

A review of 20 years of takaful literature using a systematic method

Abstract

Purpose – The study aims to summarize the 20 years of literature published in takaful between 2000 and 2019 and propose some key areas as the directions for future research.

Design/methodology/approach – The present study utilizes the systematic method of reviewing the literature. The SCOPUS database has been accessed, and 96 articles have been accounted for the analysis. The articles are grouped in their exclusive themes, such as consumer behavior, financial and nonfinancial performance, takaful models, human resources and governance.

Findings – Takaful research has widely covered marketing, finance, human resource, governance and stresses on its legal issues. Both qualitative and quantitative methodologies have been employed. The research gaps have been classified based on the respective areas. Large share of current body of takaful literature consists of the studies related to the application of behavioural theories to examine the behavioural intention to take up takaful services.

Originality/value – The study enriches the literature of takaful by reviewing articles according to their respective themes, thereby contributing to the significant findings missing from existing literature surveys.

Keywords Takaful, Islamic insurance, Systematic literature review, Demand determinants, Behavioural intention

Paper type Research paper

1. Introduction

[Takaful Act \(1984\)](#) defines takaful as a scheme based on brotherhood, solidarity and mutual assistance, which provides mutual financial aid and contribution to the participants in case of need, whereby the participants mutually agree to contribute for that purpose. The Islamic insurance scheme is a cooperative scheme based on these principles. Further, the takaful mechanism has been established as an alternative to risk management techniques of conventional insurance, which includes *Riba* (Interest), *Gharar* (Uncertainty) and *Maysir* (Ambiguity). Eliminating the impermissible elements from an insurance system brings forth the idea of takaful into practice.

Islamic law lays down the foundation of alternative risk transfer mechanisms whereby the risk is not transferred but shared among the group of policyholders and restricts the takaful companies to invest in *Shariah*-compliant businesses. It eliminates the elements of the above prohibitions. The takaful business is a couple of decades old and a fast-growing business in Islamic finance industry. The research in this area has gained pace with the seminal work of [Billah \(1999\)](#), who has extended the scope of takaful in risk-mitigating practices and justified the *Shariah* ruling for takaful operation. After this justification, many researchers ([Husin and Ab Rahman, 2013](#); [Al-Amri and Hossain, 2017](#); [Al Mahi et al., 2017](#)) came across and have



analyzed the different aspects of takaful, yet several areas of the takaful are still unexplored. In takaful research pool, demand determinants of takaful, comparison between takaful and conventional insurance, issues and limitations with the different takaful models have been the researchers' cynosure. [Al-Amri and Hossain \(2017\)](#) have reported the growth history and literature of takaful covering efficiency concerns, issues with different models and micro-takaful characteristics in Indonesia. Likewise, [Al Mahi et al. \(2017\)](#) have studied the takaful literature and explore the importance of religiosity for takaful demand. [Husin and Ab Rahman \(2013\)](#) have surveyed the literature to summarize the application of decomposed theory of planned behaviour (TPB) to examine the determinants of family takaful schemes in Malaysia. Behavioral constructs and demographic factors affecting the demand for takaful have been systematically reviewed. Recent literature surveys of takaful have used the bibliometric method to analyze the existing contribution of takaful ([Nasir et al., 2021](#); [Khan et al., 2020](#)). Though previous literature surveys have attempted to review takaful aspects, the present study classifies the takaful into broader domains and employes systematic method of review to focus each aspects of takaful contribution.

The concept of takaful is fairly recent, and research in this area is still in a state of emergence. To identify the gaps and potential threshold areas, this study aims to summarize the past 20 years of literature published in takaful between 2000 and 2019 and propose some key areas as the directions for future research. For this purpose, the article presents a systematic literature review of the antecedents of takaful and in doing so proposes scope and implications for conducting future research.

The first section defines the concept and rationale of takaful. It also explains the research question and proposes the objective of the study. In the subsequent section, the methodology of the study has been discussed. Since the present study is a systematic literature review, database search, selection of keywords and filtrations of the articles have also been demonstrated in the same section. The next section contains an analysis of the study. In this section, the exclusive themes in takaful research have been identified, and the purpose, methodology findings and gaps have been reported in respective themes. In the last section, the study is concluded by suggesting some potential direction for future research.

2. Methodology

2.1 Search scope

Takaful is also known as Islamic insurance since its ruling is based on the Shariah principles. Takaful is different from conventional insurance in several ways. In takaful, since the participants are the actual capital provider to the takaful, they are liable to indemnify the loss to any of its members mutually. This risk management is similar to mutual insurance, but mutual insurance is based on customary laws. Hence, the mutual insurance cannot be included in the scope of the present study. Some other forms of takaful, such as social takaful, poverty alleviation takaful and takaful by way of *waqf*, are also included in the study. To get clarity about the concept and characteristics, a qualitative expert opinion has been conducted. Finally, in order to adhere to the objective, we have arrived at a consensus about the scope of the study must be limited to the commercialized form of takaful undertaking.

2.2 Study method

The present research is conducted in the form of a systematic literature survey. It is different from the traditional literature survey method. The systematic approach is distinguished from the traditional method, and objectively oriented, replicable systematic, comprehensive and the process of reporting the text is somehow similar to that of empirical studies ([Weed, 2005](#)). Originally, systematic literature reviews (SLRs) are developed in research areas whereby the

sample size is large, and the similar results of the research need to be assembled to arrive at effective decision-making. The method is also extensively used in the area of management. In management, SLRs are used to provide transparency, clarity, accessibility and the impartial exclusive coverage on a particular area (Thorpe *et al.*, 2005). According to Klassen *et al.* (1998), SLR is a review whereby comprehensive search of relevant studies on a specific topic is appraised and synthesized according to a predetermined explicit method. In insurance research, SLR is applied to summarize the various aspects, like health insurance (Skinner and Mayer, 2007), mutual insurance (Talonon, 2016) and community-based health insurance (Ekman, 2004).

2.3 Search process

The present review incorporates the quality journals and includes the research articles identified through the online indexing platform Scopus. Instead of searching each database individually, the articles published in journals indexed in Scopus are of high quality. Additionally, after a comprehensive inclusion of the research articles from such databases, articles from Google Scholar have also been reviewed to ensure the maximum coverage. To confirm the scientific validity, only peer-reviewed articles written in English have been incorporated. As two terms, *takaful* and Islamic insurance, are used exclusively. Hence, the search for articles has been conducted alternatively using the keywords “Takaful” or “Islamic insurance.” Only those articles have been incorporated in which the terms are appearing either in title or abstract or the keywords. However, we have found some of the articles focusing the whole Islamic finance industry. In such studies, neither objective nor the findings of the study are exclusively relevant to the *takaful*. Hence, such articles are not included. Initially, the search has produced 304 relevant articles, book chapters and conference papers, and review papers. After filtering the documents, visualized in Figure 1, 96 articles are found appropriate for the analysis during the publication period 2000–2019.

The articles have been analysed in two stages. First, the articles’ description has been provided on the grounds of the year of publication, the number of authors, name of the journal, methods applied (theoretical, conceptual and empirical), the purpose of the study and findings. In the second stage, we have been through whole articles and focused on specific themes of the articles that successively results in the article’s categories and sub-categories. It is possible to distill words into fewer content-related categories. It is assumed that when classified into the same categories, words, phrases and the like share the same meaning (Cavanagh, 1997). Likewise, we have identified several themes, such as demand determinants, efficiency, corporate social responsibility, organizational performance, incentives to human resources, products and *takaful* models.

3. Analysis

3.1 Demand determinants

Economic and behavioral factors greatly influence insurance demand. The factors include awareness, religiosity, attitude, subjective norms, perceived behavioral control, intention to purchase, adoption, uncertainty, relative advantage, perceived risk, exposure, mass media, word of mouth, self-efficacy, social influence and compatibility (Maysami and William, 2006; Akhter and Hussain, 2012; Husin and Ab Rahman, 2013; Echchabi *et al.*, 2014). These factors are used to assess the direct and indirect effect on the adoption of *takaful* services. Similarly, the economic factors influential for the demand for Islamic insurance include dependency ratio, income, education, Islamic banking development, Muslim population, inflation, rate of interest, financial sector development, life expectancy, trade and consumer price index, government consumption and saving rate (Akhtar *et al.*, 2017; Abduh and Isma, 2017) (see Table 1).

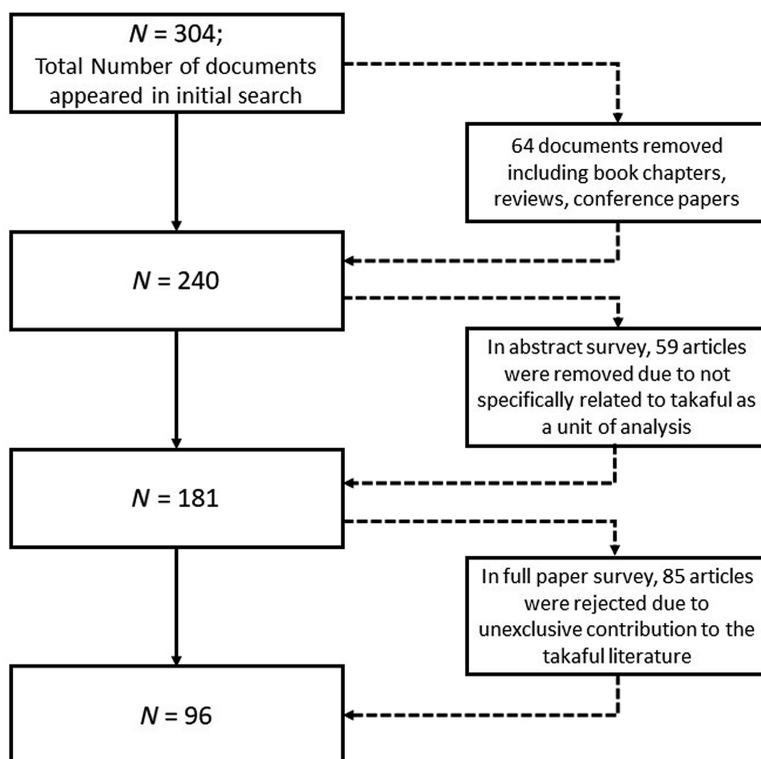


Figure 1.
Systematic research
process

3.1.1 Takaful purchase intention. There are approximately 30 papers that have included purchase intention of takaful as the purpose of the study. The articles have been classified over the broad categories, like demand determinants, awareness of takaful among consumers, perception of takaful and all. Corporate demand determinants of takaful have also been examined. Some articles have emphasized the adoption of takaful schemes. Coolen-Maturi (2013) has examined the adoption of general takaful services among consumers from the United Kingdom if prices are competitive. The religious inclination is considered to be a critical factor while adopting takaful schemes (Hassan *et al.*, 2017; Aziz *et al.*, 2019). Moreover, as education increases, people prefer purchasing conventional insurance, and religious people prefer takaful (Ustaoglu, 2015). On the contrary, the religiosity is found to be statistically insignificant for the intention to purchase takaful schemes among Malaysian consumers (Husin and Ab Rahman, 2016a). Hassan *et al.* (2017) surveyed people from Kenya. The results reveal that the Shariah teachings are found to be significant in enhancing the religious faith among consumers.

By examining the research of takaful, the evidence of the application of several behavioral theories have been found in order to understand the intention to participate in takaful schemes in different parts of the world: theory of reasoned action (TRA), TPB and new product adoption theory. The new product adoption theory emphasizes the psychological, sociocultural influence and customer preferences as internal forces cause the acceptance and rejection of a new product. This theory maintains a hierarchical structure that consists of awareness of the product on the bottom, which is followed by the customer's interest,

Author	Journal	Method	Findings
<i>Aziz et al. (2019)</i>	APJML	PLS-SEM	Knowledge and perceived usefulness have significant and positive relationships with the attitude towards family takaful schemes. Perceived trust completely mediated the relationship between perceived religiosity and attitude towards family takaful
<i>Hassan and Abbas (2019)</i>	JIMA	Logistic regression	Relative advantage, compatibility, social influence, awareness, and religiosity have a significant impact on the behavioral intention towards takaful
<i>Ali et al. (2019)</i>	IJOEM	SEM	Relative advantage, compatibility, trialability, observability, religiosity, and consumer awareness, except complexity, have a positive and significant impact on takaful adoption
<i>Farhat et al. (2019)</i>	JIMA	SEM	Attitude, subjective norm, and Halal certification positively influence behavioral intention
<i>Kazaure (2019)</i>	JIABR	Multiple regression	Attitude, perceived behavioral control, and social influence affects the behavioral intention toward takaful among microenterprises
<i>Bhatti and Husin (2019)</i>	JIMA	PLS-SEM	Attitude, subjective norm and perceived behavior control significantly predict the intention to participate in family takaful schemes
<i>Schmidt (2019)</i>	IJBM	Descriptive statistics and chi-square	The study exhibits the effect of political orientation on American consumers and reports that American consumers with conservative political views are less favorable toward takaful
<i>Raza et al. (2019)</i>	JIMA	SEM	Attitude, perceived behavioral control, and subjective norm predict takaful adoption while perceived risk and intention are insignificantly related
<i>Shaikh et al. (2019)</i>	JIMA	SEM	Perceived relative advantage, perceived compatibility, awareness and religious belief except perceived complexity predict takaful adoption. Gender, age, education does not moderate takaful adoption
<i>Rehman et al. (2019)</i>	JIMA	PLS-SEM	Service quality and relationship marketing positively influence the corporate image of takaful organization. Corporate image and reputation can predict customer loyalty
<i>Salman et al. (2018)</i>	JIABR	Multiple regression	Internal factors, religion and education have a significant impact on the acceptance of takaful by policy-holders
<i>Wahab (2018)</i>	JIMA	SEM	A positive and moderate relationship was observed between the perception of the performance of takaful operators and the customers' intention in using a medical takaful card
<i>Husin et al. (2016)</i>	JIMA	SEM	Subjective norm is significantly influenced by mass media and word of mouth and affects behavioral intention to purchase family takaful

Table 1.
Review of demand
determinants of takaful

(continued)

Author	Journal	Method	Findings
Husin and Ab Rahman (2016a)	JIABR	SEM	Attitudes towards participation in family takaful schemes, perceived behavioural control (PBC), knowledge and exposure significantly influence purchase intention. Religiosity, awareness and subjective norm to intention was insignificant
Husin and Ab Rahman (2016b)	IJSE	PLS-SEM	Awareness, knowledge and exposure significantly influence takaful participation
Ustaoglu (2015)	JAAS	Descriptive statistics and chi-square	As education level increases, conventional insurance companies are preferred and that most religious people prefer takaful
Echchabi <i>et al.</i> (2014)	JIABR	SEM	Tunisian customers are willing to adopt Islamic insurance services. Furthermore, the compatibility of these services is a determinant factor of their decision
Akhter and Hussain (2012)	IMEFM	Descriptive statistics and chi-square	The survey of insurance customers revealed that the majority of the respondents are unaware of the takaful concept
Rahman and Daud (2010)	Humanomics	Descriptive statistics and chi-square	The study discovers some irregularities by the managed care organizations (MCO). Moral hazard is present in longer disability durations claims, and average claims per person even for shorter duration disabilities

Note(s): PLS-SEM = Partial Least Square Structural Equation Modeling; SEM = Structural Equation Modeling; PBC = Perceived Behavioural Control

Table 1.

evaluation of the product and trial of the product. Though the takaful industry is growing rapidly, yet the participation is less than expected. Hence, examining consumer awareness toward takaful services is one of the major issues behind takaful operators. [Salman *et al.* \(2018\)](#) applied the new product adoption theory to examine whether internal factors are crucial to open up takaful by Indian consumers. They found that the internal factors are significant in the acceptance of takaful services by Indian policyholders. In addition, since the new product adoption theory implies that the more innovative mind would look for the new products; Muslims were found to be more innovative than the non-Muslims. In Pakistan, 91% of the respondents were reported to be unaware of the takaful concept ([Akhter and Hussain, 2012](#)). The survey results among Turkish people show that the respondents were little aware of the takaful services ([Ustaoglu, 2015](#)). [Ayinde and Echchabi \(2012\)](#) have measured the willingness of Malaysians to adopt takaful services. They revealed that compatibility and awareness are the significant factors influencing the adoption of takaful. [Hamid and Othman \(2009\)](#) have extended the work regarding awareness of takaful among Malaysians. They revealed that people are not aware of takaful's inherent concepts, like *al-ujrah* (commission) and *al-wakalah* (agent). They further added that 68% of the respondents do not know the concept of gharar and maysir, which causes the conventional insurance impermissible in Shariah law. On the contrary, a survey employed among Malaysians finds a greater level of awareness and availability of takaful and insurance coverage ([Mokhtar *et al.*, 2017](#)). Moreover, compatibility is the only deciding factor for takaful's adoption among Tunisian consumers ([Echchabi *et al.*, 2014](#)). Additionally, [Maysami and Willian \(2006\)](#) have conducted qualitative research among Singapore consumers and express similar findings where people are largely unaware of the takaful services. Further, they demonstrate that Muslims with conservative values are less aware than Muslims with liberal values.

The theory of innovation diffusion (TID) has been widely applied in behavioral sciences. The TID incorporates the dimensions which are positively influencing the consumer attitude

and behavior. [Rogers \(1983\)](#) states that innovation is an idea, practice or object that an individual considers new for adoption. In addition, diffusion refers to the process whereby an innovation, over time, spreads over the other people in the community. The TID mainly includes five dimensions: relative advantage, compatibility, complexity, trialability and observability. [Echchabi et al. \(2014\)](#) have applied the theory while studying the willingness to adopt takaful services among Tunisians after the Jasmine revolution. They found that the Tunisian customers are willing to adopt takaful services. The major driving force to adopt the takaful schemes is compatibility. Likewise, [Ali et al. \(2019\)](#) observe the application of theory of innovation diffusion (TID) for the adoption of takaful in Pakistan. They find the trialability, compatibility, observability, relative advantage, consumer awareness and religiosity have a positive and significant impact on takaful adoption. Complexity has a negative and significant impact on the adoption of takaful ([Ali et al., 2019](#); [Shaikh et al., 2019](#)).

Mostly, empirical studies in takaful have grounded on popular theories such as the TRA developed by [Fishbein and Ajzen \(1975\)](#) and TPB propounded by [Ajzen \(1985\)](#), which itself is an extension of TRA. The TRA model draws its existence from the subjective norm, attitude and behavioral intention of the consumers. Several authors have applied the constructs in Islamic finance to examine consumers' purchase intention towards takaful services. Attitude is a suggested positive or negative behavior that forms behavioral intention. The TPB exhibits the impact of attitude, subjective norm and perceived behavior control on purchase intention. The TPB is a popular theory that finds its application in several behavioral studies. Attitude is an important construct in both the theories, and most of them have reported its positive impact on behavior intention ([Aziz et al., 2019](#); [Bhatti and Husin, 2019](#); [Kazaure, 2019](#); [Farhat et al., 2019](#)). Furthermore, subjective norm refers to the perception of social pressure to engage or not engage in a particular behavior. It is a set of accessible normative beliefs concerning the expectations of potential referent group. Subjective norm is positively and significantly predict the adoption of Islamic insurance services ([Amin, 2012](#); [Farhat et al., 2019](#)). On the contrary, the subjective norm is found to be insignificant for behavioural intention to purchase takaful ([Husin and Ab Rahman, 2016b](#)).

From the present literature survey, three studies examined the economic determinants of takaful demand. [Sherif and Husnain \(2017\)](#) have analyzed the demand determinants of family takaful in the Middle East and North Africa (MENA) region by applying the Ordinary Least Square (OLS) and Generalised Method of Moments (GMM) regression functions. They find that Islamic banking deposits, education, dependency ratio and Muslim population enhance takaful consumption while the real rate of interest is inversely related to the demand or family takaful. Moreover, the log-linear demand function results show that female life expectancy has a significant positive relationship with the family takaful. But, the findings are opposed to the life expectancy of males. Additionally, financial sector development shows the negative impact on the demand for family takaful, demonstrating that the outcome of expansion in the conventional insurance sector will cause deterioration in family takaful demand due to competition. Likewise, [Akhter and Khan \(2017\)](#) applied two-panel data regressions to analyze the conventional insurance and takaful and their possible demand determinants from ASEAN countries for the period of 2005–2012. The results exhibit that the demographic factors, education and urbanization, and macroeconomic variables, per capita income and inflation, influence the demand for both conventional insurance and takaful. Moreover, per capita income positively affects conventional insurance while it has a negative impact on takaful. Besides the consumer demand for takaful products, corporate demand for property takaful has also been examined. However, several studies have been conducted to analyze the corporate demand for conventional insurance. [Hamid et al. \(2009\)](#) have extended the work for takaful and applied panel data regression to arrive at the results. Their study's findings indicate that leverage, expected bankruptcy cost, tax considerations, managerial ownership

and company size are the potential factors that determine the corporate demand for property takaful.

3.2 Models of takaful

Broadly, Shariah scholars have expressed takaful application on two models: *Mudaraba* and *wakalah* model. Practical issues are required to be highlighted to classify the takaful models and make them workable. Shariah scholars' clarification, guidance and proper solutions are then need to be raised. In the *Mudarabah* model, where *rabul mal* (capital provider) makes an investment in a project, an entrepreneur or manager must operate the venture. Profit is shared on a preagreed basis, while the *rabul-mal* solely bears the loss. The model applies to individual life takaful and unit-linked life insurance or investment-linked life insurance. Certain issues have been raised by [Wahab et al. \(2007\)](#). The essence of takaful lies with the recommendation of *taww'un* whereby the participants are required to contribute in the takaful fund without expecting anything in return. Likewise, the *tabarru* (donation) concept and *murabahah* (profit-sharing) cannot be applied to execute the same contract. Moreover, in the *mudarabah* model, profit distribution is concerned as the yield on the investment is considered profit while it should be treated as surplus. Some other issues include the sharing of underwriting surplus, which makes the mechanism much similar to the conventional insurance. The application of *qard al-hasan* does not seem to fit correctly in the *mudarabah* setting (see [Table 2](#)).

Another model is *wakalah*, which is more popular in gulf countries. *Wakalah* commonly refers to the agency contract whereby one party delegates the rights to the agent to operate a venture. In this model, an agent is paid off for its knowledge, skills and abilities to perform a task assigned to him. Moreover, all of the profit and losses are solely belong to the owner of the capital who is the participant in this case. There are few Shariah concerns related to the *wakalah* model. Donation to risk fund is the right of participants and must be returned to the participants if the fund is not fully consumed. This gives rise to the issues of inheritance and *zakat* in case of a deceased person. Another concern is related to contingency reserve, which raises intergenerational equity issues. Moreover, the *qard al hasan* facility's requirement due to a deficit in underwriting funds should not guarantee *wakil* as though he represents the participants.

[Wahab et al. \(2007\)](#) have drawn the solution to the concerns related to the *mudarabah* and *wakalah* model outlined above. They have sketched out the *wakalah* model with *waqf* funds. The model is not supposed to disturb the basic model and address the original *wakalah* model's concerns. [Rahman and Ahmad \(2011\)](#) have expressed the importance of integrating the *waqf* in takaful policies. Furthermore, such a combination may help to create the redistribution of wealth among Muslims.

3.3 Performance of takaful

3.3.1 Organizational performance. Organizational performance is the ultimate dependent variable that researchers are interested in measuring in the areas of management ([Richard et al., 2009](#)). Market competition, input and capital are the essentials of organizational performance, which lead to the survival and success of modern businesses. Different areas of management, for instance, marketing and human resources, are placed so strategically to define their contribution to organizational performance. The expression of performance is so vague and common that it cannot be explicitly defined. It can inculcate from any of the minute activities and practices that a firm is involved in. The performance measurements can be financial and nonfinancial in nature ([Homburg et al., 2002](#)). Likewise, a literature survey on takaful shows a few articles that establish the relationship between independent constructs,

Authors	Journal	Model/Product	Findings
Zakaria <i>et al.</i> (2019)	Al-Shajarah	Waqf/Family takaful	To strengthen lower-income segment, it is argued that the waqf-based takaful model can propose a reasonable family takaful policy
Mohamad <i>et al.</i> (2018)	Pertanika journal of science and technology	Family takaful	The results of profit differ for each variation in the takaful model components. However, the takaful operators will continue to make a positive profit in the long run, regardless of the pricing assumptions with the condition in Malaysia
Ghazali <i>et al.</i> (2018)	International journal of engineering and technology (UAE)	Education plan	A new recovery model of takaful education plan is proposed which consists of a plan that may assist the special education teachers towards learning disabled children
Ismail <i>et al.</i> (2016)	Far east journal of mathematical sciences	Waqf/Education plan	From this model, a fund for the learning disabled children's recovery (dietary supplement, learning, and parenting skills) is set up for three years, together with the education fund, which will mature when the child reaches 21
Hassanat and Al tarawneh (2015)	JIABR	Musharakah	Half of the respondents are interested in gambling free lottery. The product requires the approval of Shariah scholars, then significant positive responses are expected
Htay <i>et al.</i> (2015)	Qualitative research in financial markets	Micro-health takaful	Poor people are interested in participating in such a scheme. However, most of them are only willing to contribute about RM5 per month, while some of the respondents, especially zakat recipients, cannot afford to pay at all
Ghazali <i>et al.</i> (2015a)	Far east journal of mathematical sciences	Auto takaful	All three models had their advantage and disadvantage, but we can minimize the disadvantage of the model in the new model construction
Ghazali <i>et al.</i> (2015b)	Applied mathematical sciences	Wakalah and mudarabah/Family takaful	The significant weakness in mudharabah and wakala model is if a participant dies when the premiums are approaching maturity, the child will not get the full amount of the Insured death
Dusuki <i>et al.</i> (2012)	Advances in natural and applied sciences	Wadiah/Family takaful	Every contract should be executed separately to avoid Shariah prohibition. Takaful operators (TOs) can provide guaranteed cash surrender benefits only from the participants' Wadi'ah fund (PWF)

Table 2.
Review of takaful models

(continued)

Table 2.

Authors	Journal	Model/Product	Findings
Ghazali <i>et al.</i> (2012a)	Journal of applied sciences research	Mudarabah and Wakalah/education plan	The new idea in the premium life table model also gives the customer a choice to choose the suitable premium life table for them with four models, whether in mudharabah or wakala
Ghazali <i>et al.</i> (2012b)	Journal of applied sciences research	Mudarabah and wakalah	The research results will show that the integration model is more inclusive than the existing model in premium life tables for clients to earn more money in the future
Ahmad and Ab Rahman (2011)	Arab law quarterly	Waqf	By integrating waqf in takāful products, takāful can help fulfill the function of redistributing wealth among Muslims

like Islamic leadership, entrepreneurial abilities and agents' and representatives' skills and constructs of nonfinancial organizational performance. Daud *et al.* (2018) have contributed to the literature by qualitatively examining the measures of quality of Islamic leadership which are truthfulness, trust, knowledge and communication contributing to the takaful organizational performance. Nazri *et al.* (2015) have surveyed the managers of Malaysian takaful companies to examine the impact of entrepreneurial orientation on organizational performance. The result demonstrates that managers' autonomy and proactiveness are significantly influencing the firm performance while the competitive aggressiveness, risk-taking and innovativeness are not significant predictors. To find out the relationship between the agent's commitment, attitude motivation takaful performance, Hamid and Rahman (2011) have conducted empirical research among the takaful agents in Malaysia and found. The Pearson correlation results and multiple regressions demonstrate the positive and significant relationship between commitment and organizational performance. Mroueh and Waal (2018) have assessed performance parameters of takaful organization in the UAE by implementing the high-performance organization framework. The qualitative study compares the takaful and conventional insurance based on 35 criteria of high-performance organization framework and reveals that there would be no difference between the performance of conventional insurance companies and takaful. Both organizations are required to put the same amount of effort into achieving a successful transition.

Since the takaful companies are required to establish a risk fund and investment fund separately (IFSA, 2013), the investment fund's performance depends on internal and external factors. The panel regression estimates show that liquidity and lagged gross domestic product (GDP) significantly determine the investment fund's performance in takaful companies (Ahmad *et al.*, 2019). Guendouz and Ouassaf (2018) consider the return on investment fund as a proxy variable for profitability and find that the age, size, written premium growth rate and loss ratio are significant determinants (see Table 3).

3.3.2 Efficiency and productivity of takaful organization. The efficiency of takaful organization has been incorporated in the literature for almost a decade. The research findings are basically focused on defining the key determinants of the efficiency of takaful as well as conventional insurance. Kader *et al.* (2010) examined the non-life takaful firms from ten different countries to understand the impact of organizational structure on cost efficiency. Results reveal that the cost efficiency is independent of board structure while board size firm size and product specialization influence the cost efficiency of takaful. The possibility of a lack of financial management expertise among nonexecutive directors gives rise to cost

Authors	Journal	Method	Findings
Alshammari et al. (2019a, b)	Research in international business and finance	Stochastic frontier cost function	The relationship between competition and efficiency is positive and supports the quiet life (QL) hypothesis where managers in a less competitive market may utilize the market power of their firms and reduce their efforts
Alshammari et al. (2019b)	Economic systems	Stochastic frontier cost function	The relationship between oil prices and efficiency is negative and insignificant in the insurance industry. However, the differences in the financial market have a positive impact on the takaful business
Lee et al. (2019)	IMEFM	Two-stage data envelopment analysis (DEA) and panel regression	Family takaful companies are more cost-efficient than general takaful companies. Allocative efficiency causes the reduction of allocative efficiency of general takaful companies. Corporate governance also influences the cost efficiency of takaful companies
Ahmad et al. (2019)	Malaysian journal of consumer and family economics	Panel regression	Liquidity and lagged GDP (Gross Domestic Product) is found to be significantly predicting the investment performance of Islamic insurance companies
Benyoussef and Hemrit (2019)	Cogent economics and finance	DEA	Study finds that the takaful companies are more efficient than the cooperative insurance companies
Almulhim (2019)	Cogent business and management	Two-stage DEA	The average efficiency score for takaful and conventional insurance companies has decreased
Benlagha and Hemrit (2018)	Asia–Pacific financial markets	DCC-GARCH	Volatility responds asymmetrically to shocks with the persistence of variance in the stock return data, supporting the presence of irrational behavior and the effectiveness of a cross-market diversification strategy
Guendouz and Ouassaf (2018)	Academy of accounting and financial studies journal	Panel regression	Age, size, written premium growth rate and loss ratio have significant effects on the profitability of takaful companies
Karbhari et al. (2018)	Journal of international financial markets, institutions and money	DEA	Non-executive directors, audit committees and product diversification do not improve technical efficiency. Instead, audit committees and regulatory jurisdiction tend to reduce scale efficiency

Table 3.
Review of takaful
performance

(continued)

Authors	Journal	Method	Findings
Taib <i>et al.</i> (2018a)	Academy of accounting and financial studies journal	DEA	The overall insurance industry in Pakistan was enjoying an increase in the total factor productivity during the period. Change in factor productivity for the takaful companies was better than insurance firms
Daud <i>et al.</i> (2018)	International journal of business performance management	Correlation and regression	The takaful operator is proactively achieving their vision by the center of attention on the Islamic leaders' qualities
Ahmad and Lukman (2017)	ISRA IJIF	Descriptive analysis	Emphasis on takāful value propositions apart from its Shari'ah compliance status is needed to attract corporates as respondents were found to be indifferent on Shari'ah compliance status of their protection
Abduh and ZeinIsma (2017)	JIABR	Time series regression	The determinants that are positively related to equity-to-asset ratio (EAR) of family takaful include contribution growth, investment income, takaful leverage, liquidity and Islamic equity index
Boulanouar and Alqahtani (2016)	IMEFM	OLS regression	Under-pricing not only exists but also is among the highest in the world (45%), which contradicts the literature on initial public offerings (IPOs)' pricing in highly regulated sectors. Regarding the Sharia compliance effect, they find that it does not significantly reduce insurance offerings' under-pricing
Al-Amri (2015)	Humanomics	DEA	The takaful insurance industry in gulf country council GCC is highly technical and pure technical efficient. The United Arab Emirates (UAE) and Qatar score the highest technical efficiency, while Saudi Arabia and the UAE are the most cost-efficient among the GCC countries
Yakob <i>et al.</i> (2015)	Investment management and financial innovations	SBM-DEA and Tobit model	The investment management efficiency of insurers and takaful operators was moderate. The heterogeneity of investment management efficiency declined during the study period, and this is particularly encouraging because it shows that the insurers and takaful operators are converging towards the best practices

(continued)

Table 3.

Authors	Journal	Method	Findings
Kader <i>et al.</i> (2014)	International review of financial analysis	DEA	Average levels of cost efficiency in takaful insurance markets mirror the efficiency in developed non-life insurance markets. The relative influence of board composition, such as the proportion of non-executive directors on the board, on takaful insurers' cost efficiency depends on its interaction with other firm-specific characteristics, such as board size
Yakob <i>et al.</i> (2014)	Sains Malaysiana	Two-stage DEA	The mutual company and the takaful system demonstrate better risk management performance than their stock and conventional system counterparts. Firm size is positively related to the risk management efficiency of takaful
Hamid and Rahman (2011)	Australian journal of basic and applied sciences	Multiple regression	There is a relationship between commitment, motivation and attitudes with performance
Kader <i>et al.</i> (2010)	Geneva papers on risk and insurance: Issues and practice	DEA	Non-executive directors and separating the Chief executive officer and Chairman functions do not improve cost efficiency. However, the board size, firm size and product specialization have positive effects on the cost efficiency of takaful insurers

Note(s): DEA = Data Envelopment Analysis; DCC-GARCH = Dynamic Conditional Correlation Generalized Autoregressive Conditional Heteroscedasticity; SBM-DEA = Slack Based Measure of Data Envelopment Analysis; GDP = Gross Domestic Product; GCC = Gulf Country Council; UAE = United Arab Emirates

Table 3.

inefficiencies in takaful firms. Furthermore, the cost efficiencies are realized from more specialized product lines that indicate that the takaful firms are operating at economies of scope. On the contrary, [Roziara and Isa \(2018\)](#) have incorporated the finding for family takaful in Malaysia, where the cost efficiencies are affected by the form of organization. [Kader *et al.* \(2014\)](#) has examined the relationship between cost efficiency and board composition and revealed mixed findings. The cost efficiency depends upon the interaction between the board composition and other firm-specific characteristics. The impact of executive directors on cost efficiency is positive and significant when the numbers of directors on board is above average. When this number is below the mean, the effect is negative and statistically significant. Furthermore, the regulatory environment is also found to be positively influencing the cost-efficiency. Competition with concentration and market share affects the takaful company ([Alshammari *et al.*, 2019a](#)). The result supports the QL hypothesis, where the firms in less competitive segments can utilize their market power ([Berger and Hannan, 1998](#)). [Yakob *et al.* \(2014\)](#) have identified the risk and investment management efficiency of takaful and conventional insurance companies using two-stage data envelopment analysis. These exogenous variables consist of the operating system, organizational form, consumer size and preferences. It found that mutual and takaful companies are more efficient than their conventional counterparts. [Taib *et al.* \(2018b\)](#) have classified takaful efficiency into pure, technical and scale efficiency. They found that the

managerial efficiency lies behind the technical efficiency, which makes the takaful less efficient than the conventional insurance. Moreover, and scale inefficiencies have been found to be the cause of being inefficient takaful. Takaful companies in GCC countries are technical efficient than that of cost and allocative efficiency. It suggests that takaful companies in GCC countries are moderately efficient (Al-Amri, 2015). Likewise, Kharbhari *et al.* (2018) have examined the impact of corporate governance on technical and scale efficiency. The results show that the takaful is less efficient due to managerial lethargy and operational inefficiencies. Technical efficiency is not improved by nonexecutive directors, audit committees and product diversification. While the board size, organizational age, regulatory jurisdiction and firm size improve the technical efficiency and nonexecutive directors, Shariah board and product diversification boost the scale efficiency. Alshammari *et al.* (2019b) have focused on the impact of competition on cost efficiency takaful. The relationship is found to be positive, and the takaful market power can utilize less competitive segments.

3.4 Corporate social responsibility and takaful

Limited literature is available on examining the effects of corporate social responsibility on takaful. The articles have emphasized mainly the practices of CSR in takaful firms. Darus *et al.* (2016) have examined the 11 takaful organization practices toward corporate social responsibility (CSR) in Malaysia from 2011 to 2012 and found that the disclosure was based on the community dimension followed by the workplace, environment and marketplace dimensions. In case prioritizing the CSR activities into vital and recommended activities, the result shows that the takaful firms are low for both the categories. Though the disclosure of CSR activities has been improved but prioritization needs to be focused on. Ahmad *et al.* (2016) have established the relationship between CSR activities and brand image in Malaysia's takaful industry. The results reveal that the economic and philanthropic CSR activities positively impact the brand image of takaful firms. While legal and ethical CSR activities are less influential for brand image.

Takaful firms operating in Muslim countries are facing a low penetration rate. The takaful industry is required to be made more competitive by focusing more on marketing, societal and entrepreneurial approaches. An integrated CSR and market orientation approach have been outlined to achieve higher takaful firm performance (Nazri *et al.*, 2018). The empirical findings reveal that the co-adoption of market orientation and CSR will improve takaful firms' business performance. The study signifies the influence of overall CSR in takaful firm performance.

3.5 Human resource in takaful

The growing body of literature in takaful has evidenced the implementation of behavioral theories on takaful human resources' broader scope. The role of agents in takaful and related issues and concerns, employees' competency and job satisfaction has been studied. These articles follow the quantitative and conceptual underpinnings. Salleh *et al.* (2012) have stipulated the *Quranic* foundations for agent roles in takaful. It lays down the mystical grounds like an intention to sincere help, honesty, shared responsibility, and safeguarding the social welfare arising from the agent's role. However, the comparison of their role to conventional insurance is vaguely stipulated. Aziz *et al.* (2016) have followed suit and focused on the issues and problems related to takaful agents' ethical behavior. Drawing the observations from the focus groups formed by managers, executives and takaful agents, they reported the unethical behavior of takaful agents to meet their sales targets. Moreover, Rahman *et al.* (2017) have surveyed the takaful and conventional insurance sales agents in Pakistan to understand their job satisfaction using Herzberg two-factor theory. The results have been analyzed with the Shariah perception as a moderating variable. It shows that both the hygiene and motivating factors influence job satisfaction among sales agents of takaful

and full-time sales agents of conventional insurance in Pakistan without a moderating effect. While the Shariah perception's moderating effect enhances job satisfaction by only hygiene factors and conventional insurance agents are out of the concern due to Shariah perception. One article, [Mansor and Luqman \(2012\)](#), has focused on organizational learning and its impact on employee job competency. A survey has been conducted among the employees of one of the takaful organizations in Malaysia. The results broadly indicate that organizational learning strongly indicates employee job competency (see [Table 4](#)).

Incentives as one of the main areas of human resources are also evident to enhance employees' performance in an organization. Incentives are prominent for motivating, directing and retention of skilled sales force ([Slator and Olson, 2000](#)). In takaful, to attain the operator's optimal performance, the nature of incentives is very much concerned. Two types of incentives are paid out to the takaful operator. One is a fixed incentive, which is the essence of the *wakalah* model, while the other is an outcome-based incentive (profit-sharing) in the *mudarabah* model. Empirical findings of [Khan \(2015a\)](#) reveal that the outcome-based incentive has a significantly negative impact on the takaful operator's performance. Additionally, the *wakalah* profit-sharing hybrid can outperform the other model. [Khan \(2015b\)](#) persist the incentive and operator performance theory and emphasizes that the incentives paid to the operators must include the surplus sharing, and moreover, *mudarabah*

Authors	Journal	Method	Findings
Rusby (2018)	Espacios	Survey-based	The partial test results showed a significant influence of incentives on the agents' work performance
Djafri and Noordin (2017)	Humanomics	Survey-based	The relationship between each component of workplace spirituality and organizational commitment was substantial, positive and significant
Rahman et al. (2017)	Cogent business and management	Survey-based	Sales agents are satisfied with hygiene factors, where the motivators are not significantly affected by Shariah perception
Aziz et al. (2016)	International review of management and marketing	Conceptual	Unethical behavior is evident among the Takaful agents in meeting the sales target
Khan (2015a)	Applied economics letters	Quantitative	Upfront agency fee has an inverted U-shaped relationship with the insurance profit and a U-shaped relationship with the loss ratio, earned premium and combined operating ratio (COR) as expected
Khan (2015b)	Journal of economic behaviour and organization	Quantitative	Incentives must include surplus-sharing and that offering <i>Mudarabah</i> in the presence of surplus-sharing is optimal
Mansor and Luqman (2012)	World applied sciences journal	Survey-based	The findings reveal that the concept of internal exchange skills is a strong indicator that could increase competency learning
Salleh et al. (2012)	Global journal Al-Thaqafah	Theoretical	All of the islamic values as stated in the Al-Quran and practice through the Sunnah of prophets (peace be upon them) will be implemented by the takaful agents in order to realize the objective of takaful
Alajmi et al. (2011)	JIMA	Survey-based	Results demonstrate that more differences than similarities exist between Kuwait and Egypt in terms of power distance and uncertainty avoidance

Table 4.
Review of takaful and human resource

model with surplus sharing can be optimal only if the risk-adjusted return on investing technical reserves outweighs the similar return from underwriting risks. Findings also support the wakalah model's outcomes as it induces the operator to increase the pool's size to reduce the average risk to policyholders' benefits.

3.6 Governance in takaful firms

Governance refers to the administrative process to maximize the public interest (Keping, 2018). Governance in takaful firms revolves around two essential principles, namely, the rule of law and accountability. In takaful, the rule of law refers to the conformity with the Shariah law and guidelines provided by the respective central bank. Accountability in takaful is the stewardship of operators. Building trust among takaful consumers conformity with Shariah guidelines is ascertained, and regular disclosure of Shariah compliance ensures smooth governance (Kasim, 2012). Muahmat and McIver (2019) identify the improvement areas, including disclosure of information for takaful operators' quality governance. Evidence from Malaysia shows that the takaful sector's effective supervision and regulation require strengthening the institutional infrastructure, stimulating competition and raising performance standards by progressing liberalization (Berkem, 2014) (see Table 5).

Authors	Journal	Method	Findings
Amuda and Hassan (2019)	JLERI	Survey-based	Legal diversification of takaful is evidenced to address the needs of less privileged groups in Saudi Arabia
Muhamat and McIver (2019)	JIABR	Qualitative	The governance quality of takaful operators is perceived to be at par, and in most cases, operators are better in terms of compliance
Ahmad and Lukman (2017)	ISRA IJIF	Qualitative	The compensation of the late payment of takāful benefit has a positive impact on the takāful industry
Lukman and Elatrash (2017)	ISRA IJIF	Conceptual	This study finds that a strict interpretation of Shari'ah does not allow for the imposition of GST; however, there is still room for the government to justify it using a broader interpretation of maṣlahah (public interest)
Yusof <i>et al.</i> (2017)	Institutions and economies	Conceptual	Malaysia's risk-based capital framework only fulfills the appropriate incentive for capital expansion, measurement of economic values of assets and liabilities, sound financial reporting and assessment of management
Itam <i>et al.</i> (2016)	Intellectual discourse	Conceptual	The requirements with regard to Shariah governance for the Islamic co-operative are flexible and not as strict as required for the Islamic financial institutions
Berkem (2014)	IJSE	Case study	For effective supervision, the proposed approach includes four key elements which are determining the objectives and supervision, setting the supervisory plan, strategic axes of the approach and follow the stage of supervision
Kasim (2012)	JIABR	Conceptual	The high level of conformance promotes comparability, but it does not necessarily fully address disclosure issues, such as providing adequate and relevant information
Dreassi (2009)	Savings and development	Conceptual	Its three-pillared approach encompasses financial, governance and risk management requirements, as well as transparency and enhanced disclosure

Note(s): GST = Goods and Services Tax

Table 5.
Review of governance
in takaful firms

4. Conclusion and discussions

The objective of the study is to summarize the articles published in the area of takaful between 2000 and 2019. For the purpose, a systematic literature review has been conducted with 96 appropriate articles identified and grouped in exclusive themes. The researchers identify some key gaps and propose future research directions. Takaful research has widely covered marketing, finance, human resource, governance, and stresses on its legal issues. Both qualitative and quantitative methodologies have been employed. The research gaps have been classified based on the respective areas. In current body of literature shows that, though the behavioral theories have extensively been used in takaful literature. However, as the takaful being a financial contract, the cross-country examination of the potential influence of perceived barriers and trust is still unexplored. More psychological and behavior theories can still find their way to understand consumer behavior towards takaful services.

The current body of literature shows that both financial and nonfinancial performance of takaful have been examined. A plethora of articles measuring the cost and technical efficiency of takaful firms have been found. Few evidence has been recorded for the financial performance of takaful. The indicators of the financial performance such as liquidity and economic growth of the takaful companies are different from those of conventional insurance, the potential prospects should consider the specific factors influencing takaful. Hence, such factors can be examined. A few studies discuss the non-financial performance of the takaful organizations through employee commitment. Takaful research should stress more on internal performance indicators, such as workplace spirituality, citizenship behaviour and employee turnover. Since the commercialized takaful undertaking keeps a separate fund for investment purposes, legal aspects and profitability must be focused. Additionally, for enhancing the customers' awareness and willing towards takaful services, research should be focused towards potential marketing campaigns and strategies to encourage larger participation. Price competitiveness of takaful policies, growth prospects and its contribution to the economic value can be a potential direction for future research.

In the past few years, a significant number of empirical research studies have been conducted in takaful; however, theoretical and fundamental aspects of takaful has been briefly discussed. To perpetuate the distinctiveness of takaful from conventional insurance, aspects such as *tabarru*, *qard al hasan* and *aquilah* should be elaborated and discussed with clarity at the same time maintaining the similarity with conventional counterpart by focusing more on indemnification clause and insurable interest as suggested by Billah (1999). Additionally, a literature survey shows that several types of research have been conducted to ascertain the solvency of investment funds. Still, fewer investigations have focused on the solvency of risk fund. To maintain the essence of takaful, studies should focus more on discussing the application of such concepts.

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