983, Al-Ashqar, 1984, El- Gamal, 2006, Ayub, 2007, and Gait and Worthington, 2007,). The study extended to examining the concept of insurance (e.g. Ibn Khaldun, 1981). The concept of insurance is supported in Islam by evidence from the Qura'n and *Sunnah* and Islamic history. Islamic rules suggest that Roshd should guide Muslims to secure their interests and families against probable accidents or peril in future. This supports one of the insurance cornerstones which is rational behaviour. The Qur'an made very clear the ethics of cooperation among people within the spirit of brotherhood and awareness of the common good and wellbeing. Surety or solidarity results from the concept of cooperation among a group of people and this meaning is well established in Islam as a principle in Zakat.

This thesis empirically studied the effect of religiosity, among other factors, on insurance acquisition. The present study has empirically proved the limitation of the uni-dimensional religiosity index provided some new information that adds to our current limited stock of knowledge concerning the influence of religiosity on shaping peoples'

beliefs, knowledge, attitudes and behaviour. This extended to discussion on religion as an object of study (Crystal 1993; Wulff 1997; Berkman et al. 1997, Miller, 2005, and Yap 2011). It has also discussed religion in the social sciences and religious organisations. The journal *Accounting, Auditing & Accountability Journal* (AAAJ) drew the attention to the negligence of religion research and particularly Christianity into accounting. On this note AAAJ aimed to explore this issue in great details in its special issue. A substantial review of scholars who touched on this issue was discussed (e.g. Booth, 1993, Jacobs and Walker, 2004, Irvine, 2005, and Vinten, 2006).

Little is known about the marketing of Islamic banking and finance and consumer behaviour relating to it, despite Islamic banking rapid market growth and potential contribution to societal welfare and only few studies that have examined Islamic banking from a marketing perspective may have provided some practical suggestions on improving customer satisfaction and service quality at Islamic banks. However these studies have generally not focused on the unique aspects of Islamic banking that differentiates it from conventional counterpart. Also religiosity has not featured prominently in their work, thus, little is still known about how the religious orientation of Muslim consumer or investor influences financial decision making, including the decision to adopt Islamic Banking. Furthermore, some researchers investigated potential factors that might enhance the attractiveness of Islamic financial products. However, the results of prior research have identified differences in some responses across countries, the absence of a specific comparative study means that it is not possible to rule out methodological differences as the source of variations in results. To the researcher's knowledge, there has been no report to date (or not that the researcher was aware of) of empirical study that explored the influence of religiosity on consumer choice of insurance policies in the context of UK and KSA. Therefore, what is considered the third theoretical contribution is studying existing measures of Islamic religiosity which enabled me to operationalise religiosity and have it in the study as an explanatory variable of Muslims choice between insurance products in the context of UK and KSA (e.g. Glock and Stark, 1965, Krauss, et al., 2005, Rehman and Shabbir, 2010, and Khraim, 2010).

The main methodological contribution of this thesis is the derivation of the religiosity index, and the use of exploratory factor analysis to identify sub-concepts contributing to the overall concept of religiosity as seen from an Islamic perspective. In addition, the

thesis undertook a survey that focuses on an in-depth examination and investigation of the distinction between Takaful and conventional insurance products which involves an analysis of consumers' perspectives towards, and actual choices related to, acquiring Takaful products and the extent to which these perspectives and choices are grounded in Muslim level of religiosity. This type of study is not common in accounting research. However, as discussed in Chapter 5, it is believed that in finance research the research is typically gathered through surveys if a body of evidence exists and that is based on primary data gathered from the decision makers themselves. This study is utilised the positivism paradigm in studying and investigating individuals' opinions which they were measured using objective scales.

The usage of different sources of data to support and confirm what has been found in the literature is another methodological contribution for the thesis. Data from interviews, and Takaful and conventional insurance policy documents were collected. This leads to richness in the study and more valid conclusions. For quantitative data method, a structured questionnaire was used. For analysis, SPSS 19 was used. For techniques, descriptive statistics, t-test, chi-squared test, z-test of sample proportions, exploratory factor analysis, correlations and logistic regression techniques were used in this study.

The empirical contributions of the thesis stem from the findings of the survey. By investigating the relationship between acquiring insurance policies and religiosity, insurance providers can benefit from an understanding of the influential factors behind Muslim consumers choice of policies, in Islamic countries or heavily populated Muslim countries such as KSA and where Muslims are minority and part of communities in a non-Islamic countries such as UK. Understanding religious effects on choice and acquisition of insurance policies is beneficial to financial bodies responsible for designing and marketing such policies.

The findings reported in this thesis provide empirical evidence concerning religion's influence on consumer choice in a Western and non-Western culture. This study reported that the power of level of religiosity on consumer choice existing among Muslims in both contexts. The present research may lead international consumer researchers to a better understanding of the relevancy of religion and degree of religiosity on consumer choice of financial products across different cultural settings, especially in those where the Islam

reflect the multi-character of the population and those of secular countries where religion have least impact on the character of the population.

This thesis also provides reasoning of Muslim consumers' choice of Takaful and conventional insurance policies. It shows that the purchase of Takaful policies is associated with greater knowledge of Islam, while purchase of conventional policies is associated with low adherence to Islamic practises.

## 10.4 Limitation of the Study

While every effort was made to ensure that the conceptual and methodological aspects of this study were precise as possible, as with any empirical study, the present work also had certain constraints that need to be taken into account when assessing the outcomes of its findings and implications. The potential limitations of this study falls into two areas as listed below:

**First: Survey:** any survey-based method, including that adopted in this study, involves measurement error. For example, the elicitation of a scale measurement depends on the respondent's ability to accurately report their level of agreement with the survey statements. Nonetheless, the good scale reliability coefficients reported (Cronbach's alpha coefficient in most cases higher than 0.6) indicate that the error terms in this study were minimised and thus can be considered a reasonable construct for research purpose (Cohen and Cohen 1983, p. 412). Additionally, the data collected by the survey strategy may not be as wide-ranging as those collected by other research strategies. This applies to this study as it uses online survey. Some of the limitations to on-line surveys would be that it requires more time to be spent in designing and piloting the questionnaire in comparison to other data collection method and that the data collected may not be as wide-ranging as those collected by other research strategies.

**Second: Make-up of the thesis:** the inherent limitation associated with generalizing the findings beyond the sample utilised and its geographical scope. The sample for this study was limited to Muslims in the UK and KSA and the distribution of the sample on the select demographic characteristics does not necessarily follow the characteristics of Muslims general population. It is possible that the behaviour patterns of Muslim consumers in other countries could well differ from those covered in this study. Thus

there is a limitation in generalizing the findings of this research to the Muslims population as a whole. Due to the constraints of databases of Muslims living in the UK, Muslims were not easily identified. Therefore, it was time and effort consuming building such databases from scratch. These databases may result in negligence to some Muslims contact details. The age distribution is clearly different across the two country sub-samples, with the KSA sub-sample being older on average than the UK sub-sample. To some extent this reflects the different demographics in the Muslim populations in the two countries. However, pooling the two samples provides complementary inputs – the over-representation of younger respondents in the UK sample compensates for under-representation of that age group in KSA. Moreover, KSA participants were greater than UK participants and Male was dominating the sample.

Despite the above limitations, it is hoped that the preliminary findings reported in this study will create greater interest in this topic, and hopefully prompt future research activities, which can contribute further to our understanding of consumer choice of insurance policies and religiosity power. The findings detailed here indicate several opportunities for future research that may be quite fruitful, especially if the methodological limitations of this study are overcome.

## **10.5 Recommendation for Future Research**

Due to the research findings the following recommendations felt appropriate:

**Additional Determining Factor:** Another possible question to ask customers to determine whether they choose Takaful insurance due to religious factor is: *Are you influenced to purchase Takaful insurance due to the use of Islamic terms?* The inclusion of this question would add further colour to the research field.

**Explanation of Technical Meaning:** As this study shows the lack of awareness Islamic financial products, it could be suggested that technical terms used in the survey could be explained to insure understanding of the participants to its meaning which then this will eliminate bias responses.

**Study Based on Age and Ethnic Group:** Part of the analysis undertaken in this study were based on location and gender only, as younger generations are perceived to be less

religious than their ancestors and that Muslims around the world follow different Islamic schools across ethnic groups. Therefore, a focused and detailed study according to age and ethnicity can offer a useful insight.

Different Research Methods: Usage of different method than the one used in this study or using mixed methods e.g. questionnaires and interviews might lead to richness in the study and more valid conclusions.

New Areas for Research: Islamic insurance has a long journey to go yet in the way of development and maturity compared to conventional insurance, therefore a number of areas offer research opportunities. Such areas are: comparing products pricing mechanisms of Takaful and conventional insurance, comparing regulatory frameworks of both models, comparing Takaful with a certain type of conventional insurance i.e. mutual insurance, examine the role of government, maturation level of insurance industry and underwriting of Takaful policies. Furthermore, examining Takaful products and investigating whether it is really avoiding prohibited activities that exist in conventional insurance products or investigating if there is a possibility to avoid such activities in the making insurance product. This issue does not appear to have been researched.

## **10.6 Epilogue**

This research aimed at investigating the effects of religiosity on acquiring Takaful and conventional policies within the context of UK and KSA Muslims. In addition, it also aimed at investigating UK and KSA Muslims' awareness of Islamic insurance and financial products and perception of Takaful and conventional products and companies and finding whether it could be explanatory factors for insurance policy choice. As the progress of the research demonstrated in each chapter, this research was rigorously conducted and as a whole, it managed to meet its aims and objectives as outlined in the introductory chapter. It revealed challenges to some contemporary thinking around Takaful and conventional insurance matters and offered some pragmatic solutions which are inextricably linked to consumers' preferences as a result of the various evidence found through empirical research. It is hoped that this study contributes to the relevant literature but also can help to affect the developing process of Takaful policies and offer insurance providers vast amount of knowledge to understand the need of Muslims' consumers concerning Takaful and conventional insurance policies.



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# APPENDICES

## Appendix 1: Interview Schedule

### Data Collection Technique: Structured Interview

Interviewer:

Interviewee reference:

Date:

Time:

Place:

*Thank you for agreeing to this meeting. This interview forms part of my PhD research into a comparison between Takaful general insurance and Conventional (non- Takaful) general insurance. The purpose of this interview is to obtain your views on a number of aspects related to Takaful general insurance. Please be assured that all information you provide will be kept strictly confidential.*

#### **A. THEME: Comparison between Takaful General Insurance and Conventional General Insurance**

##### **Question 1A**

I am going to begin by giving a brief summary of what I think Takaful is.

Takaful is a form of cooperative risk sharing. The policyholders pay a premium to a fund as a donation for those who suffer losses. The policyholders are then entitled to receive any surplus from the cooperative insurance fund, just as they will help make up for any deficits. The premium or donation will differ, based on the degree of risk. Takaful is based on the Shari'ah tenets which state that if there is the opportunity for gain, then people must be willing to accept the possibility of loss; there should be no ambiguity or unknown and doubtful risk involved, there should be no deception, and there should be no loss due to ignorance or absence of information.

*How far do you agree with this?*

*Is there anything important to add?*

##### **Question 2A**

Based on what I have read, I think the three major differences between Takaful and conventional general insurance are:

- First, Conventional insurance does not conform to Shari'ah in the sense that a) it involves Riba (interest), Gharar (uncertainty due to combination of the unknown and doubtful), and elements of Maisir (gambling) in the insurance contracts, and b) the underwriting policies and investment strategies not Shari'ah compliant. On the other hand, Takaful conforms to Shari'ah due to a) the elimination of Riba, Gharar, and Maisir, and b) the adaptation of Shari'ah-compliant underwriting policies and investment strategies.
- Second, Conventional insurance business does not conform to Islamic values in regards to the absence of cooperative risk sharing (but consider mutual insurance). While Takaful conforms to Islamic values through a cooperative risk sharing.



- Third, In conventional insurance companies , the interests of participants and operator mixed. On the other hand, there is a clear financial segregation between the interests of the participants (insured/insurer) and the operator (insurance company) in Takaful companies.

*Would you agree to the mentioned differences?*

*Are there any important conceptual differences that I have missed?*

*Are there any important operational differences that I have missed?*

### **Question 3A**

Based on what I have read, I think there are similarities between Takaful and conventional insurance, in particular the fact that Takaful has cooperative principles, as do conventional mutual insurance companies. The key feature of modern Takaful business is that it combines the cooperative principles for risk protection with a stock-holding operator running the business under regulatory conditions. Furthermore, both models considered to be similar in the way the product is priced and the actual processing mechanism.

*Would you agree to this?*

*Are there any other similarities between Takaful general insurance and Conventional general insurance?*

### **Question 4A**

We've been talking about differences and similarities between Takaful and conventional insurance products. Taking an overall view:

*Do you actually think there is a significant distinction in substance between Takaful and conventional insurance products?*

Follow up questions:

- a) If the answer is No: Do you think this is a bad thing or a good thing?)
- b) If the answer is Yes: How far is the difference in substance of Takaful to conventional insurance?
- c) Should Takaful be different in substance? And why?
- d) When designing Takaful, do providers start from conventional policies and try to replicate them in a shari'ah compliant framework?
- e) Do providers try to design Takaful products as close as possible to conventional insurance products?
- f) If the answer is No or Yes: Do you consider this a bad thing or a good thing?)
- g) Does regulation force Takaful to be very similar to conventional products?
- h) Do providers model Takaful to conventional insurance?

### **Question 5A**

Based on my knowledge, I would conclude that so long as Takaful is being used, managed and priced correctly then it should have no disadvantages compared to conventional insurance.

However, I can think of several factors that might be barriers to Takaful growth. Some of these are internal factors – lack of skilled staff, inappropriate management style, low level of capitalization, and some of them are external factors - regulatory framework, competitive environment, role of government, how mature the insurance industry is.

*How far do you agree with this?*

*Is there anything important to add?*

**Question 6A**

Im not assuming that you can give me the “correct” answer to this, but just as an estimate, roughly how many Takaful insurance companies do you think there are around the world?

My answer: There are currently around 60 Takaful companies in 30 countries worldwide.

**B. THEME: Economy Drivers for Insurance****Question 1B**

There must be an enormous potential demand for Takaful in Saudi Arabia. A recent survey estimates the current market volume at around US\$1 billion for all form of Takaful insurance. Takaful motor insurance alone is estimated to grow to US\$1.3 billion and medical insurance to US\$1.7 billion within the next four years. This is phenomenal potential growth. I understand that the Saudi insurance sector was very limited in scope until the recent changes in regulation by The Saudi Arabian Monetary Agency (SAMA), and I believe this was a strong motive for establishing Takaful general insurance in Saudi Arabia.

*Would you agree to this?*

*Are there any other motives for establishing Takaful general insurance in Saudi Arabia?*

**Question 2B**

It’s very interesting that regulators in the UK have been supporting the development of Shari’ah compliant financial products, and major players in the UK like HSBC and some building societies are entering the UK market with a range of Islamic financial products. A community of some 1.5 to 2 million Muslims and some 350,000 households is a sizeable market.

*Beside changes in regulation, are there any other motives for establishing Takaful insurance and financial products the UK?*

**C. THEME: Barriers****Question 1C**

I am now going to ask you a few questions about your overall opinion of Takaful.

*First, would you consider it appropriate to describe Takaful as “Profitable”?*

*Second, would you consider it appropriate to describe Takaful as “Islamic”?*

*Third, would you consider it appropriate to describe Takaful as “Free from interest”?*

*Fourth, would you consider it appropriate to describe Takaful as “Expanding”?*

*Fifth, would you consider it appropriate to describe Takaful as “Free from Gharar”?*

*Sixth, would you consider it appropriate to describe Takaful as “Free from Maisir”?*

*Seventh, would you consider it appropriate to describe Takaful as “Something Customers want”?*

*Could you elaborate, please?*

**Question 2C**

I have already asked about the disadvantages of Takaful, but I want to focus particularly on customers. *Do you think that Takaful general insurance has any disadvantages from the customer’s point of view? If so, What are they?*

**Question 3C**

*Overall, do you have any concerns or fears about the way in which Takaful is currently growing in different parts of the world?*

*If yes, what are your main concerns?*

**Question 4C**

*Compared with countries that have a Muslim majority like Malaysia, Takaful has been rather slow to develop in the UK. What do you think have been the main barriers to the expansion of Takaful in the UK?*

**Question 5C**

*Can you think of ways to overcome such barriers?  
Please explore that a bit.*

**Question 6C**

*Are you aware of a Takaful motor insurance company in the UK named 'Salaam Halal'?*

*What do you make of that Salaam Halal insurance is not accepting any new requests for insurance quotations or issuing new contracts?*

**D. THEME: Operations****Question 1D**

*Do you think that most Takaful companies are conforming to Shari'ah laws?  
If not, why?*

**Question 2D**

*Do you think that Takaful insurance companies need any special skills or aptitude to be able to promote Takaful insurance? (If so, what?)*

**Question 3D**

*Do you know how sales representatives are being prepared for promoting Takaful products?*

**Question 4D**

*The Takaful insurance products were introduced for Muslim people as an alternative for non-Islamic insurance products. Do you think that Takaful products can be suitable for non-Muslims?*

- (a) If yes, please specify:*
- (b) If no, please specify:*

**Question 5D**

*From the customer data in your own Takaful company are you aware of any non-Muslim clients who acquired Takaful product/s?*

- (a) If yes, please specify the percentage (if known):*
- (b) Please specify their reason behind that (if known):*
- (c) Please specify most products are acquired:*

**Question 6D**

*Are you aware of any customer who switched from Takaful products to Conventional products?*

*If yes, why?*

**Question 7D**

*Are you aware of any customer who switched from Conventional products to Takaful products?*

*If yes, why?*

**Question 8D**

Would you agree that most people consider Takaful general insurance products to be unprofitable, because Takaful products do not involve interest or gambling?

*(a) If yes, could you elaborate please?*

*(b) If no, could you elaborate please?*

**E. THEME: Reflections**

**Question 1E**

*Any final thoughts?*

**Question 2E**

*Is there anything that you expected me to ask that I haven't asked?*

## Appendix 2: Questionnaire Cover Letter

Dear Participant,

Thank you for taking the time to read this letter.

I am currently undertaking research involving a comparison of Takaful (Shari'ah-compliant insurance) and conventional general insurance.

This research includes a survey intended to obtain your views on a number of aspects related to Takaful and conventional general insurance, and your perceptions and reasons behind acquiring insurance products. The questionnaire should take around 10 minutes to complete.

Complete. Given the nature of the information being sought, it is **essential** that you currently hold a Takaful and/or conventional insurance policy OR that you have held a Takaful and/or conventional insurance policy in the past. If you have never held a Takaful and/or conventional insurance policy, then you **should not** complete this questionnaire.

Very little academic research has been conducted in this area so I expect my findings to be illuminating. I hope that my research will help increase the impact of Takaful general insurance and will also provide a better understanding of the perspective of Muslim consumers and a rich picture of their basis for selecting insurance products.

I would appreciate your co-operation in completing the research questionnaire. You will be making a great contribution to an important and under-researched topic.

I would like to assure you that all of your answers will be treated with complete confidentiality, and will be used only for the purpose of academic research. The research data will be aggregated, and will be reported through statistical analysis only, in any presentations and publications.

If you have any questions, or need further clarification please do not hesitate to contact me on the below mentioned address or e-mail me at:

أعزائي المشاركين،  
أشكركم على منحي جزء من وقتكم الثمين لقراءة  
هذه الرسالة.

أقوم حالياً بالتحضير لبحث يتضمن دراسة مقارنة بين التكافل (التأمين المتوافق مع أحكام الشريعة الإسلامية) والتأمين العام التجاري.

وتهدف هذه الدراسة لمعرفة رأيكم في عدد من الأمور التي تتعلق بالتأمين العام التكافلي والتجاري. كما تسعى الدراسة لمعرفة رؤيتكم و سبب اقتنائكم منتجات التأمين. مدة تعبئة وإكمال الاستبيان ستأخذ حوالي 10 دقائق.

نظرا لطبيعة المعلومات التي نسعى لجمعها، فأنه من الضروري أن يكون لديك (أو سبق أن كان لديك) بوليصة تأمين تكافلي و/أو تجاري. إذا لم يسبق لك اقتناء بوليصة تأمين تكافلي و/أو تجاري، عندها لا يتوجب عليك تعبئة الاستبيان.

هناك القليل من الأبحاث الأكاديمية التي تم إجراؤها في هذا المجال. لذا أتوقع أن تكون نتائج هذا البحث مثمرة، وتسهم في زيادة أثر التأمين التكافلي وأن أقدم وعي أفضل لفهم رؤية العملاء المسلمين عن منتجات التأمين وصوره كاملة عن أساس اختيارهم لها.

لذا أمل منكم المساعدة في أكمل الاستبيان، و بذلك ستكونون قد ساهمتم بشكل كبير تجاه موضوع هام ما زال تحت البحث.

أود أن أؤكد لكم أنه سيتم معاملة جميع إجاباتكم  
بسرية تامة، وسيتم استخدامها فقط للأغراض  
الأكاديمية والبحثية فقط.

إذا كان لديك أية أسئلة، أو تحتاج إلى مزيد من التوضيح أرجو عدم التردد في التواصل عبر البريد الإلكتروني، أو على العنوان البريدي:

100

Kingdom).

شكرا جزيلا على دعمكم و آرائكم القيمة.  
أتطلع إلى الاستماع منكم.

أطيب الأمانى،  
عائشة الصالح

### كيفية تعبئة الاستبيان:

1. تعبئة الاستبيان على الانترنت من الرابط التالي  
( سوف يتم إرسال الاستبيان للباحث تلقائياً عند  
استكماله عبر الانترنت)

اضغط هنا لتعبئة الاستبيان

أشكركم كثيراً على رأيكم.

Thank you very much for your valuable opinion and support.

I look forward to hearing from you.

Kind regards,  
Aysha Al-Salih

**How to complete the questionnaire:**

**1.** Complete the questionnaire on-line by following the link below (the questionnaire will be sent to the researcher automatically when you complete it on-line)

[Click here to fill the questionnaire](#)

**2.** Alternatively, you can download the questionnaire from the following link, complete it and then submit it using one of the following four methods:

[Click here to download the questionnaire](#)

**a.** Complete it on your desktop and submit it by pressing the 'submit' button on the top right of the form.

**b.** Print out the questionnaire, scan it and then send it as an email attachment to the researcher to the following email address:

[aysha.al-salih@qu.edu.sa](mailto:aysha.al-salih@qu.edu.sa)

**c.** Fax it to the following number:

00966 11 4670437

**d.** Mail it to Aysha Al-Salih on one of the following addresses:



**2.** إضافة إلى ذلك، بإمكانك تنزيل الاستبيان من الرابط التالي و تعبئته، و من ثم إعادة إرساله باستخدام أحد الطرق الأربعة التالية:

[اضغط هنا لتنزيل الاستبيان](#)

أ. عند الانتهاء من تعبئته على سطح المكتب، يمكنك إرساله بالضغط على زر الإرسال 'submit' في أعلى النموذج على اليمين.

ب. نسخ الاستبيان وإرساله على شكل مرفق للباحث على البريد الإلكتروني التالي:

[aysha.al-salih@qu.edu.sa](mailto:aysha.al-salih@qu.edu.sa)

ج. إرساله بالفاكس على الرقم التالي: 00966 11 4670437

د. إرساله بالبريد إلى أحد العناوين التالية: عائشة الصالح

رقم 10000

المملكة العربية السعودية  
بريطانيا- المملكة المتحدة:



### Appendix 3: Questionnaire



School of Management

Dear Participant,

Thank you for participating in this study.

The questionnaire consists of ten pages, but very brief and will take you approximately 10-15 min to fill out. Instructions for completing the questionnaire can be found on the form itself. Please pay close attention to each question and answer as precise as possible. We would appreciate it if you would complete the questionnaire as soon as possible, preferably within one week.

Your participation represents a valuable contribution to consumer finance research, and we thank you again for your cooperation.

Sincerely yours,

Aysha

page 1/10

**Section 1. Personal Information:** (Please click the appropriate answer)

1. Gender:

☐Male

☐Female

2. Age:

☐Under 20

☐20-30

☐31-40

☐41 and over

3. Marital status:

☐Single

☐Married

☐Divorced

☐Widowed

4. Ethnic group:

☐**White:** British / Irish / any other white background.

☐**Mixed:** White and Black / Caribbean and White / White and Black African / White and Asian / any other mixed or multiple ethnic background.

☐**Asian or Asian British:** Indian / Pakistani / Bangladeshi / any other west or south Asian background.

☐**Black or Black British:** African / Caribbean / any other Black background.

☐**Chinese:** Chinese / any other East Asian background.

☐**Arab**

☐**Other ethnic group**

5. Nationality:

.....

6. Academic qualifications: (Please click all that apply)

☐Bachelor degree

☐Masters

☐PhD

☐Professional qualification

7. Occupation: (Please click all that apply)

☐Employed

☐Not-employed

☐Freelance/Self-employed

☐Full-time student

☐Part-time student

8. Nature of the work (if you are employed):

☐Full-time job

☐Part-time job

9. Annual income:

☐Below £26,000/Below SAR 60,000

☐£26,000-£32,000/SAR 60,000- SAR

120,000

☐£33,000-£39,000/SAR 121,000- SAR 240,000

☐£40,000 plus/SAR

241,000 plus



**Section 2. Insurance provider: (Please click the appropriate answer)**

10. Do you hold a Takaful policy? (If your answer is 'No' please proceed to question 14)

☐Yes

☐No

11. What types of Takaful insurance contract do you hold? (Please click all that apply)

☐General plan e.g motor Takaful, fire Takaful

☐Family plan e.g Retirement plan, Marriage plan

12. How many Takaful contracts do you hold?

☐One contract

☐Two contracts

☐More than two

13. How much is your annual premium combining all your existing Takaful contracts?

☐Less than £500 (SAR 3000) ☐£500 (SAR 3000) to £1000 (SAR 6000)

☐More than £1000 (SAR 6000)

**Now go to Question 15.**

14. For those respondents who do not have a Takaful insurance product, have you ever considered acquiring a contract from a Takaful insurance company?

☐Yes

☐No

15. Do you hold a conventional policy? (If your answer is 'No' please proceed to question 19)

☐Yes

☐No

16. What types of conventional insurance contract do you hold? (Please click all that apply)

☐General Plan

☐Life plan

17. How many conventional insurance contracts do you hold?

☐One contract

☐Two contracts

☐More than two

18. How much is your annual premium combining all your existing conventional contracts?

☐Less than £500 (SAR 3000) ☐£500 (SAR 3000) to £1000 (SAR 6000)

☐More than £1000 (SAR 6000)

**Now go to question 20 (section 3)**

19. For those respondents who do not have a conventional insurance product, have you ever considered acquiring a contract from a conventional insurance company?

☐Yes

☐No

### Section 3. Knowledge about the different products of the Islamic finance and insurance:

20. Please indicate whether you are aware of the following Islamic finance and insurance products or whether you are not aware of them.

Islamic finance and insurance products			
Mudaraba	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
Murabaha	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
Tawarruq	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
Musharaka	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
Ijara	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
Qard Al-Hasan	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
Family Takaful:	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
1) Investment type products:	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
a) Retirement plan	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
b) Waqf plan	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
c) Education plan	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
d) Marriage plan	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
e) Capital plan	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
2) Risk type products	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware
General Takaful: motor Takaful, fire Takaful etc	<input type="checkbox"/>	Aware	<input type="checkbox"/> Not aware

### Section 4. Please indicate the level of importance for each of the following attributes:

21. When you are considering an Islamic financial product (including a Takaful general insurance product), please indicate the level of importance you would place on each of the following attributes:

(1= least important and 5= most important)

	1	2	3	4	5
<b>General</b>					
Company location	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Company reputation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Credibility as in Islamic financial products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Product</b>					
Range of available products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Product pricing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Profitability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Investment options	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Service</b>					
	1	2	3	4	5

Quick response	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Excellent customer care	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Section 5. Answer the questions in this section ONLY if you currently have, or have had in the past, a Takaful contract:**

22. Please indicate your overall perception of Takaful general insurance companies using the following scale:

	1	2	3	4	5	
Unknown	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Widely known
Unsuccessful	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Successful
Poor reputation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Good reputation
Poor customer service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	High-quality customer service

23. Please indicate your overall perception of Takaful general insurance products using the following scale:

	1	2	3	4	5	
Unbeneficial	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Beneficial
Unprofitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Profitable
Unreasonable premium price	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Reasonable premium price
Low variety	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	High variety
Not Shari'ah-compliant	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Shari'ah-compliant

24. Please indicate your overall satisfaction toward the Takaful general insurance products by clicking the appropriate number on the scale:

	1	2	3	4	5	
Extremely dissatisfied	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Extremely satisfied

25. Please indicate how likely is it that you would recommend Takaful general insurance products to friends/family by clicking the appropriate number:

	1	2	3	4	5	
Extremely unlikely	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Extremely likely

**Section 6. Answer the questions in this section ONLY if you currently have, or have had in the past, a conventional insurance contract:**

26. Please indicate your overall perception of conventional general insurance companies using the following scale:

Unknown	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Well known
Unsuccessful	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Successful
Poor reputation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Good reputation
Poor customer service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	High-quality customer service
	1	2	3	4	5	

27. Please indicate your perception of conventional general insurance products using the following scale:

Unbeneficial	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Beneficial
Unprofitable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Profitable
Unreasonable premium price	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Reasonable premium price
Low variety	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	High variety
Not Shari'ah-compliant	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Shari'ah-compliant
	1	2	3	4	5	

28. Please indicate your overall satisfaction toward the conventional general insurance products by clicking the appropriate number on the scale:

Extremely dissatisfied	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Extremely satisfied
	1	2	3	4	5	

29. Please indicate how likely is it that you would recommend conventional general insurance products to friends/family by clicking the appropriate number:

Extremely unlikely	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Extremely Likely
	1	2	3	4	5	

**Section 7. Please indicate your view for each of the following statements:**

(1= strongly disagree and 5= strongly agree)

**5-point Scale**

#	Statement	1	2	3	4	5
1	I believe that Islam helps to lead me to a better life.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2	I think it is my duty to give respect to others and give them their rights.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3	I try to avoid any activity which hurt others.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4	I always try to help those who need help.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5	I try to be honest and fair with others.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6	I always avoid humiliating others.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7	I always avoid backbiting and gossip.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8	I attend religious talks at the mosque.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
9	I read religious books and magazines.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10	I watch or listen to religious TV/radio programs.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
11	I believe that Muhammad is God's (Allah's) last prophet.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
12	I believe that Muhammad provided a good standard of conduct for Muslims.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
13	I believe that there is only one God.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
14	I believe that Allah listens to prayers.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
15	I believe that the Qur'an is relevant and applicable to the modern day.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
16	I believe that supplication (dua') helps me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
17	I read the Qur'an for inspiration and motivation.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
18	I believe that I am obliged to perform Hajj when I fulfil all the necessary conditions.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
19	I believe in Allah's angels, books, messengers, day of judgment and fate (both good and bad).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
20	I feel sorrow and dissatisfaction when I do something against my faith.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
21	I am pleased when I see others following Islamic teachings.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
22	I am conscious that the devil is trying to tempt me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
23	I have the feeling of being afraid of Allah.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
24	I believe that Allah will punish me for doing something wrong.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
25	I am distressed when I see others not following Islamic teachings.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Section 8. Please indicate your view for each of the following statements:**

(1= never, 2= rarely, 3= sometimes, 4= often and 5= always)

	1	2	3	4	5
26 I pray five times a day.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
27 I perform my daily prayers in the mosque.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
28 I attend Friday prayer in the mosque.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
29 I perform <i>Qiyam al-layl</i> (night prayer).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
30 I perform <i>Tahajjud</i> (night prayer)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
31 I perform <i>Sunnah</i> prayer (extra but necessary prayers).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
32 I fast during Ramadan.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
33 I attend evening prayer ( <i>Tarawih</i> ) in Ramadan.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
34 I fast outside the month of Ramadan.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
35 I read the Qur'an in Arabic.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
36 I read the Qur'an in other languages than Arabic.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
37 I spend some amount for charity.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
38 I perform the obligation of <i>Zakat</i> annually.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
39 I give charity ( <i>Sadaqa</i> ) every week.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
40 I avoid eating prohibited food (pork, product that contains animal/pork gelatine, etc).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
41 I consume Halal meat.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
42 I drink alcohol.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
43 I avoid using products (for example, cosmetics, medicines, mouthwashes) containing alcohol.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
44 I avoid places (such as restaurants and bars) and occasions (such as parties) where alcohol is drunk.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
45 I avoid earning through Haram (prohibited) means.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
46 I try to avoid minor sins.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
47 I try to avoid major sins.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
48 I try to follow Islamic injunctions in all matters of my life.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
49 I avoid displaying photographs or other images of living beings.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
50 I wear silk clothing (if you are a woman click never).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
51 I wear gold accessories (if you are a woman click never).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
52 I wear perfume in the presence of foreign men (non <i>mahram</i> ; Anyone who a Muslim female is not allowed to marry). (if you are a man click never).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

53	I wear a headscarf ( <i>hijab</i> ) in public. (if you are a man click never).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
54	I try to avoid any kind of transaction which could lead to a quarrel or litigation due to some uncertainty (Gharar).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
55	I try to avoid increase my capital through lending on usury or interest ( <i>riba</i> ).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
56	I avoid acquiring non-Islamic financial products.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
57	I try to avoid working for companies that deal with prohibited elements.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Now submit the questionnaire using one of the following three methods:**

- a. Scan the questionnaire then send it as an email attachment to the researcher to the following email address:
- b. Fax it to toll-free UK number: ( )
- c. Mail it to Aysha Al-Salih on one of the following addresses

18

**Thank you for your participation**



## Appendix 4: Extracted Religiosity Factors

Indexes	Factors load	EigenValue	% Variance explained	Cumulative %	Cronbach's Alpha
<b>Iman (Beliefs)</b>		16.427	31.590	31.590	.979
I believe that Muhammad provided a good standard of conduct for Muslims.	.892				
I believe that Allah listens to prayers.	.890				
I believe that the Qur'an is relevant and applicable to the modern day.	.886				
I believe that I am obliged to perform Hajj when I fulfil all the necessary conditions.	.873				
I believe that there is only one God.	.873				
I believe that Muhammad is God's (Allah's) last prophet.	.867				
I believe in Allah's angels, books, messengers, day of judgment and fate (both good and bad).	.861				
I believe that Islam helps to lead me to a better life.	.854				
I think it is my duty to give respect to others and give them their rights.	.854				
I believe that supplication (dua') helps me.	.852				
I try to be honest and fair with others.	.859				
I feel sorrow and dissatisfaction when I do something against my faith.	.848				
I try to avoid any activity which hurt others.	.840				
I always avoid humiliating others.	.838				
I always try to help those who need help.	.827				
I read the Qur'an for inspiration and motivation.	.774				
I am pleased when I see others following Islamic teachings.	.750				

I believe that Allah will punish me for doing something wrong.	.726				
I have the feeling of being afraid of Allah.	.704				
I always avoid backbiting and gossip.	.701				
I am distressed when I see others not following Islamic teachings.	.649				
I am conscious that the devil is trying to tempt me.	.643				
<b>Avoiding Haram</b>		5.890	11.327	42.917	.901
I try to avoid working for companies that deal with prohibited elements.	.786				
I avoid earning through Haram (prohibited) means.	.767				
I try to avoid increase my capital through lending on usury or interest (riba).	.763				
I avoid acquiring non-Islamic financial products.	.761				
I try to avoid any kind of transaction which could lead to a quarrel or litigation due to some uncertainty (Gharar).	.720				
I avoid places (such as restaurants and bars) and occasions (such as parties) where alcohol is drunk.	.676				
I try to avoid major sins.	.639				
I avoid eating prohibited food (pork, product that contains animal/pork gelatine, etc).	.560				
I try to avoid minor sins.	.544				
I try to follow Islamic injunctions in all matters of my life.	.513				
I avoid displaying photographs or other images of living beings.	.396				
<b>Sunan (Practises of Prophet Muhammad)</b>		4.394	8.451	60.046	.843
I perform Tahajjud (night prayer).	.770				
I perform Qiyam al-layl (night prayer).	.748				
I perform Sunnah prayer (extra but necessary prayers).	.718				

I give charity (Sadaqa) every week.	.692				
I read the Qur'an in other languages than Arabic.	.595				
I fast outside the month of Ramadan.	.585				
I spend some amount for charity.	.552				
I avoid using products (for example, cosmetics, medicines, mouthwashes) containing alcohol.	.472				
<b>Ibada (Worship)</b>		4.513	8.678	51.595	.858
I read the Qur'an in Arabic.	.665				
I attend evening prayer (Tarawih) in Ramadan.	.644				
I pray five times a day.	.675				
I fast during Ramadan.	.559				
I attend Friday prayer in the mosque.	.599				
I consume Halal meat.	.557				
I perform my daily prayers in the mosque.	.507				
I perform the obligation of Zakat annually.	.451				
<b>Islamic Knowledge</b>		2.623	5.044	65.090	.843
I attend religious talks at the mosque.	.692				
I read religious books and magazines.	.637				
I watch or listen to religious TV/radio programs.	.579				

## Appendix 5: General Demographic: Ethnicity

	White and mixed		South/South-east Asian		Arab		Other (Inc. African and Caribbean)		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%
<b>Has at least one Takaful policy</b>										
Yes	56	57.7	114	61.3	386	52.0	15	62.5	571	54.4
No	41	42.3	72	38.7	357	48.0	9	37.5	479	45.6
Total	97	100.0	186	100.0	743	100.0	24	100.0	1050	100.0
<b>Type of policy</b>										
General plan	43	70.5	88	71.5	321	78.9	8	61.5	460	75.8
Family plan	18	29.5	35	28.5	89	21.9	5	38.5	147	24.2
Total	61	100.0	123	100.0	407	100.0	13	100.0	607	100.0
<b>Number of policies</b>										
One	40	71.4	78	68.4	160	43.6	9	81.8	287	52.4
Two	12	21.4	32	28.1	117	31.9	2	18.2	163	29.7
Three or more	4	7.1	4	3.5	90	24.5	0	0	98	17.9
Total	56	100.0	114	100.0	367	100.0	11	100.0	548	100.0
<b>Annual premium</b>										
Less than £500/ SAR3000	28	50.9	39	34.8	184	50.1	10	71.4	261	47.6
£500/SAR3000 to £1000/SAR6000	20	36.4	62	55.4	69	18.8	3	21.4	154	28.1
Over £1000/ SAR6000	7	12.7	11	9.8	114	31.1	1	7.1	133	24.3
Total	55	100.0	112	100.0	367	100.0	14	100.0	548	100.0
<b>Considered acquiring Takaful policy</b>										
Yes	20	51.3	30	42.9	126	35.7	4	44.4	180	38.1
No	19	48.7	41	58.6	227	64.3	5	55.6	292	61.9
Total	39	100.0	70	100.0	353	100.0	9	100.0	472	100.0
<b>Has at least one conventional policy</b>										
Yes	66	69.5	127	69.8	193	26.8	15	71.4	401	39.4
No	29	30.5	55	30.2	526	73.2	6	28.6	616	60.6
Total	95	100.0	182	100.0	719	100.0	21	100.0	1017	100.0
<b>Type of policy</b>										

	White and mixed		South/South-east Asian		Arab		Other (Inc. African and Caribbean)		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%
General plan	50	72.5	99	73.3	158	82.3	14	82.4	321	77.7
Life plan	19	27.5	36	26.7	34	17.7	3	17.6	92	22.3
Total	69	100.0	135	100.0	192	100.0	17	100.0	413	100.0
<b>Number of policies</b>										
One	42	63.6	96	75	103	55.6	8	47.1	249	62.7
Two	19	28.8	27	21.1	57	30.6	8	47.1	111	28.0
Three or more	5	7.6	5	3.9	26	14.0	1	5.9	37	9.3
Total	66	100.0	128	100.0	186	100.0	17	100.0	397	100.0
<b>Annual premium</b>										
Less than £500/ SAR3000	28	43.1	46	35.7	77	41.2	7	41.2	158	39.7
£500/SAR3000 to £1000/SAR6000	25	38.5	67	51.9	64	34.2	8	47.1	164	41.2
Over £1000/ SAR6000	12	18.5	16	12.4	46	24.6	2	11.8	76	19.1
Total	65	100.0	129	100.0	187	100.0	17	100.0	398	100.0
<b>Considered acquiring conventional policy</b>										
Yes	8	28.6	21	38.9	110	21.1	3	50	142	23.3
No	20	71.4	33	61.1	412	78.9	3	50	468	76.7
Total	28	100.0	54	100.0	522	100.0	6	100.0		100.0

## Appendix 5: General Demographic: Age

	Under 20		20-30		31-40		41 and over		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%
<b>Has at least one Takaful policy</b>										
Yes	55	63.2	170	55.2	171	52.9	175	52.7	571	54.4
No	32	36.8	138	44.8	152	47.1	157	47.3	479	45.6
Total	87	100.0	308	100.0	323	100.0	332	100.0	1050	100.0
<b>Type of policy</b>										
General plan	44	75.9	138	75.8	136	75.6	142	75.9	460	75.8
Family plan	14	24.1	44	24.2	44	24.4	45	24.1	147	24.2
Total	58	100.0	182	100.0	180	100.0	187	100.0	607	100.0
<b>Number of policies</b>										
One	44	81.5	102	61.4	84	49.7	57	35.8	287	52.4
Two	8	14.8	60	36.1	44	26.0	51	32.1	163	29.7
Three or more	2	3.7	4	2.4	41	24.3	51	32.1	98	17.9
Total	54	100.0	166	100.0	169	100.0	159	100.0	548	100.0
<b>Annual premium</b>										
Less than £500/ SAR3000	32	58.2	73	43.7	88	52.1	68	43.3	261	47.6
£500/SAR3000 to £1000/SAR6000	19	34.5	74	44.3	27	16.0	34	21.7	154	28.1
Over £1000/ SAR6000	4	7.3	20	12.0	54	32.0	55	35.0	133	24.3
Total	55	100.0	167	100.0	169	100.0	157	100.0	548	100.0
<b>Considered acquiring Takaful policy</b>										
Yes	11	37.9	49	36.0	68	45.3	52	33.1	180	38.1
No	18	62.1	87	64.0	82	54.7	105	66.9	292	61.9
Total	29	100.0	136	100.0	150	100.0	157	100.0	472	100.0
<b>Has at least one conventional policy</b>										
Yes	56	69.1	152	50.2	106	33.8	87	27.3	401	39.4
No	25	30.9	151	49.8	208	66.2	232	72.7	616	60.6
Total	81	100.0	303	100	314	100	319	100	1017	100.0

	Under 20		20-30		31-40		41 and over		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%
<b>Type of policy</b>										
General plan	47	78.3	115	72.3	93	85.3	66	77.6	321	77.7
Life plan	13	21.7	44	27.7	16	14.7	19	22.4	92	22.3
Total	60	100.0	159	100.0	109	100.0	85	100.0	413	100.0
<b>Number of policies</b>										
One	45	80.4	99	66.0	67	60.4	38	47.5	249	62.7
Two	10	17.9	46	30.7	33	29.7	22	27.5	111	28.0
Three or more	1	1.8	5	3.3	11	9.9	20	25.0	37	9.3
Total	56	100.0	150	100.0	111	100.0	80	100.0	397	100.0
<b>Annual premium</b>										
Less than £500/ SAR3000	28	48.3	66	44.3	44	40.0	20	24.7	158	39.7
£500/SAR3000 to £1000/SAR6000	21	36.2	64	43.0	48	43.6	31	38.3	164	41.2
Over £1000/ SAR6000	9	15.5	19	12.8	18	16.4	30	37.0	76	19.1
Total	58	100.0	149	100.0	110	100.0	81	100.0	398	100.0
<b>Considered acquiring conventional policy</b>										
Yes	6	25.0	35	23.5	56	27.2	45	19.5	142	23.3
No	18	75.0	114	76.5	150	72.8	186	80.5	468	76.7
Total	24	100.0	149	100.0	206	100.0	231	100.0	610	100.0

## Appendix 6: Glossary of Arabic and Islamic Terminology

### A

**Ahl Al-Jahiliya:** Arab people in pre-Islamic times.

**Al-Hisba:** An Arabic word for the Market Inspection Agency which was originally founded by the Prophet Muhammad and continued into the period of the Caliphs, by which time this system became part of the state institutions.

**Allah:** God.

**Al-Moa'malat Al-Rabawiya':** The usurious transactions.

**Al-Riyaa :** Showing off.

**Aqilah:** Agreement of tribal solidarity.

**Ata:** a state welfare system which consisted of basic cash allowances paid to all Muslims in varying amounts.

### B

**Biet Al-Mal:** Islamic treasury which was classified into two categories *Ghanimah* or movable property, some four-fifths of which belonged to the soldiers who seized it, *Fay'* or real property, whose ownership and proceeds belonged to the Islamic community as a unity.

### D

**Dharoura:** Necessity.

**Diya:** Blood money.

### F

**Family Takaful:** Islamic life insurance.

**Fatwah:** Juristic opinion concerning Islamic law issued by one or more Islamic scholar with a substantial religious knowledge. (pl. *fatawah*).

**Fidya:** Ransom, whereby payment is made to rescue the life of a prisoner and through the *Aqila* system the relatives could cooperate to free him.

**Fuqaha:** Islamic religious scholars who have a substantial knowledge in Islamic Sharia.

### G

**General Takaful:** Islamic general (non-life) insurance.

**Gharar:** uncertainty which arises from unknown outcome. It represents an excessive risk that emerges from unknown factors.



## H

**Hadith:** The narrative relating the manners and utterances of Prophet Muhammad.

**Halal:** Lawful, valid.

**Haram:** Unlawful, forbidden.

**Hijra:** Is the time when Muhammad and his followers migrated to Madinah

## I

**Ijara wa Iqtina:** Literally means rent leading to ownership. It is similar to a finance lease except that, from the Islamic perspective, the one who holds the legal title should be responsible for the asset. Lease with transfer of ownership at the end of a lease period.

**Ijara:** A Bilateral contract allowing the sale of the usufruct for a specified rent and a specified period (A lease).

**Ijmaa':** consensus of Islamic scholars on issues not covered in the Quran and *Sunnah* which require Ijtihad (see below).

**Ijtihad:** Independent judgment to come up with a ruling based on Qiyas; individual reasoning based on analogy.

**Islam:** Literally meaning surrender or submission to Allah.

## J

**Jahiliyya:** The pre-Islamic period.

**Jahl:** Ignorance.

## K

**Ka'ba:** A place of worship, which became the most important destination for pilgrimage by the sixth century AD.

**Kafal:** To take care of one's needs.

**Khatr Al-Tariq:** which is surety for hazards on highway.

## M

**Maisir:** Speculation, gambling.

**Maslaha:** True welfare.

**Math'hab plural Mathahib:** Islamic school of the four Sunni Islamic jurisprudence schools; Hanbali, Shafi'i, Hanafi, and Maliki.

**Minhaj:** Islamic path.

***Mudaraba:*** A contract based on a combination of capital from one or more sources (the provider(s) of capital), and work from the other party (the entrepreneur or *Mudarib*). Profits are shared by the two parties according to a predetermined percentage, but in case of loss the capital provider bears all financial losses, but not more than what has been paid and the other party receives no return on his/her work. The provider of capital shares both the risks and the profits with the entrepreneur, but without interfering in the running of the business, which is the exclusive responsibility of the entrepreneur.

***Mudarib:*** The entrepreneur who invests *Mudaraba* funds.

***Murabaha (the original form):*** Murabaha is a form of short-term financing.

***Musharaka:*** Literally means partnership; it represents a joint venture arrangement in which two parties or more contribute jointly in financing and managing a particular project (Partnership contracts).

## P

***Participants' Investment Fund (PIF):*** Investment fund in a Takaful scheme.

***Participants' Takaful Fund (PTF):*** Risk fund in a Takaful scheme.

## Q

***Qiyas:*** analogical reasoning by Sharia scholars for issues that have no clear-cut resolution in the Qur'an and *Sunnah*.

***Quard Hassan:*** interest-free loan, provided at the understanding that the same amount of money will be paid back.

***Qur'an:*** Is the holy book revealed by Allah through the Angel Gabriel to the last Prophet, Muhammad, as a complete system for mankind.

## R

***Rab Al-Mal:*** The capital provider.

***Retakaful:*** Islamic reinsurance.

***Riba:*** Literally means growth, but in the context of Islamic economy it means usury.

***Roshd:*** Right path, sound judgment, and right-minded An Arabic word means rationality.

## S

***Salam:*** A forward sale contract, whereby the seller undertakes to deliver well-described goods in the future for immediate payment.

***Schools of Islamic Thought:*** These represent ways of thinking and methods of interpretation of religious issues. These schools appeared after the death of the prophet Mohammad (PBUH) and have different interpretations for some religious issues. The

four most well-known schools of Islamic thought among *Sunni* Muslims are *Maliki*, *Shafai*, *Hanafi*, and *Hanbali*.

**Shahada:** The first of the five pillars of Islam. *Shahada* is the Muslim profession of faith, expressing the two simple, fundamental beliefs that make one a Muslim: There is no god but Allah and Muhammad is his messenger.

**Sharia Supervisory Board/Council:** Internal or external religious advisors who ensure adherence to Sharia rules and principles of a Takaful undertaking

**Sharia:** The Islamic law of human conduct, which regulates all matters in the lives of Muslims. It is based mainly on the Qur'an and *Sunnah*. Other sources include *Ijtihad*, *Ijmaa*, and *Qiyas* which are used for issues not covered in Qur'an and *Sunnah*.

**Sukuk:** Islamic equivalent of a bond (Plural of *Sakk*).

**Sunnah:** The Prophet Muhammad's deeds and sayings. It represents the second source of Islamic *Sharia*.

**Sunnah:** Traditions and sayings of the Prophet Muhammad.

## T

**Ta'awun:** Mutual assistance.

**Tabarru':** Donation, contribution, gift (in *Takaful* contract = contribution paid by Takaful Participants).

**Takaful Operator:** Equivalent to the insurance company in conventional insurance.

**Takaful Participant:** Equivalent to a policyholder in conventional insurance.

**Takaful:** Literally means solidarity, mutual responsibility, an alternative term to Islamic insurance.

**Tawarruq:** Form of reverse murabaha, purchase of a commodity that is immediately sold on to a third party.

**Tawheed:** (monotheism) The term is derived from the three consonants root w-h-d, which serves as the vehicle for the basic concept of 'oneness,' or 'unity,' along with the closely related ideas of 'singularity' and 'uniqueness'. **Tawakul:** Relying on Allah and accepting destiny.

## U

**Umma:** The Islamic community.

## W

**Wakala:** Agency contract based on principal-agent agreement (a person nominates another to act on his behalf).

**Wakalah Fee:** Management fee.

**Wakeel:** Agent (in Takaful, this is the Takaful Operator).

**Waqf:** Religious endowment, trust fund.

## **Z**

**Zakat:** Islamic religious tax. It represents an annual obligatory payment for all Muslims who have the minimum amount of wealth specified the *Sunnah*. The rate (in most cases) is 2.5% of the wealth annually (based on the lunar calendar). The recipients of *Zakat* are specified in the *Quran*. They include: poor Muslims, needy Muslims, new Muslim converts, Muslim prisoners of war (to liberate them by payment of money), workers who collect *Zakat*, debtors in financial difficulty who are not able to pay their debt, and volunteers who dedicate their efforts and time to spread the Islamic religion.

