

Car Islamic Insurance- Influence of Age, Education & Income in Pakistan and U.A.E: A Comparative Study

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Takaful is an Islamic concept of insurance, which offers Shariah compliant Insurance products all over the world and emphasis on mutual guarantee or protection by risk sharing. The objective of this research is to investigate the influence of three selected variables: Age, Education and Income on the preference of individuals in a sample to buy Car Islamic Insurance (Motor Takaful) from Karachi, Pakistan and Dubai & Sharjah U.A.E. The methodology for this research is primary survey based on a sample taken from Pakistan and U.A.E .It is concluded that the preference of individuals in Pakistan and U.A.E has highly influenced by income levels as compared to other variables.

Field of Research: *Islamic Insurance Products & Process*

1. Introduction

Takaful (Islamic Insurance) is described as the Halal alternative for conventional Insurance. The Takaful system of insurance was established in 1985 by the grand Counsel of Islamic scholars in Makkah, Saudi Arabia.(Aridam,Ashoke and Siddhartha)The word Takaful is derived from the Arabic root word *kafala* means 'mutual guarantee or protection' (imran Ali,2008).Takaful is based on the following principles(Benjamin Macfarlane, Islamic finance news).

- Policyholders co-operate among themselves for their common good.
- Every policyholder pays his subscription to help those that need assistance.
- Losses are divided and liabilities spread according to the community pooling System. Uncertainty is eliminated in respect of subscription and compensation.
- It does not derive advantage at the cost of others.

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There are two types of takaful,

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- 1: General Takaful: offers all kind of non-life risk coverage such as: property Takaful, marine Takaful, motor Takaful etc.
- 2: Family Takaful: offers all kind of risk coverage other than general takaful such as: Term life Takaful, whole life Takaful, marriage plan, Education plan etc

Motor Takaful is a product offers two insurance plans.

A: Motor all risk (Comprehensive) it covers losses due to accident to the vehicle, fire in the vehicle or theft of the vehicle and also includes losses or damages to third party persons and properties arising out of an accident.

B: Motor Third Party Liability: it covers losses due to accident and death or bodily injury of third party (Passengers, spouse, children if they are injured) except the insured or the driver. (www.salama.ae)

There are three (3) models of Takaful which are used in all over the world”

- Mudarba Model
- Wakala Model
- Wakala +Waqf Model

The Mudaraba model is based on Mudaraba and is basically a profit-sharing mechanism where the surplus is shared between the Takaful Company and the participants in a predetermined mutually agreed manner between the contracting parties. This model started off in Malaysia, the reason being that in Malaysia they started with Life Takaful and the Mudaraba model was considered more appropriate for life investments. This same model was continued when they entered general Takaful.

The Wakala model is a fee-based mechanism where the Takaful operator is only entitled to take out a fee upfront as the contribution, though it may also charge a fund management fee and performance incentive fee. This model is formulated by scholars in the Middle East and is still the predominant form of Takaful in that part of the World. (www.takaful.com)

In Pakistan, Wakal + Waqf Model is used. The relationship of the participants and the operator is directly with the WAQF fund. The Operator is the “Wakeel” of the fund and the participants pay contribution to the WAQF fund by way of Tabarru. The contributions received would also be of this fund and the combined amount will be used for investment and the profits earned would again be deposited in the same fund which also eliminates the issue of Gharar (uncertainty). The company pays losses to the participant from the same fund. Operational expenses incurred for providing Takaful services are also met from the same fund. (Imran Ali, 2008)

A broad estimate of the total amount of risk underwritten by the Takaful industry in 2000 is approximately US\$550 million for both Life and non-Life business, of which around US\$193 million relates to risk in the Asia Pacific region. Malaysia is one of

the largest Takaful markets outside the Arab region. It writes about 72% of the non-Arab Takaful business. (*www.islamicfinancenews.com*, 9th June, 2006)

2. Literature Review

Literatures on Takaful cover almost all aspects related to the subject. Operational wise Conventional insurance works on the basis of “risk assumption ”by insurer or the “trade of risk”(Omar&Dawood,2000).though the selling and buying of insurance contracts and in the absence of Ta’awun, Tabarru, and Mudharabah or wakala the whole system of insurance is said to have operated involving three basic elements which are totally contradictory to Islamic rules of Shari’ah (Mohd Fadzli Yousof 1996a&b,maysami&kwon,1999,omar&Dawood,2000,billah,2003) the elements of gharar, maisar and riba (Azam,1996). Islamic insurance (Takaful) is conceptually defined as an Islamic financial protection system which involves a joint guarantee scheme in providing possible indemnity or contingency against pure risk resulting from an unexpected occurrence of loss damage to one’s life or property (Billah, 2003) Mr. Kevin Willis who is a credit analyst at Standard and Poors has written in his paper that the key requirements of the business model are to adhere to Islamic principles of:

- Avoiding uncertainty called “gharar”
- Avoiding gambling called “maisir”
- Avoiding interest called “riba”

The demand for Takaful system in the early period of its inception was inspired mainly by the prevailing needs of Malaysian Muslim public for Shari’ah compliant alternative to conventional insurance, besides complementing the operation of the first Islamic bank that was published at that time.(Mohd Fadzli,1996a,Bank Negara Malaysia2004a)looking at the vast potential of Takaful and in line with its vision of trying to be the hub in the region, Malaysia had taken a big leap in introducing and developing Takaful system systematically learning from the experience of other pioneers in Islamic insurance industry abroad the first Takaful company was set up in 1984.(bank Negara Malaysia,2004b).the insurance industry in Bahrain has been growing steadily in recent years public perception of life insurance has changed considerably with the introduction of Takaful and now represents a huge, fairly untapped opportunity, there is need to raise awareness about insurance among the public in Bahrain in order to further grow the insurance market.(the insurance & Takaful review Bahrain,2008). The Senior Joint Director, Islamic Banking Department, State Bank of Pakistan Mr. Muhammad Ayub has written in his article that the Takaful business has growing rapidly all over the world there are over 60 companies offering Takaful services in more than 23 countries around the world. In 2005 Pak-Kuwait Takaful Company was allowed by the SECP to begin its operations in Pakistan under the name of “First Takaful Insurance Company Limited” with authorized capital of Rs 100 million. With the demographics of Islamic countries and that of the Islamic population globally, the prospect of Islamic insurance models looks promising. During 2007-2008, the emerging markets contributed close to 28%

of the global economic activities and the Takaful market share is estimated to grow by 8% by 2015 from the current 4% in Islamic countries (arindam, ashoke and siddhartha 2008). The Islamic Finance News has published an article of Benjamin Macfarlane who works for B.J.Macfarlane & Co., which is a law, firm specializing in insurance and reinsurance mentioned that if the system of Takaful is projected correctly and understood properly it could lead to a manifold increase in take-up of insurance products in Islamic countries and amongst Muslims in other countries. With reference to the research paper "TAKAFUL (Islamic Insurance): An Economic Paradigm" by Mohd. Ma'sum Billah (Ph.D.) Assoc. Professor of Law, International Islamic University Malaysia, he mentioned despite the progress made in this area, there is room for development both in principles and practices of Takaful operations, which may act as an alternative in the true sense to the insurance practices offered under the banner of conventional systems.

Ramin cooper Maysami and W.jean Kwon mentioned in their paper "An analysis of Islamic Takaful insurance" that several issues, however, must be resolved before *Takaful* insurance can advance globally. First, there are still needs for educating the general public about insurance. Second, the majority *Takaful* insurers currently operate only in their local market. They need to expose themselves to the international insurance market. They can serve Muslim individuals and business in other countries but without having the benefit of *Takaful* insurance. Additionally, identification of *halal* investment sources both within Islamic countries and in other non-Islamic countries can help *Takaful* insurers improve their competitiveness and investment results, which can also help them effectively, spread their investment risks geographically. Third, there is no general agreement as to the needs for *Takaful* insurance. In any economically mature market, price and quality competition determines the insurance market position of an insurer. *Takaful* insurers, therefore, need to keep focusing more on the development of a wide range of competitive products, both pricing-and quality-wise, before they recommend Muslim individuals and business to purchase their products. Fourth, *Takaful* insurance is, on one hand, a profit-sharing arrangement between an insurer and its insured. Takaful insurers are expected to exercise prudence in making investment decisions and not to subject such funds to potentially high return and high-risk situations. Finally, there must be a formal supervisory system that monitors *Takaful* operations efficiently. Dawood yusef Taylor has mention in his article that Fareast and Middle East regions lead the way in Takaful development, there is a healthy and growing general Takaful industry in the Middle East region. In Europe and USA significant investment is required to compete with the conventional insurance industry and regulatory changes would also be necessary in this region. Moreover many opportunities are in regions with large population such as: Pakistan, India. Egypt. Iran etc although contributions may be smaller but the market size is significant further Muslim minorities In the West are a vast untapped potential, from an industry perspective the goal has to be rapid expansion of Takaful throughout the Muslim communities worldwide, working within existing regulatory and Sharia frameworks. (Dawood, 2005)

3: Methodology:

Primary survey has been conducted with questionnaires filled by individuals, having jobs in different organizations, from Pakistan and U.A.E. Karachi has been selected to represent Pakistan because it is considered the hub of business activities in Pakistan (www.wikipedia.com) and Dubai & Sharjah to represent U.A.E since Dubai is the 2nd largest emirate of U.A.E and a global hub for service industries such as IT and Finance and Sharjah is also a third largest and populous emirate of U.A.E. (www.dubai.com) After the screening of questionnaires a sample of 200 individuals consists of 50% from Pakistan and 50% from U.A.E has been selected. A sample is based on minimum age of 25 years, minimum education of Intermediate and minimum income range of Rs30, 000 in Pakistan and 3100Dirhams in U.A.E. For statistical analysis Frequency tables and cross tabulations have been made between insurance preference and three categorical variables/determinants to calculate the influence of three selected variables on individuals' car insurance preference in a sample.

4: Findings:

4.1: Results from Pakistan

After the analysis from questionnaires filled by individuals, it has been found that 72% individuals in a sample of 100 prefer car Islamic Insurance. The following frequency table-1 clears this:

Table-1: Insurance Preference

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------------|-----------|---------|---------------|--------------------|
| Valid Islamic Insurance | 72 | 72.0 | 72.0 | 72.0 |
| Conventional Insurance | 28 | 28.0 | 28.0 | 100.0 |
| Total | 100 | 100.0 | 100.0 | |

To gauge the influence of three variables on individuals' car insurance preference analysis is done by frequency tables and cross tabulation between insurance and three variables and it has been ascertain that in three given age alternatives 44% are 25 to 35 years of age, 16% are of 36 to 45 years and 12% are above 45 who prefer car Islamic Insurance. It is cleared by Table-2 & 2.1.

Table-2.1: Age Frequency

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|----------------------|-----------|---------|---------------|--------------------|
| Valid 25 to 35 years | 58 | 58.0 | 58.0 | 58.0 |
| 36 to 45 years | 26 | 26.0 | 26.0 | 84.0 |
| Above 45 years | 16 | 16.0 | 16.0 | 100.0 |
| Total | 100 | 100.0 | 100.0 | |

Table-2.2: Age * Insurance Cross Tabulation

| | INSURANCE | | Total |
|----------------------|-------------------|------------------------|-------|
| | Islamic Insurance | Conventional Insurance | |
| Valid 25 to 35 years | 44 | 14 | 58 |
| 36 to 45 years | 16 | 10 | 26 |
| Above 45 years | 12 | 4 | 16 |
| Total | 72 | 28 | 100 |

Similarly in four alternatives for Education 6% individuals are intermediate in a sample those prefer car Islamic Insurance, 13% are graduates, 49% are Masters and only 4% are MPhil or PHD. Tables 3 & 3.1 can present it.

Table-3.1: Education Frequency

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------------|-----------|---------|---------------|--------------------|
| Valid Intermediate | 10 | 10.0 | 10.0 | 10.0 |
| Graduation | 22 | 22.0 | 22.0 | 32.0 |
| Master | 61 | 61.0 | 61.0 | 93.0 |
| MPhil or PHD | 7 | 7.0 | 7.0 | 100.0 |
| Total | 100 | 100.0 | 100.0 | |

Table 3.2: Education * Insurance Cross Tabulation

| | INSURANCE | | Total |
|--------------------|-------------------|------------------------|-------|
| | Islamic Insurance | Conventional Insurance | |
| Valid Intermediate | 6 | 4 | 10 |
| Graduation | 13 | 9 | 22 |
| Master | 49 | 12 | 61 |
| MPhil or PHD | 4 | 3 | 7 |
| Total | 72 | 28 | 100 |

To investigate the influence of income on individuals' preference of insurance it has been obtained that 9% are Rs30, 000 to Rs35, 000 income ranges, 12%are 36,000 to 40,000 range and 51% are above Rs40, 000 income ranges that prefer car Islamic insurance. Table 4 & 4.1 show these findings.

Table-4.1: Income Frequency

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------------------|-----------|---------|---------------|--------------------|
| Valid 30,000 to 35,000 | 14 | 14.0 | 14.0 | 14.0 |
| 36,000 to 40,000 | 19 | 19.0 | 19.0 | 33.0 |
| Above 40,000 | 67 | 67.0 | 67.0 | 100.0 |
| Total | 100 | 100.0 | 100.0 | |

Table-4.2: Income * Insurance Cross Tabulation

| | | INSURANCE | | Total |
|--------|----------------------|-------------------|------------------------|-------|
| | | Islamic Insurance | Conventional Insurance | |
| Income | Rs.30 000 to 35,000 | 9 | 5 | 14 |
| | Rs.35, 000 to 40,000 | 12 | 7 | 19 |
| | Above Rs.40, 000 | 51 | 16 | 67 |
| | Total | 72 | 28 | 100 |

4.2: Results from U.A.E

It has been found from the analysis of questionnaires filled by individuals in a random sample that 70% individuals prefer car Islamic Insurance .it can be seen by the following frequency table-5.

Table-5: Insurance Preference

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------------|-----------|---------|---------------|--------------------|
| Valid Islamic Insurance | 70 | 70.0 | 70.0 | 70.0 |
| Conventional Insurance | 30 | 30.0 | 30.0 | 100.0 |
| Total | 100 | 100.0 | 100.0 | |

After the analysis by frequency tables and cross tabulation between insurance and determinants it has been found that in three age alternatives 42% are 25 to 35 years of age ,20% are of 36 to 45 years and 8% are above 45 years of age who prefer car Islamic Insurance. Tables 6 & 6.1 show it.

Table-6.1: Age Frequency

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|----------------------|-----------|---------|---------------|--------------------|
| Valid 25 to 35 years | 51 | 51.0 | 51.0 | 51.0 |
| 36 to 45 years | 36 | 36.0 | 36.0 | 87.0 |
| Above 45 years | 13 | 13.0 | 13.0 | 100.0 |
| Total | 100 | 100.0 | 100.0 | |

Table-6.2: Age * Insurance Cross Tabulation

| | INSURANCE | | Total |
|----------------------|-------------------|------------------------|-------|
| | Islamic Insurance | Conventional Insurance | |
| Valid 25 to 35 years | 42 | 9 | 51 |
| 36 to 45 years | 20 | 16 | 36 |
| Above 45 years | 8 | 5 | 13 |
| Total | 70 | 30 | 100 |

Likewise in four alternatives for Education 11% is intermediate in sample that prefer car Islamic Insurance, 46% are graduates, 13% are masters and 0% are M.Phil or PHD. It is cleared by the 7 & 7.1.

Table-7.1: Education Frequency

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------------|-----------|---------|---------------|--------------------|
| Valid Intermediate | 20 | 20.0 | 20.0 | 20.0 |
| Graduation | 58 | 58.0 | 58.0 | 78.0 |
| Master | 22 | 22.0 | 22.0 | 100.0 |
| Total | 100 | 100.0 | 100.0 | |

Table-7.2: Education * Insurance Cross Tabulation

| | INSURANCE | | Total |
|--------------------|-------------------|------------------------|-------|
| | Islamic Insurance | Conventional Insurance | |
| Valid Intermediate | 11 | 9 | 20 |
| Graduation | 46 | 12 | 58 |
| Master | 13 | 9 | 22 |
| Total | 70 | 30 | 100 |

To see the influence of income on individuals' preference of insurance it has been obtained that 6% are 3100Dirhams to 4000Dirhams income range, 11% are 4100 dirham to 5000 dirham range and 53% are above 5000dirhams income range those prefer car Islamic insurance. The following tables 8 & 8.1 make these findings clear.

Table-8.1: Income Frequency

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------------|-----------|---------|---------------|--------------------|
| Valid 3100 to 4000Dhs | 12 | 12.0 | 12.0 | 12.0 |
| 4100 to 5000Dhs | 19 | 19.0 | 19.0 | 31.0 |
| Above 5000Dhs | 69 | 69.0 | 69.0 | 100.0 |
| Total | 100 | 100.0 | 100.0 | |

Table-8.2: Income * Insurance Cross Tabulation

| Count | | INSURANCE | | Total |
|-----------------------|--|-------------------|------------------------|-------|
| | | Islamic Insurance | Conventional Insurance | |
| Valid 3100 to 4000Dhs | | 6 | 6 | 12 |
| 4100 to 5000Dhs | | 11 | 8 | 19 |
| Above 5000Dhs | | 53 | 16 | 69 |
| Total | | 70 | 30 | 100 |

5: Conclusion:

It is concluded from the comparative study of data compiled from a sample that in Pakistan out of 72% who prefer car Islamic insurance there are 44% individuals of 25 years to 35 years age, 49% are having masters level education and 51% individuals whose earning level is above Rs40000 have more influence on the preference of car Islamic Insurance as compared to other alternatives. Moreover, in U.A.E out of 70% there are 42% individuals of 25 years to 35 years age, 46% are having graduation level education and 53% individuals whose earning level is above 5000 Dirham have more influence on the preference of car Islamic Insurance as compared to other alternatives. In both countries income influences first then educations and age because having certain level of income individuals can afford a car as well as insurance premium and this can be attained after a certain level of education at a certain age. Education can also be helpful to differentiate between different alternatives of insurance and its benefits. Though both countries are Islamic but the possible reasons of these differences might be the GDP per capita income in U.A.E it is around \$40400 and in Pakistan it is about \$2600. Since in Pakistan there are 52 conventional insurance companies and 5 Islamic insurance companies because Takaful was introduced in Pakistan in 2005 so more Islamic Insurance companies should be introduced in Pakistan and awareness should be created about the different products of Takaful. Whereas in U.A.E although Takaful operations were started about 10 years ago but according to oxford business report 2008 Sharja about 750,000 Pakistani and one million Indians live there so Takaful companies should highlight the benefits of different products to attract not only Muslims but non Muslims also. There should be specific Takaful laws for Takaful operators globally.

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