



Does religiosity matter: Takaful vs. Conventional Insurance Policyholders

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ABSTRACT

The purpose of this study is to investigate if there is an impact of religiosity dimensions on the policyholders of Takaful or conventional insurance companies. In order to conduct the research, data were collected from Takaful policyholders and conventional insurance policyholders. Specifically, customers of two Takaful companies and two conventional insurance companies were selected to participate in the study. Descriptive statistics were employed to summarize the collected data, and binary logistic regression was utilized to analyze the relationship between religiosity dimensions and insurance policy selection. The findings of the survey revealed that Takaful holders exhibit a higher degree of religiosity compared to conventional insurance policyholders. This indicates that religiosity plays a significant role in shaping the insurance preferences of individuals in a Muslim-majority country like Pakistan. Understanding which dimension of religiosity impacts insurance choices can provide valuable insights for designing more tailored and advanced insurance products that align with the requirements of the target market. This study contributes to the existing literature by presenting novel empirical research conducted on Takaful in a developing Muslim-majority country. It specifically focuses on analyzing the impact of religiosity dimensions on the policyholders of both conventional and Takaful companies. By exploring the relationship between religiosity and insurance choices, this research aims to enhance the understanding of the factors influencing policyholders' decision-making processes in the insurance sector.

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Introduction

The unique demographic composition of Pakistan, with its predominantly Muslim

population and Islamic ideology economy, presents an opportunity for various industries, including the Takaful industry. As the population continues to grow, the potential for growth in the Takaful business becomes even more apparent, with an expected growth rate of 15% to 20% over the next decade, owing to the industry's relatively nascent stage. However, despite the promising prospects, the growth of the Takaful sector faces significant hurdles, both psychological and economic in nature, that warrant attention and discussion.

One of the major economic obstacles hindering the Takaful industry's growth is the prevailing inflationary pressure and the scarcity of earnings among a large proportion of the country's residents. These economic challenges make it challenging for individuals to allocate funds towards insurance, even if it aligns with their religious beliefs. Moreover, the volatile macroeconomic conditions in the country add to the uncertainties and apprehensions surrounding insurance investments.

Additionally, the impact of religion cannot be underestimated, as Pakistan being a Muslim-majority country, plays a crucial role in shaping public perception towards insurance. Many individuals in the Muslim community perceive conventional insurance as non-compliant with Sharia principles, making it Haram, or forbidden in Islamic law. This perception significantly hampers the uptake of conventional insurance, leading to a mere 0.8% coverage of the insurance market in Pakistan by conventional operators.

The Takaful industry in Pakistan comprises five major operators, three of which are dedicated to General Takaful (non-life insurance) and two focused on Family Takaful (life insurance). Despite the clear demand for a sound Islamic insurance arrangement that aligns with Sharia principles, there is still a need for further development and effective communication of the benefits of Takaful. A robust Islamic insurance framework has the potential to play a unique role in creating jobs and fostering economic development in the country, providing a strong impetus to the sector's growth.

To overcome these challenges and tap into the immense potential of the Takaful market, it is crucial to address the misconceptions about Sharia compliance and Haram nature associated with conventional insurance. Raising awareness about the distinct features and benefits of Takaful as an Islamic insurance alternative is vital to encourage greater adoption among the Muslim population. By doing so, Pakistan can witness the realization of the Takaful industry's growth projections, leading to increased financial inclusion, economic prosperity, and enhanced risk protection for individuals and businesses alike (Kaunain, Fakhre, and Shah Naz Akhtar 2016).

2.0 Literature Review

Religiosity is the extent of religious commitment towards a religious group (Stark, Rodney, & Glock, 1968). Religion influences a person's buying behavior across various facilities and products (Delener, 1990; Essoo & Dibb, 2004; Schiffman & Kanuk, 2004). Trust in religious groups is generally formed through cultural values, which are carried and strengthened with the teachings of guides such as Rabbis in Judaism, Imams in Islam, and Bishops or Reverends in Christianity, as well as through older generations and teachings of parents (Iannaccone, 1995; Schwartz &

Huismans, 1995; Stark & Glock, 1968).

Preachers of a religion dispense edicts that are formally called Fatwas, which can conflict with a corporation and may have an adverse impact on the standing of a company and its market share in the local marketplace where the operations of the company are carried out (Knudsen, Aggarwal, & Maamoun, 2008). Religiosity exerts the most substantial impact on a decision to take part in the boycott of a product (Dekhil, Jridi, & Farhat, 2017). Affiliates of a smaller group are also likely to come up with beliefs in salesmen and establishments from the same religion or clusters of the same ethnicity, which can lead to positive product attitudes and enhanced credibility (Deshpande & Stayman, 1994; Riggins, 1992).

A study on brand loyalty towards insurance providers investigated if religious centrism and religiosity of Muslim clients can familiarize brand loyalty towards the insurance provider offering products that are compliant with their religion. Results confirmed a purely positive relationship between religious centrism concepts and religiosity exists (Siala, 2013). Religious centrism can be represented as the extent to which a consumer or the customer is driven to formulate purchases from the specific religious clusters solely to which they belong (Siala, O'Keefe, & Hone, 2004). The direct relationship between attitude, subjective norms, and religiosity to behavioral intention exists (Farouk, Idris, & Bin Saad, 2018).

The above-mentioned studies explain the impact of religiosity on brand loyalty, purchase intentions, and buying behaviors of various indemnity and coverage products. In the previous few years, numerous studies have been documented on Takaful and conventional insurance, but there is a need to conduct a study on the comparison of Takaful and conventional insurance and the differences between them in the settings of a Muslim-majority country like Pakistan. This study is a contribution as it reports which dimension of religiosity is impacting policyholders of both Takaful and conventional insurance companies.

2. Hypotheses development

2.1 Iman (belief) and Takaful and Conventional Policyholders.

All Muslims and practitioners generally accept the five fundamental pillars of Islam as basic rules (Esposito, 1998). Iman (belief) is the first pillar of Islam, which emphasizes the belief in one God and recognizes the Prophet Muhammad as the final prophet (Ali et al., 2004). Devout followers of the religion adhere to the values and commands prescribed by Islam. Several studies (Iannaccone, 1995; Schwartz & Huismans, 1995; Solomon et al., 2007; Stark & Glock, 1968) suggest that Iman (belief) serves as the foundation of Islam and is vital for adherents to observe the five fundamental pillars of the religion. These studies also indicate that the teachings of Islam have an impact on its followers and that it is essential for them to abide by these teachings.

Therefore, there exists a relationship between Iman (belief) and the dependent variable, suggesting that the level of belief in Islam influences the dependent variable.

H1: There is an impact of Iman (Belief) on the policyholders of Takaful and conventional insurance companies.

2.2 Ibadah (Worship) and Takaful and Conventional Policyholders.

"The Prophet Muhammad (PBUH) provided guidance by presenting himself as a practical

man in every state linked to the social life of a human. He explained the practical shape of Adal (Justice), honesty, and Ibadah (Worship) through his actions" (Ansari, 2014).

"In Islam, business is considered an Ibadah (worship) and is endorsed, whereas Riba (interest) is prohibited" (Ansari, 2014, p. 17).

"These studies imply that Ibadah (Worship) has an impact on Muslims, as following the teachings of Prophet Muhammad (PBUH) is a component of Iman (belief). Therefore, it is necessary for Muslims to follow these teachings. Thus, there is an expected relationship between Ibadah (Worship) and our dependent variable" (Ansari, 2014).

H2: There is an impact of Ibadah (Worship) on the policyholders of Takaful and conventional insurance companies.

2.3 Sunnah (Practices of Prophet Muhammad PBUH) and Takaful and Conventional Policyholders.

A study reported sources that may form the notion of regulation administering Islamic insurance. The sources include the holy Quran and Sunnah (Practices of Prophet Muhammad, peace be upon him) as the number one asset, and the consequent resources include "Ijma," "Ijtihad," "Maslahah Mursalah," and superiority (Billah, 2000). Additionally, an insurance policy is lawful if it is Shariah compliant (Billah, 2000). The study implies that the teachings of the Holy Prophet (peace be upon him), formally called Sunnah (Practices of Prophet Muhammad, peace be upon him), are the prime source after the Quran that is prominent in administering Islamic insurance, so it has an impact on Muslim policyholders of both Takaful and conventional Insurance companies. Thus, there is an expected relationship between Sunnah (Practices of Prophet Muhammad, peace be upon him) and the study's dependent variable (Billah, 2000).

H3: Sunnah (Practices of Prophet Muhammad PBUH) impacts the policyholders of Takaful and conventional insurance companies.

2.4 Islamic Knowledge and Takaful and Conventional Policyholders.

The extent to which an individual is directed towards a religious group is referred to as religiosity (Stark, Rodney, & Glock, 1968). The study implies that a person with a higher degree of the sacred pledge has Islamic knowledge accordingly. Thus, an individual who is more devoted to their religion is likely to possess greater Islamic knowledge. Consequently, Islamic knowledge has an impact on the selection of Takaful and conventional policies, as well as on Takaful and conventional policyholders. The study suggests an expected relationship between Islamic knowledge and the dependent variable.

H4: There is an impact of Islamic knowledge on the policyholders of Takaful and conventional insurance companies.

2.5 Avoiding Haram (forbidden) and Takaful and Conventional Policyholders.

Religion highly influences the procurement conduct of a person across a broad product variety and facilities (Delener, 1990; Farouk et al., 2018; Schiffman & Kanuk, 2004). Traditional coverage products are forbidden in Islam as they disrupt the ideas of Islam, so Muslims are strictly limited to purchasing the products provided by traditional coverage companies (Zainuddin & Md Noh, 2013). These studies imply that a person belonging to a religious group follows the standards

established by that group, and the teachings of that religion influence buying behavior. The study further suggests that Muslim consumers are prohibited from the products and facilities that are against Islamic laws. Thus, there is an expected relationship between avoiding Haram (forbidden) and the study's dependent variable.

H5: There is an impact of avoiding Haram (forbidden) on the policyholders of Takaful and conventional insurance companies.

3.0 Methodology

3.1 Data Sources and Sample Size

Primary data is the data that is collected and accumulated by the researcher at hand (Al-Salih, Aysha, 2014; Riaz, Adil, 2018). In this study, questionnaires were used for data collection and shared among customers of Takaful and conventional companies to obtain diverse respondents of various age groups. The adapted questionnaire was used to gather data, and for a better understanding, the participant questionnaire was translated into the local language (Urdu).

In the purposive sampling technique, respondents who can and agree to provide information through knowledge or experience are chosen (Bernard, H. Russell, 2017; Lewis, John L., & Sheppard, Stephen RJ, 2006). We have used purposive sampling in this study. The population targeted for the study was Muslim policyholders belonging to key insurance operators, including conventional insurance and Takaful companies operating in Pakistan, specifically Pak Kuwait Takaful, Pak Qatar Takaful, State Life Insurance Corporation of Pakistan, and Adamjee Insurance.

It is recommended to have at least five respondents per variable, and an ideal sample size of 200 (Gorsuch, Richard L, 1999). If the sample has 100 participants, the results can be achieved by having five respondents per variable; if the sample size is less than 100, then there should be 10 participants per variable (Streiner, David L, 1994). A total of 520 questionnaires were distributed among the respondents. The rate of return of the questionnaires was 89%, resulting in 464 questionnaires being collected. Out of the total collected, 400 questionnaires were in usable form and were used in the study. Among these, 200 responses were from Takaful policyholders, and the remaining 200 were from holders of conventional insurance policies.

3.2 Variables and their Measurements

3.2.1 Dependent Variable

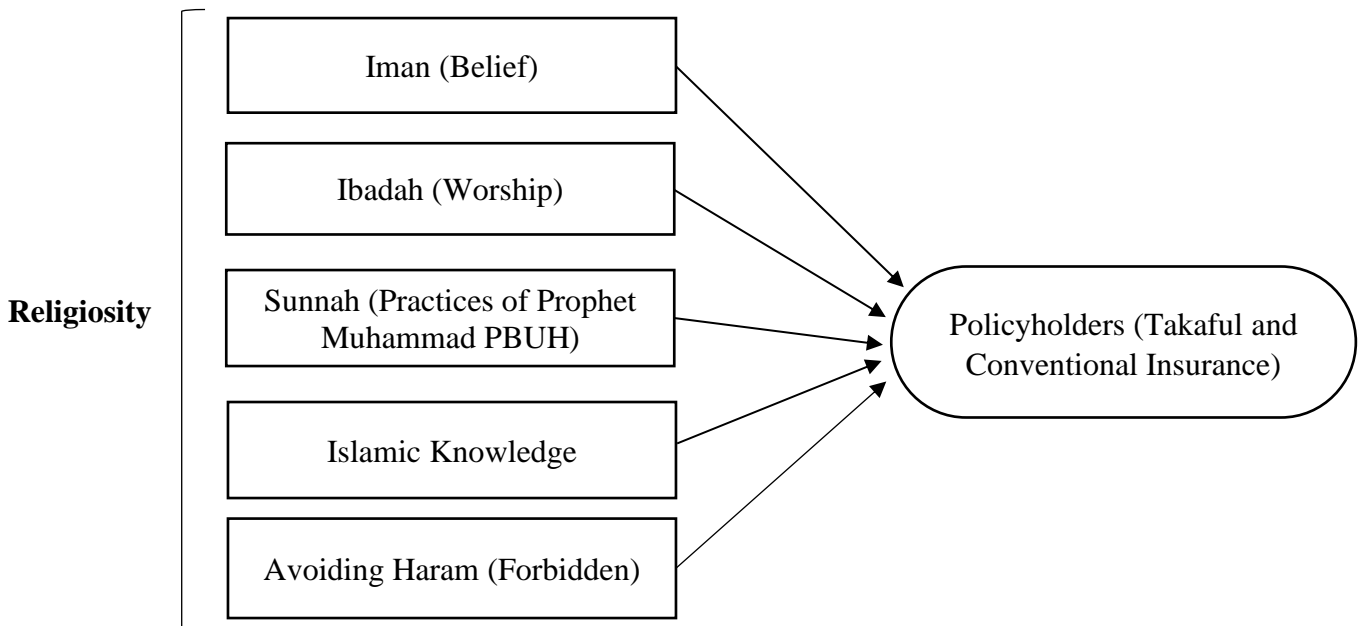
Takaful and conventional insurance policyholders are the dependent variables in our study that is in binary form, as shown in Figure 1. By using "Yes" or "No," questions, participants were asked whether "Takaful policy is used or acquired by them" or "Conventional insurance policy is used or acquired by them." Answers with "Yes" responses were considered as a base.

3.2.2 Independent Variables

Five Independent variables are involved in this study, as shown in Figure 1. Iman (Belief) is gauged with the support of 22 items, Islamic knowledge is computed with the assistance of 3 items, Ibadah (Worship) is measured with the aid of 8 items, Sunnah (Practices of Prophet Muhammad PBUH) is measured with the assistance of 8 items, and 11 items of Likert type scale were used to

compute avoiding Haram (forbidden).

Figure 1: Conceptual Framework



Results

4.1 Demographic Analysis

Table 1: Demographic Analysis

		Takaful Holders (%)	Conventional Holders (%)
Level of Education	Less than Primary		
	Primary to Middle		
	Matriculation	5.5	13
	Intermediate	21.5	33.5
	Graduation or more	73	53.5
No. of Contracts	One Contract	58.5	91.5
	Two Contracts	29	8.5
	More than Two Contracts	12.5	

Table 1 illustrates the level of education of the participants. It is evident from the table that Takaful holders possess a higher level of education compared to conventional policyholders (Tiliouine, Habib, & Robert A, 2009). These findings are consistent with a previous study, which indicated that individuals with higher levels of education tend to exhibit greater religious

observance.

Furthermore, Takaful holders have a greater number of contracts in comparison to conventional policyholders. This can be attributed to the fact that Takaful holders display a stronger loyalty towards religiously compliant products, leading to a higher number of Takaful contracts. Previous research also supports these findings, as it suggests that devout members of the Muslim religion exhibit high attitudinal loyalty towards both a religiously exclusive indemnity service and the insurer responsible for providing the indemnity (Siala, Haytham, 2013).

4.2 Binary Logistic Regression Analysis

Table 2: Binary Logistic Regression Results

	<i>Takaful Holders</i>	
	Beta	Sig
Iman (Belief)	1.189	.089
Ibadah (Worship)	.308	.179
Sunnah (Practices of Prophet Muhammad PBUH)	-.287	.267
Islamic Knowledge	.659	.000
Avoiding Haram (forbidden)	6.017	.000
Nagelkerke R square		.631
Cox & Snell R Square		.473
Classification Table (Correctly Predicted)		83.5%

The results of binary logistic regression are exhibited in Table 2; there is an existence of a significant positive relationship between Islamic knowledge and avoiding Haram (forbidden) variables with Takaful policyholders. The value .631 represents the Nagelkerke R square, which is greater than the Cox & Snell R Square value of .473 (Smith, 2021). The results show that the model fits adequately well. The Cox & Snell R Square represents the model's explanatory power, which is .473 (Smith, 2021). The classification table demonstrates the proportion of models correctly specified/predicted, which is 83.5% in this case (Smith, 2021).

After analyzing the results of the study, it is determined that Islamic knowledge has a coefficient 'B' of 0.659, which is significant and positively correlates with Takaful policyholders, indicating that Takaful policyholders have a higher degree of Islamic knowledge compared to individuals holding conventional insurance policies (Al-Salih, 2014; Riaz, 2018). Previous studies have also reported similar findings, suggesting that Islamic knowledge can serve as an optional factor, and individuals with a higher level of Islamic knowledge may demonstrate a greater indication of high religiosity (Al-Salih, 2014; Riaz, 2018).

The coefficient 'B' for avoiding Haram (forbidden) is 6.017, which is significant and positively correlates with Takaful policyholders, indicating that Takaful policyholders are more

likely to avoid Haram in comparison to individuals holding conventional insurance policies (Al-Salih, 2014; Riaz, 2018). Previous studies have also supported these results, suggesting that individuals who are more religious at the time of acquiring products are more likely to comply with Islamic dealings. Religious affiliations significantly influence the choices and decisions of highly committed individuals to that particular religion (Al Abdulrazak & Gbadamosi, 2017).

Iman (belief), Ibada (worship), and Sunnah (practices of the Prophet Muhammad PBUH) did not have a significant impact on Takaful and conventional insurance policyholders, and did not affect the purchase of Takaful policies or conventional insurance policies (Iman et al., 2021; Ibada et al., 2022). One of the reasons is that Pakistan is a Muslim-majority country. Iman (belief), Ibada (worship), and Sunnah (practices of the Prophet Muhammad PBUH) are considered the basic pillars of Islam (Khan, 2017). Therefore, these variables have an insignificant impact on the dependent variable. Consequently, no variance exists between the policyholders of both Takaful and conventional companies on these variables (Iman et al., 2021). These results are supported by previous studies that state any Muslim can be considered Muamin (a believer) who practices Ibadah (worship), as these are the preconditions for an individual to be a Muslim (Believer, 2010; Ibadah, 2015). Believing in Allah (Iman), performing prayer, and Ibada (worship) might not necessarily denote that the Muslim is extremely religious. The indication of high religiosity is the performance of optional practices (Al-Salih & Riaz, 2014; Riaz, 2018).

Conclusion

This study is conducted to examine if religiosity impacts Muslim consumers in Pakistan using *Takaful* or conventional insurance policies. For this purpose, data from 200 respondents of *Takaful* policyholders and 200 responses from conventional policyholders were added. Binary logistic regression was used to analyze the data. The findings of the study establish that there is an existence of a significant positive relationship between avoiding Haram (forbidden) and Islamic knowledge with *Takaful* policyholders. This means *Takaful* holders are more religious in comparison to conventional policyholders. In contrast, Iman (belief), Ibadah (worship), and Sunnah (Practices of Muhammad PBUH) have an insignificant impact. The findings of this study have significant implications for policymakers and academics. For instance, the study gives an opportunity to the policymakers of *Takaful* and conventional insurance companies to design products and make modifications according to the requirements of the consumers. This area needs further exploration as the research on *Takaful* and conventional insurance is in its infancy stage, and it is an opportunity for academics as well. Future studies may consider the comparison of various products of *Takaful* and conventional companies.

Asif Riaz: Problem Identification and Model Development

Muhammad Akram: Literature search, Methodology

Muhammad Saad: Drafting and data analysis, proofreading and editing

Conflict of Interests/Disclosures

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