

## **Potential Push-Pull Factors to Introduce Takaful (Islamic Insurance) as a New Product in India: Preliminary Overview**

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### **Abstract**

Nowadays, insurance becomes the backbone of our daily life since it will help us in the case of misfortune. The concept of insurance is acceptable since it is based on the noble idea. However, its practices become questionable from the religious aspect due to the involvement of interest, uncertainty and gambling. As an alternative, Takaful has been introduced and it has been widely spread in both Muslim and non-Muslim countries. In India, Takaful has not been offered yet. Due to its potential in India, the objective of this paper is to explore on the potential push-pull factors to introduce Takaful. The findings show that the pushing factor, i.e. innovative nature of the potential customers and the pulling factors such as cost vs. benefit, assessability, availability and service quality, product features, reputation of the company, attribute of agent, marketing and promotion and social and religious factors are in favor to introduce Takaful in India.

**Keywords:** India, Insurance and Takaful.

## **1. Introduction**

Our daily life style makes us unavoidable from engaging with the insurance. We can even assume that we are born to pay insurance. For instance, the government policy to renew the road tax requires the motor vehicle owners to buy insurance. In addition, most of the people cannot run away from insurance, especially when they are taking the financing facilities from the banks. The banks normally ask to the borrower to buy fire insurance and life insurance. Hence, the insurance plays important role in our daily activities. The concept of insurance is excellent because it provides the financial assistance for the insured in the case of misfortune. It is undeniable that the concept of insurance is acceptable from the Islamic point of view. However, the practices of insurance involve interest, uncertainty and gambling and it makes the insurance unacceptable from the Islamic aspect. This is evidenced in the First International Conference on Islamic Economics (Makkah) 1976 and Resolution of the Fiqhi Academy of OIC 1985 (Billah, 2007; Htay and Salman, 2013).

As an alternative to the insurance, Takaful has been introduced. Takaful is based on the concept of mutual contribution to help among the participants if they face any unfortunate events. In this arrangement, the Takaful operators will be coordinating this activity. Although Takaful has been formally introduced by the Muslim scholars, it is for anyone, regardless of the religion. It seems that Takaful has been widely accepted by other religions since it has been offered not only in Muslim but also non-Muslim countries (World Takaful Report, 2012).

In the case of India, it has huge number of Muslim population but to the extent of our knowledge, Takaful has not been introduced yet. It motivates us to examine what the push-pull factors to introduce Takaful in India.

## **2. Insurance in India**

The history of insurance can be traced back to 1818 with the establishment of the Oriental Life Insurance Company and it was the first life insurance company in India. General insurance was started with the evolution of maritime trade. The first general insurance company was Triton Insurance Company Ltd. and it was established in Calcutta in 1850. Both industries have been nationalized due to the unethical practices of insurance operators. The life insurance industry was nationalized in 1956 and general insurance industry was nationalized in 1973 (Insurance Regulatory and Development Authority, 2012- 13).

Later on due to the inefficiency of nationalization, the government has set up a committee called Malhotra Committee to examine the industry. Based on the recommendation of this committee, both industries have been liberalized again although there is only one Reinsurance Company until now and it is owned by the government. Current insurance industry is governed by the Insurance Regulatory and Development Authority and the industry is at the growing stage since there are 24 life insurance companies and 27 general insurance companies (Insurance Regulatory and Development Authority, 2012- 13).

## **3. Takaful**

Accounting, Auditing and Governance Standards for Islamic Financial Institutions (2008) defines Takaful as “a system through which the participants donate part or all of their contributions which are used to pay claims for damages suffered by some of the participants. The company’s role is restricted to managing the insurance operations and investing the insurance

contributions”. The practice of Takaful is allowed in Islam by referring to the following Quranic verses and Hadiths.

*“..Help ye one another in righteousness and piety, But help ye not one another in sin and rancor...”* (Surah Al-Maidah, 2)

*“Once two women from the tribe of Huzail clashed when one of them hit the other with a stone, which killed her and also the foetus in the victim’s womb. The heirs of the victim brought an action to the court of the Holy Prophet (s.a.w), who gave a verdict that the compensation for the infanticide is freeing of a male or female slave while the compensation for the killing the woman is the blood money (diyat), which to be paid by the ‘Aqilah’ (the paternal relatives ) of the accused<sup>1</sup>.”* (Narrated by Abu Hurairah)

Similar to the conventional insurance, there are two types of Takaful, namely, general Takaful and family (life) Takaful. The coverage offered in the conventional one can be offered under Takaful as well. Only the fundamental difference between the conventional insurance and Takaful is the later one is compliant with *Shari’ah*.

#### **4. New Product Adoption Theory and New Product Diffusion Theory**

New product adoption theory mentions the internal forces that make the potential customers to use the new products. These internal forces are related to the psychological influence, socio-cultural influences and customers’ preference criteria in selecting the new products. In other words, it can be said that new product adoption theory emphasis on the pushing factors that stimulate the potential customers to buy the new products or services (Antil, 1988; Roger, 1962, 1976, 2003; Sahin, 2006).

New product diffusion theory focuses on the external forces of the customers that cause them to adopt the new products. These external factors are the pulling factors existing in the external environment and surrounding which attract or persuade the potential customers to engage with

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<sup>1</sup>Sahih Al-Bukhari, (Trans.Eng) by Khan, Dr.M.Muhsin,op.cit., Vol.9, Katab Al-Diyat, No.45, p.34.

the new products. Some of the pulling factors are how the agents explain about the products, advertising, availability of the information and community (Roger, 1983; 2003).

## **5. Research Methodology**

This paper uses the primary data through the questionnaire to know the push-pull factors in order to introduce Takaful in India. Secondary data from books, articles and internet resources are referred. Sample of 30 respondents are focused and descriptive statistics is used since this is the preliminary research. Based on the new product adoption theory, 10 questions are created to capture the pushing factors and based on the new product diffusion theory, 35 questions are prepared to represent the pulling factors attractive to the potential customers to buy new products or services.

## **6. Findings**

### **6.1 Profile of Respondents**

30 respondents comprise of 19 male and 11 female. Majority of the respondents have the age from 21 to 25 years and they are bachelor degree holders. In the case of religion, 12 are Muslim respondents (40%) and the rest are non-Muslims (60%). 70% of the respondents are married and the rest are single. More than half of the respondents' household incomes are more than Rs.50,000. It is followed by 23.33% (Rs 40,001-50,000), 16.67% (Rs 10,001-20,000), 3.3% (Rs20,001-30,000) and 3.3% (Rs30,001-40,000). 66.33% of the respondents have 4-6 family members or dependents, 23.33% has 7-9 members and 13.33% has 1-3 dependents. Half of the respondents have their own houses while another half does not have. Almost one third of the respondents (30%) stay in the apartment, 23.33% of the respondents are staying in Bungalows, flats and linked houses respectively. In the case of transportation, more than half (56.67%) of the respondents have cars and followed by 40% (motor bike) and one respondent does not have his

own transportation. Regarding monthly premium payment, 56.67% of the respondents pay from the range of Rs 0 to 1000, 30% pays other amount and 13.33% pays Rs 1000 to 2000.

## 6.2 Mean values of Respondents' Innovative Mind (Pushing Factors)

**Table 1**

**Mean values of Respondents' Innovative Mind (Pushing Factors)**

No.	Description	Mean
1	You are a risk taker.	4.17
2	You are interested to try newly developed products.	4.33
3	You like to read newspapers, magazines and explore on the internet to know new information.	4.43
4	You are not careful to try newly developed products.	4.33
5	You are not conservative (Conventional) type of person.	4.53
6	You are not reluctant to switch from the existing products to the newly developed products.	4.53
7	You do not like to follow the traditional products.	4.37
8	You have the habit of trying to use new products.	4.50
9	You are not loyal to the brand.	4.30
10	You like to discuss and get opinion from friends or others before you decide to buy.	4.43

Ten questions are asked to find out to what extent the potential customers are pushed by the innovative mind in adopting the new products. According to the new product adoption theory, the more innovative the customers, the higher possibility of adopting new product, i.e. Takaful are. To explore the innovative mind of the respondents, five point likert scale is used ranging from (1=strongly disagreed to 5= strongly agreed). Table 1 shows the mean values of the respondents' innovative mind.

The first question is related to the risk appetite of the potential customers. According to the theory, if the potential customers are risk takers, they are willing to try new things. Its mean

value of 4.17 shows they are risk takers. This result is confirmed by the mean value of 4.33 (refer to question 2) reflecting that they would like to try newly developed products. In terms of their nature, the mean value of 4.43 (refer to question 3) shows that the respondents are interested to read newspapers, magazines and explore on the internet to know new information. This is the good opportunity for the potential Takaful operators to advertise in the above said media in order to introduce the new products. The mean value of 4.33 (refer to question 4) and mean value of 5.53 (refer to question 5) describe that the respondents are not conservative and there is a higher tendency that they are keen to try new products. The mean value of 4.53 (refer to question 6) and that of 4.37 (refer to question 7) show that the respondents do not like to follow the traditional products and they are not reluctant to switch to the new products. In addition, the mean value of 4.5 (refer to question 8) reveals that the respondents have the habit of using new products and they are not loyal to the brand with the mean value of 4.3 (refer to question 9). In the case of influencing factor, the mean value of 4.43 (refer to question 10) show that the customers prefer to discuss and get opinion from friends or others before they decide to buy.

All the mean values in ten questions are more than 4. According to Yasin (2004), if the mean value is more than 4, it can be rated as high. Therefore, it can be basically concluded that the respondents have highly innovative mind, i.e. the pushing factors that make them to adopt the new products or services. It is an excellent opportunity for the future Takaful operators to offer it in India in the near future.

### 6.3 Mean values of Determinants (Pulling Factors) to Adopt New Products

**Table 2**

**Mean values of Determinants (Pulling Factors) to Adopt New Products**

No.	Description	Mean
<b>Part A: Cost vs. Benefit</b>		
1	Amount of premium payment to the insurance companies.	4.07
2	The depth insurance coverage, for instance, one product comprise for health and education and etc.	4.20
3	You prefer to choose the product which has better coverage and low price.	4.47
4	Higher return from the saving and investment insurance plan.	4.37
5	In the case of surrender or early termination by the policy holders, there is no disadvantage for the policy holders, for instance, getting back the same amount of paid premium and profit.	4.20
<b>Part B: Assessability, Availability and Service Quality</b>		
1	Accessibility such as availability of many branches.	4.47
2	Availability of various types of products so that you have more options to choose which is the best suit to you.	4.43
3	Availability of trial with a limited cost involved will encourage you to adopt the new products.	4.23
4	Service quality, for instance, faster claim receipts and customer service	4.47
5	24 hours online service to entertain emergency such as accidents and heart attack	4.50
<b>Part C: Product Features</b>		
1	The products with higher observability make you interested to adopt the new products.	4.47
2	Easy to understand the product, for example, clearly written policy on the payment of premium, coverage, claim process, surrender procedure and benefits upon maturity	4.37
3	Clear illustration on the benefits of buying the products	4.40
4	Product features are flexible enough to modify based on the needs of the policy holders.	4.40
5	If you are given the option to choose among the products, you are interested to try the new products if all the features and functions of the existing and new products are the same.	4.37
<b>Part D: Reputation of the Company</b>		
1	Company's reputation is important, for instance, no customer complains.	4.37
2	Brand name is important in your decision making.	4.37

3	Confidence in the company, i.e. you have confidence that the company is well established and able to meet your needs specified in the policy documents.	4.57
4	Company observes ethical code of conduct.	4.40
5	Company concerns with the corporate social responsibility.	4.50
<b>Part E: Attribute of Agents</b>		
1	An ethical, trustworthy and responsible person	4.48
2	Understand the need of the customers and able to suggest the suitable product	4.43
3	Explain and disclose the truth regarding with the product	4.60
4	Maintain the good relationship with the customer all the times	4.43
5	Ready to help whenever necessary	4.50
<b>Part F: Marketing and Promotion</b>		
1	The presentation in the company brochures and pamphlets, for instance, it is clear, attractive and reliable.	4.43
2	Advertising on the website.	4.37
3	Roadshow	4.27
4	Opening the booths in the events such as conferences, education fairs, convocation and in the supermarket.	4.37
5	Advertising in cinemas, television channels and radio	4.33
<b>Part G: Social and Religious Factors</b>		
1	Society can influence you significantly to buy the new product, for instance, your parents, friends, office mates recommend you to buy.	4.30
2	Collective discussion among peers and opinion leaders make you to participate in the new products.	4.23
3	Requirement by the employer makes you adopt the new products.	4.40
4	Religious teaching, for instance, if the product includes the prohibited items, you are willing to find an alternative product which is acceptable in your religion.	4.37
5	Ethicality and fairness are important for me to choose among the available products.	4.20

Table 2 shows the mean values of the determinants to adopt new products. To know the determinants to adopt new products by the respondents, the total of thirty five questions are constructed. These questions are organized into 7 groups, namely, (a) cost vs. benefit, (b) assessability, availability and service quality, (c) product features, (d) reputation of the company, (e) attribute of agent, (f) marketing and promotion and (g) social and religious factors. Under each category, there are five related questions to reflect the determinants for each group.

Since human beings are rational, they will weight cost and benefit. Then, they will decide to buy when the benefit outweighs the cost. Table 2 (Part A) can be referred for the mean values of five cost-benefit pulling factors. All the mean values are more than 4 show that cost-benefit is the significant pulling factors for customers in making the economic decisions. The main determinants of pulling factors are the lower premium paid, better insurance coverage, higher return and no loss in surrender value. Thus, these findings suggest that if Takaful products are offered in India, the operators should be viable enough to compete with the existing insurance companies to ensure that Takaful products are economically attractive to the customers.

In addition to the cost and benefit, it is believed the assessability, availability and service quality of the operators are important pulling factors to the customers. Five questions are asked and their mean values can be referred to Table 2 (Part B). Since all the mean values are more than 4, it can be summed that availability of having many branches, various types of products, trial with the limited cost, excellent service quality are the main pulling factors to the customers to buy the new products.

The mean values of the product features can be referred to Table 2 (Part C). Based on the mean values of more than 4, the customers prefer to try the new products if the products are highly observable, understandable, clearly written on benefits. In addition, the future Takaful operators have good future since the potential customers are willingly to try the new products if all the features and functions of the existing and new products are the same.

Table 2 (Part D) presents the mean values of five questions which proxy the reputation of the company. Company's reputation and its brand name, ethicality, corporate social responsibility and the public confidence are the pulling factors persuading the potential customers to try the new products and services since all the mean values are more than 4.

The mean values of all the determinants are more than 4 and thus, it can be concluded that the determinants stated in the pilot test questionnaire are highly influential factors for the respondents in adopting new products.

Due to the nature of the products, most of the insurance products are sold by the agents and they are the front-liner people who represent the companies. The mean values regarding the quality of the agents can be referred to Table 2 (Part E). The pulling factors of the agents to get the new customers and to maintain the existing customers are their ethicality, ability to suggest the most suitable products to the customers, well explanation and transparent disclosure on the products, their good relationship with the customer and readiness to help the customers. Since the mean values of all the above said factors are more than 4, these factors are important determinants to attract the customers in order to adopt the new products.

Marketing and promotion is the heart of any company since it will expose itself to the potential customers and it will show how good the company is in the eyes of the public. Various types of advertising are essential since all the mean values are more than 4 (Refer to Table 2, Part F). Based on the findings, advertising in brochures and pamphlets, on the website, in the roadshow, opening the booths and in the cinemas, television channels and radio are essential to pull the customers in order to try Takaful products.

The last part of the questionnaire is related to the social and religious factors. The mean values (Refer to Table 2, Part G) shows that the main pulling factors are the influence from the surrounding society, collection discussion with peers and opinion leaders, requirement by their employers, restriction from the religious teaching and ethicality and fairness of the products.

This subsection has explained the findings of seven main categories of the pulling factors for the potential customers if Takaful is offered in India.

## **7. Conclusion**

This paper tries to highlight the potential of introducing Takaful in India. Since it will be a new product, this paper provides the insight information to the potential Takaful operators by presenting push-full factors of the potential customers. Since the economy of the India is at the growing rate and the attitude of the customers are in favour of new products, it is important for the regulators to consider in opening the market for Takaful products. In addition, the Muslim population is added favour to the Takaful operators to get the new customers. The findings of this paper are at the preliminary stage and hence, this paper can be used as a stepping stone to explore more on the possibility of introducing Takaful in India.

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