TAKAFUL PRODUCTS AND SERVICES IN SAUDI ARABIA: AN EXPLORATION INTO POLICYHOLDER'S PERCEPTIONS AND REGULATORY FRAMEWORK

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TAKAFUL PRODUCTS AND SERVICES IN SAUDI ARABIA: AN EXPLORATION INTO POLICYHOLDER'S PERCEPTIONS AND REGULATORY FRAMEWORK

by

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Dedication

To my dearest parents

Abdullah & wedad

For giving all the love, support and encouragement throughout the duration of my studies

My beloved wife:

Abrar

For your love, sacrifices, patience, supports and tolerances

My dearest childeren

Abdullah, Abdulaziz, Muhammed & Heba

For enduring and sharing all the sweet, pain and bitter experience throughout the period of my studies

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DECLARATION

I hereby declare that no portion of the work that appears in this study has been used in support of an application of another degree in qualification to this or any other university or institutions of learning.

ABSTRACT

TAKAFUL PRODUCTS AND SERVICES IN SAUDI ARABIA: AN EXPLORATION INTO POLICYHOLDER'S PERCEPTIONS AND REGULATORY FRAMEWORK

Hashem Abdullah AlNemer

Takaful is the Islamic counterpart of conventional insurance, where it relies on a combination of *tabarru* (donation) and agency or profit-sharing. The *takaful* fund is considered a *musharaka* (partnership) among participants (policyholders). The relationship between the *takaful* operator and participants' fund is based on either *wakala* contracts to manage the underwriting activities, and/or a *mudaraba* contracts to manage the underwriting or investment activities. Participants (Policyholders) in the *takaful* scheme are the main stakeholders; their equity consists of ownership of the underwriting activities and the investment funds. Participants' relationship with *Takaful* Operators (TOs) depends on the percentage of the contributions premium they pay. They have a claim on assets of these funds in case of liquidation and they are entitled to have their claim paid if there is enough underwriting funds to finance payout; they are also entitled to share in the distribution of any investment and underwriting surplus. However, the only right that participants can exert on the *takaful* scheme is to disconnect their contractual relationship with the company in case of dissatisfactions. Participants' undeserved rights might be due to management prioritizing interest towards shareholders as they are the main stewards of the *takaful* company. In other words, one of the main challenges faced in the *takaful* industry is shareholders and management discretions, power and activities due to the unclear structure of the *takaful* operational scheme. The *Takaful* operational scheme should follow the two-tier hybrid structure (mutual and proprietorship) as it has been identified by the prominent regulatory bodies such as AAOIFI and IFSB. However, almost all regulators, of which the Saud Arabian Monetary Agency (SAMA) is one, treat the TOs as a proprietorship, as it can be easily regulated and supervised which requires an identified share capital and shareholders.

The main aim of this study, hence, is to recommend proper protection channels for participants, by conducting two parallel ways research, (i) exploring participants' perceptions, knowledge, preferences and satisfactions levels about the service and products presented by the TOs in Saudi Arabia (ii) reviewing and comparing the current directives and laws imposed by the Saudi insurance regulatory authorities with the standards and polices imposed by the international insurance and *takaful* bodies.

In fulfilling the aim of the study, primary data collection research was adopted through a survey questionnaire technique. The questionnaire was structured with 4 main dimensions (Disclosure, Knowledge, Preference and Satisfaction) with a total of 26 variables to cover the research objectives and themes. The survey questionnaire was distributed to 9 TOs in Jeddah, Saudi Arabia. A total of 300 out of 500 returned questionnaires were complete and found fit for analysis purposes. The data were analysed using various statistical analysis techniques ranging from simple frequency distribution analysis to the more advanced analyses such as non-parametric statistical analysis, Spearman's correlation and multinomial logistic regression. In general, the results of the study show that participants' overall perceptions and knowledge on TOs services and products is low, while participants reported high overall preferences which implies that participants are demanding more services from the TOs as they have more wants and needs. In term of satisfaction levels, participants reported a weak to moderate satisfaction levels, as a result of participants' low perception, weak knowledge and high preferences which was obvious from the significant relationship between participants perceptions, knowledge and preferences as independent variables with participants' satisfaction levels as dependant variables. In other words, in order for the TOs to satisfy their participants, they need to disclose more detailed information about different sorts of financial returns (investment return and underwriting surplus), as participants are

financially motivated and there is no effect at all for religious motivation. The results of reviewing and comparing SAMA with the international insurance and *takaful* bodies, indicated that SAMA did not implement directive laws that address the *takaful* business nor any directive that address *Shari'ah* issues. Accordingly, it is highly recommended that SAMA adopts the well-established Corporate Governance and Market Conduct & Disclosure standards and polices that have been set by the international bodies such as AAOIFI and IFSB for better protection for the *takaful* participants in Saudi Arabia.

The results of the research have established effective instrumental tools to measure the desired environment that should be available for the perspective policyholders and participants for their ultimate protection. These tools are based on participants' perceptions, knowledge, preferences and satisfaction levels and based on the country's regulatory assessments to support and protect participants' and policyholders' rights in the *takaful* fund.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

GLOSSARY

The Glossary for terminology used in this thesis is taken from the Encyclopedia of Islamic Finance authored by Shanmugam, Alam and Zahari (2008) and Dusuki (2005). The terminologies were also taken from IFSB (2010).

Transliteration	**Translation**
Al-Quran:	The Holy Book of the Muslims consisting of the evelations made by Allah to the Prophet Muhammad (PBUH). The Quran lays down the fundamentals of the Islamic faith including beliefs and all aspects of the Muslim way of life.
Al-Hadith:	The tradition or collection of traditions attributed to the Prophet Muhammad (PBUH) that includes his saying, acts, and approval or disapproval of things. Hadith is valued by Muslims as a major source of religious law and moral guidance.
Fiqh / usul alfiqh:	Islamic Jurispudence / The Principles of Islamic Jurispudence. It covers all aspects of life – religious, political, social or economics *etc.*
Gharar:	Certain types of prohibited (*haram*) uncertainty in a contract. It is an exchange in which one or more parties stand to be deceived through ignorance of an essential element of the exchange.
Kafalah:	A contract of guarantee, security or collateral. It is also defined as the responsibility of the entrepreneur or manager of a business, that is, one of two basic relationships towards property, which entails bearing the risk of its loss.
Mudārabah:	An agreement made between two parties: one which provides 100 percent of the capital for the project and another party known as a *mudarrib,* who manages the project using his entrepreneurial skills. Profits are distributed according to a predetermined ratio. Any losses accruing are borne by the provider of capital. The provider of capital has no control over the management of the project.
Mudarib :	Refers to the partner who provides entrepreneurship and management services in a *mudarabah* agreement.
Mushārakah:	A partnership contract between two parties who both contribute capital towards the financing of a project. Both parties share profits on a pre-agreed ratio, but losses are shared on the basis of equity participation. Either parties or just one of them may carry out management of the project. This is a very flexible partnership arrangement where the sharing

of the profits and management can be negotiated and pre-agreed by all parties.

Qard-al Hasan: An interest-free loan given mainly for welfare purposes. The borrower is only requires to pay back the amount borrowed. In some cases, a minimum administrative fee may also be charged to the borrower.

Rab-al-Mal: The owner of capital in a *mudarabah* contract. The owner agrees with the working party to give him an amount of money to be invested such that the profit is distributed among them with known predetermined percentages that are not based on the capital but on the amount of the realized profit itself. As for the loss (if any), is to be borne by the owner of capital alone and the working party suffers the loss of his effort and his time without any compensation.

Riba': Literally means an increase or addition. Technically it denotes any increase or advantage obtained and accrued by the lender in a loan transaction without giving an equivalent counter-value or recompense in return to the borrower. In a commodity exchange it denotes any disparity in the quantity or time of delivery.

Sharī'ah: In legal terminology, *Shari'ah* means the law as extracted by the *Mujtahids* from the sources of law. The term *Shari'ah* can also mean divine guidance as given by the Quran and the *Sunnah* of the Prophet Muhammad (PBUH) and embodies all aspects of the Islamic faith, including beliefs and practice.

Sunnah: It refers essentially to the Prophet's examples as indicated by his practice of the faith. Literally means custom; the habits and religious practices of the Prophet Muhammad, which were recorded for posterity by his companions and family and are regarded as the ideal Islamic norm.

Surplus or deficit: An agency contract where the Takaful participants (as principal) appoint the Takaful operator (as agent) to carry out the underwriting and investment activities of the PRF on their behalf.

Takaful: Literally it means guaranteeing each other. It is a system of Islamic insurance based on the principle of *tawun* (mutual assistance) and *tabbaru* (voluntarily) where risk is shared collectively by the group voluntarily.

Takaful operator: (TO) Any establishment or entity that manages a Takaful business.

Takaful participant: A party that participates in the Takaful product with the TO and has the right to benefit under a Takaful contract (similar to a "policyholder" in conventional insurance).

Tabarru': A *takaful* donation or a contract where a participant agrees to donate a pre-determined percentage of his contribution (to a *takaful* fund) to provide assistance to fellow participants.

Underwriting: The process of evaluating new applications, carried out by a TO on behalf of the Takaful participants based on an established set of guidelines to determine the risk associated with an applicant. The TO could accept the application or assign the appropriate rating class or decline the application for a Takaful contract.

Wakala: Delegation of a duty to another party or agency for specific purposes and under specific conditions. Under this concept, the bank acts as the customers' agent in completing a particular financial transaction. As an agent, the bank will be paid a certain amount of fee for the services it provides.

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ABBREVIATIONS

Abbreviations	Meaning
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
BASEL	Basel Committee on Banking Supervision
BoD	Board of Director
CCR	claims contingency reserve
CAGR	compounded annual growth rate
E & Y	Ernst & Young
FSA	Financial Services Authority
GDP	Gross Domestic Product
GWP	Gross written premium
GCC	Gulf Cooperation Council
IAH	Investment Account Holders
IFI	Islamic Financial Institutions
IIFM	International Islamic Financial Market
IFCE	Insurance Fundamentals Certificate Exam
IFS	Islamic financial services
IFSB	Islamic Financial Services Board
INCEIF	International Centre for Education in Islamic Finance
IAIS	International Association of Insurance Supervisors
ICP	IAIS Core Principles
IOB	Institute of Banking
IRR	Investment Risk Reserve
ISCU	Internal Shari'ah compliance unit/department
ISRU	Internal Shari'ah Review Audit
JWG	Joint Working Grouping
NCB	No Claim Bonus
NCD	No Claim Discounts
OECD	Organization for Economic Co-operation and Development
PA	Participants' Account
PER	Profit Equalization Reserve
PIF	Participant Investment Fund
PRF	Participant Risk Fund
PSA	Participants' Special Account
QIC	quality insurance congress
RIA	Restricted Investment Account
SAMA	Saudi Arabia Monetary Agency
SAR	Saudi Arabian Riyal
SSB	Shariah Supervisory Board
TO	Takaful Operator
UIA	Unrestricted investment Account
WTO	World Trade Organization

Independent & Dependant Variables Abbreviations'

Abbreviations	Meaning
DM	Disclosure Mechanisms
DIR	Disclosure of Investment Returns
DUS	Disclosure of Underwriting Surplus
DSC	Disclosure of *Sharia'h* Compliance
DCI	Disclosure of Claims and Indemnities
DFDQ	Disclosure of Fees, Deficits and *Qard*
DKP	Disclosure of Key Personnel
KPM	Knowledge of the principle of the TOs Model
KIR	Knowledge of Investment Returns
KUS	Knowledge of Underwriting Surplus
KSC	Knowledge of *Sharia'h* Compliance
KFDQ	Knowledge of Charged Fees, Encountered Deficits and availability of *Qard*
KKP	Knowledge of Key Personnel Power and Activities
KDC	Knowledge of Dissatisfaction Channels
PSC	Preference on *Sharia'h* Compliance
PRB	Preference to have a representative on BoDs
PKP	Preference on TOs Key Personnel
PRU	Preference on the reason to use *takaful* policy
PCU	Preference on claims and underwriting surplus
SDM	Satisfaction with TOs Disclosure Mechanism
SIR	Satisfaction with TOs Investment Returns
SUS	Satisfaction with TOs underwriting Surplus
SSC	Satisfaction with *Sharia'h* Compliance System
SCI	Satisfaction with Claims and Indemnities
SFDQ	Satisfaction with Fees, Deficits and *Qard*
SKP	Satisfaction with Key Personnel

CHAPTER ONE
INTRODUCTION

1.1 RESEARCH BACKGROUND AND MOTIVATION

The significant growth of Islamic financial institutions and markets along with the development of the supporting financial infrastructure and the standardized international rules and regulations, have all contributed to a robust international Islamic financial architecture for Islamic finance that is contributing towards ensuring the stability and soundness of the Islamic financial system (Aziz, 2007). The progress achieved in the development of the Islamic financial system, includes the *takaful* industry that has also experienced significant achievements. *Takaful* industries indicate clear manifestation of the recognition of Islamic insurance as an important source of enhancing *Shari'ah*-compliant protection against vulnerability or risk arising from untoward events (Aziz, 2007). The growth is reflected by the increase in the number of large *takaful* and re*takaful* operators worldwide and the growing participation of prominent global players in the *takaful* and re*takaful* market.

Takaful grew at a compound annual growth rate of 39% over 2005 - 2008 in terms of global *takaful* premiums, 45% in the GCC, and 28% in South East Asia (SEA). The comparative growth of global insurance was 7% with the corresponding figures of 20% and 23.5%, respectively (Bhatty, 2010). The estimated size of the global *takaful* premium was US$ 5.3bn in 2008 and US$ 8.9bn in 2010 (Bhatty, 2010). By 2011, the *takaful* contributions reach US$ 11.9 bn, with a growth rate of 31% (E & Y, 2011) and expected to rise to US$ 12.5bn by 2015 (Lewis *et al.*, 2007). There were some 179 *takaful* companies and windows (20%) in 2008, and this number in 2010 can easily be in excess of 200. The total capital committed within the *takaful* industry in 2007 was around US$ 3.5bn (Bhatty, 2010). Saudi Arabia remains the largest *takaful* market in the GCC with contributions of US$ 2.9 bn in 2008 (E & Y, 2010). Meanwhile, in 2011, most GCC markets witnessed a slowdown in *takaful* growth with only the Saudi insurance market remaining strong. This was due to the compulsory medical insurance mandated by the government. Saudi Arabia's introduction of compulsory medical insurance policies has contributed to a strong growth in family and medical *takaful* in the Middle East and North Africa (MENA) region (E & Y, 2011).

Although the *takaful* industry is well established internationally and is expanding rapidly with many new entrants, there remains confusion amongst the wider public about the difference between the *Shari'ah*-compliant insurance and conventional insurance products. There is a lack of understanding regarding how the *takaful* providers should be organized and operate and the providers themselves have not been effective in consumer education and marketing (Wilson, 2007). Consequently, although it is easy to expand rapidly from a minimal base, further expansion will inevitably be more difficult unless potential clients are convinced of the merits of *takaful* and appreciate its distinction from conventional insurance and why it is regarded as *Shari'ah* compliant (Wilson, 2007). Yet, unlike its banking counterpart, *takaful* has been covered less in the literature on Islamic finance and its workings are not fully understood (Lewis *et al.*, 2007). As a result, more empirical and intensive studies are needed to conceptualize different issues related of *takaful.* This is particularly true for a country like Saudi Arabia where the potential market for the *takaful* business is forecasted to grow.

1.2 SIGNIFICANCE OF THE STUDY

The first modern *takaful* undertaking was found in Sudan in 1979. Its foundation was due to the solution by a Sudanese *Shari'ah* scholar (Dr. Muhammed Alamin Al-Dareer) of a juristic problem: how may the *Shari'ah* prohibition of trading insurance (in indemnities and guarantees more generally) be overcome? Part of the solution lies in the adoption of a structure for mutual underwriting of insured risks: the insured (participants) mutually insure one another, on a non-profit basis, according to the principle of *takaful* (the Arabic word for "solidarity"). Another aspect of the solution consists of characterizing the policy contributions (premiums) to the risk fund as incorporating an element of conditional and irrevocable donation (*tabarru*), the donor making the contribution to the risk fund subject to being entitled to benefit from mutual protection against insured losses. However, the adoption of a mutual structure runs into two kinds of institutional obstacles: (i) the legal systems of many countries do not accept mutual or cooperative forms of company without share capital, (ii) even if such forms of company are accepted for insurance undertaking they need to be able to raise enough capital from policyholders to meet regulatory capital adequacy and solvency requirements (Archer *et al*, 2009).

Therefore, to overcome these two obstacles the vast majority of *takaful* undertakings have a two-tier hybrid structure in which the risk funds operate on a mutual basis but are managed by *takaful* operators (TOs) which are companies with shareholders (IFSB, 2010). However, this hybrid structure involves complexities and it raises the fundamentals of the true identity of the *takaful* scheme. Is the *takaful* scheme mutual or a proprietorship? Obviously, from a strictly legal perspective, it cannot be treated as a mutual when the law of the country does not cater for or accommodate the setting up of such forms of company with no shareholders. Moreover, the regulators issue the *takaful* license specifically to the TOs on the basis of its form as a proprietorship with properly identified share capital and shareholders. Thus, at least as far as the regulators are concerned, the *takaful* scheme is not a mutual (Hussain, 2009). Beyond, the legal form, it has to be highlighted that it is not purely a proprietorship either, since participant owners in the *takaful* fund cannot be eliminated. In other words to treat the *takaful* scheme as a pure proprietorship would directly jeopardize the whole *takaful* concept and contracts, since in principle a mutual is totally different type of legal entity than a proprietorship. Even if there is such a legal framework, mutuals and cooperatives *per se* in most countries may not fall under the jurisdiction of the financial regulatory authority.

As a result, most if not all the *takaful* undertakings are set up by operators as proprietorships rather than mutuals. For the regulators a proprietorship can be regulated and supervised in a more direct manner, in the sense that they can categorically monitor and hold accountable the regulated parties. This is not possible in mutual and cooperatives as the policyholders themselves are the owners of the entity. The regulators may face an inconvenient dilemma that the regulated parties generally are also the supposedly protected party because they wear the hats both of clients and owners. The approach of having a proprietorship licensed as a TO is also convenient for the business owners who offer *takaful* products as a commercial initiative, motivated by the potential profits. The owners that are the shareholders of the TOs see themselves as better positioned to control the management and carry out activities in a manner that mutuals or cooperatives could be restricted from doing, such as raising funds through the issuance of shares (Hussain, 2009).

The above discussion raises concerns and challenges faced by the *takaful* industry. These include concerns with transparency and business monitoring, challenges in collation, analyzing and dissemination of credible and relevant financial and technical statistics, un-codified *Shari'ah* rules and principles, other challenges arising from standardization in accounting and operational approaches by markets, regions and jurisdictions (Bhatty, 2010). The main stakeholders affected in this dilemma are the *takaful* participants, especially those with long-term contracts, since they expect a variety of benefits out of their contributions to the fund. There is nothing that can restrict the TOs from challenging the regulators' instructions. Based on the contractual arrangements it is the duty and obligation of the *takaful* participants themselves to make up for any deficit in the *takaful* fund. This is because the TOs are nothing more than managing agents and the *takaful* participants remain as the principles.

Although the participants own the *takaful* fund they are supposed to be in a position to appoint another manager/TO to manage the whole scheme on their behalf if they are not satisfied with the performance of the current manager. However, these challenges and *takaful* structure dilemma have led TOs to exert more discretions and power over participants' funds. As a result, participants are not in a position to exercise any governance controls and they do not attend general meetings, as policyholders in conventional mutuals have. As shareholders have control of the governance organs it is likely that the management would prioritize the interest of shareholders over the rights of the participants (who are in principle the owners of the *takaful* fund) since there are no incentive structures to make the management act in the interests of the policyholders. Accordingly, participants may find themselves in a disadvantageous position. The only right that participants can exert on the *takaful* scheme is to vote with their feet by discontinuing their contractual relationship with the company in case of dissatisfactions (Archer*et al*, 2009).

As a result a significant amount of work has been conducted by international insurance and *takaful* bodies to develop a prudential system for insurance and *takaful* industry to protect the right of policyholders and participants. For example, the International Association of Insurance Supervisors (IAIS) has issued the core principles of insurance supervision that is mainly concerned about customer protection through information disclosure, transparency toward the market and corporate governance guidance. The Islamic Financial Services Board (IFSB) has also the same concerns of providing the required protections for participants as they have issued a number of *takaful* guiding principles, such as the *takaful* operations governance guiding principles, and the guiding principles on market conduct of business for Islamic institutions. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards and polices provide important rulings about TOs' obligations towards participants, especially when it comes to the issue of participants financial return and ownership rights in the *takaful* fund.

At the rational level, Saudi Arabia requires all insurance companies to operate under a cooperative business model which is a key feature of the *takaful* model (E & Y, 2011). *Shari'ah* scholars indicate that the Saudi cooperative model is similar to *takaful* models due to funds segregation and surplus distribution (Abouzaid, 2007). However, Saudi Arabia like other countries (Malaysia, Kuwait, Egypt, UAE, and Lebanon) that allowed *takaful* companies to operate in their jurisdictions do not follow AAOIFI standards and polices (with the exception of Bahrain and Qatar) (E & Y, 2011).

In line with the current *takaful* challenges and the *takaful* structure dilemma, the significance and motivation to conduct the current research is to explore participants' satisfaction levels, perceptions, knowledge and preferences about the services and products presented by the TOs in Saudi Arabia. The current research also aims to compare the cooperative insurance policies and standards of the Saudi Arabian Monetary Agency (SAMA)[1], with the international *takaful* and insurance standards and polices of AAOIFI, IFSB, IAIS and other international insurance regulators. Exploring participants' behavioural aspects and comparing the Saudi regulators standards and roles will provide the necessary recommendations that bring the required protections for *takaful* participants not only in Saudi Arabia but also for other participants who contributed to the *takaful* fund all over the world. To the researcher's best knowledge, there are no studies that have been conducted before to study *takaful* participants' behavioural aspects, needs and wants, which have different philosophical and operational aspects from the mainstream of commercial insurance policyholders. Moreover, no studies have been conducted

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[1] The *takaful* and insurance regulating body in Saudi Arabia is SAMA (E & Y, 2011).

that compare the Saudi insurance directives with the international directives with respect to participants' protections.

1.3 Research Aim and Objectives

The dilemma about the *takaful* operational structures causes many challenges faced by the TOs, and a predicament exists between the recommended policies and standards stipulated by the international *takaful* regulators such as AAOIFI and IFSB with the policies and standards stipulated by most of the countries including Saudi Arabia. Against this backdrop this research aims to study the issue related to protection of participants' rights and obligations in the *takaful* fund. This is done by (i) explore participants' satisfaction levels, perceptions, knowledge and preferences, (ii) compare the Saudi insurance regulator's laws and directives with the standards, polices and recommendations that have been stipulated by the international insurance and *takaful* regulations. Comparing the Saudi directives with the international ones will be done in accordance with the available guidelines, directives, laws and policies that address the issue of corporate governance, market conduct and disclosure. The main reason behind focusing the study on these two themes is because insurance regulators everywhere have issued a quite good number of directives and laws that aim to improve insurance companies' corporate governance structures and to encourage insurance companies to act ethically in accordance to the ideal rules of market conduct and disclosure.

Based on the findings, the research will be able to come up with recommendations to provide the required protections to the *takaful* participants, based on participants perceptions and behavioural aspects and based on the recommendations made for SAMA to provide a suitable directives and laws approach that suit the *takaful* operational schemes, to achieve the required and targeted protections for *takaful* participants.

In order to fulfil the main aim of the study, a number of objectives were formulated:

1. To identify the best international regulatory practices and standards of TOs in terms of corporate governance and market conduct & disclosure.

2. To explore the current laws and regulatory regime for the *takaful* companies operating in Saudi Arabia in terms of corporate governance, and market conduct regime and to explore the Saudi Arabian jurisdiction laws in resolving conflicts in the insurance industry.

3. To explore participants' satisfaction levels, and their perceptions, knowledge and preferences of the TOs services and products.

4. To explore participants' demographics characteristics that can make an impact on participants' satisfactions levels.

5. To explore the strength of relationships between participants' satisfaction levels with their perceptions, knowledge, and preferences about the TOs services and products.

6. To explore the form of relationships between participants' satisfaction levels with their perceptions, knowledge, and preferences about the TOs services and products.

7. To suggest solutions to improve the current Saudi Insurance Regulator directives and laws of the TOs.

8. To propose some suggested solutions to improve the current TOs services, practices and products.

1.4 RESEARCH QUESTIONS

In order to achieve the identified research aim and objectives, the following research questions were formulated with the purpose of guidance on the overall conduct of the research, especially for the data collection, analysis, and interpretations process. The research questions are as follows:

1. What are the best regulatory practices and standards of the TOs in terms of corporate governance, market conduct and disclosure?

2. What are the laws and regulations governing *takaful* companies in Saudi Arabia?

3. What are Participants' satisfaction levels, and their perceptions, knowledge, and preferences of TOs services and products?

4. How do the participants' demographics characteristics affect their satisfaction levels?

5. What are the strengths of relationship between participants' perceptions, knowledge and preferences, with their satisfaction about the TOs services and products?

6. What are the forms of relationship between participants' perceptions, knowledge and preferences, with their satisfaction about the TOs services and products?

7. What are the suggested solutions for the Saudi Arabian Insurance Regulator to overcome any shortfalls in providing the required protections for *takaful* participants?

8. What are the suggested solutions to overcome any shortcoming of the current practises conducted by the TOs in Saudi Arabia to institute the required protections to the *takaful* participants?

1.5 RATIONALE FOR THIS STUDY

The *takaful* industry is facing a number of challenges, some of which are the power and activities of shareholders and TOs on the *takaful* fund. This power can be a reason of the two-tier (mutual and proprietorship) hybrid structure of the *takaful* companies. The exerted power of the management and shareholders that exist is due to the regulators' legal treatments: most if not all regulators are issuing *takaful* licenses on the basis of proprietorship with properly identified share capital and shareholders; *i.e.* the regulators are not treating the *takaful* scheme on the basis of mutual insurance.

Accordingly, to achieve the research aim and objectives a proper gauging technique is required to measure customer satisfaction. The SERVQUAL model was one of the options to measure customer satisfaction levels. However, due to the criticisms noticed by several researchers the model has proved to be unable to properly measures participants' satisfaction levels in the *takaful* business. Criticisms are such as inability of the model to work outside the Western countries, inability of the model to directly link customer satisfaction with the companies' presented services, and inability of the model to serve the insurance sectors. To fill the gap a customized model is required.

The model is based on the comprehensive topics covered in the literature review chapters, which address several researchers' suggestions and findings about the importance of obeying customer perceptions, needs, wants and preferences which in a way enhance customer satisfaction levels. Previous researchers' findings also indicate that customer motivations and preferences can be easily improved when a customer has a good knowledge about the basics and technical principles of the used model. The model is also based on the imposed polices and standards by the international *takaful* and insurance regulators which mainly focus on the importance of obeying customer expectations of gaining the required financial return and the *Shari'ah* compliance system. Regulators also acknowledge the importance of educating participants of their rights and obligations by having in a place a proper disclosure system. Regulators are also aware of the importance of the participants' opinions and preferences by emphasising the recruitment of knowledgeable sales personnel and intermediaries who are responsive to the participants. Therefore, the suggested model will be structured according to the expected financial returns from the *takaful* fund in the form of investments and underwriting surplus returns. The model will also focus on the necessity of complaining within the *Shari'ah* rules. Accordingly, the main purpose of constructing the model is to determine the factors that enhance participants' satisfactions by systematically linking their satisfactions with their perceptions, knowledge and preferences.

Exploring TOs' protection policies towards their participants and reviewing TOs' perceptions about the services and products presented to participants is one of the aims of this study. However, due to the recent regulatory directives imposed by SAMA, it was not appropriate to view TOs perceptions on the services and products offered for the participants, as the majority of the TOs had to stop their operational activities and decided to retain the existing participants until full adherence to SAMA reform laws. Some of these requirements are the segregation between the insurance company from its main mother company (*ex*, bank affiliation) which requires a separate capital and a separate Board of Directors (BoDs). Therefore, reviewing and comparing SAMA regulations with the international *takaful* and insurance regulations is an alternatives approach to fill the gap and to achieve the second main objective.

The current research model is somehow similar to the research approach adopted by Wells *et al* (1995) who compare the results of consumer perception with regulatory assessment and directives to come up with proper recommendations for better service quality to serve the customers. In short, the current research effort can be used as a vital instrument for the TOs, since it is based on the policies and regulations that have been strongly recommended by the international insurance and *takaful* regulatory bodies to provide ultimate protection for the policyholders. The current research will fill the gap, by identifying a direct link between participants' perceptions and their satisfaction levels, which will strongly highlight the important factors that TOs should considered to improve their service quality.

1.6 RESEARCH METHODOLOGY

The research uses a qualitative methodology based on a triangulation method. The triangulation method is used because the current research combines two techniques, quantitative and qualitative. This study uses the qualitative method because it carries a textual analysis by comparing the Saudi directives with the international insurance and *takaful* directives. The study also used the quantitative method because it relies on primary data collections. The data has been collected from nine TOs in the Kingdom of Saudi Arabia and analyzed by using SPSS version 17 software. A drop-off of a self-administered survey questionnaire and telephone calls techniques were used to collect participants' responses. Accordingly, a total of 500 questionnaires were distributed, of which 420 completed questionnaires were received, where 120 questionnaires were rejected, leaving 300 completed and usable questionnaires for the research, yielding a usable response rate of 60 %. The survey questionnaire consists of 74 questions which are divided into 4 main dimensions (Disclosure, Knowledge, Preference and Satisfaction) with a total of 26 variables to cover the research objectives and themes. Most of the survey questionnaire is designed as close-ended type questions. The closed-ended or forced-choice type of question is preferable in this research because it will increase the response rate, since it is easier and faster to be answered by the prospective respondents, especially when using a phone-call approach. The responses yielding a usable rate reflected the success of using these types of questionnaires. To attain the aims and objectives of the study, a descriptive analysis with frequency distributions together with the measurement of mean, standard deviations and a chi-square test have been used in this research to identify whether the discrepancy between categories is small, and the discrepancy is statistically significant or not. A set of non-parametric tests has been identified to be the most suitable technique for the current research, since the data was collected using a non-probability sampling technique. The non-parametric tests are also ideal for use when questionnaires are structured on categorical scales as with the current research. Accordingly, the current research uses the Mann-Whitney U-test and the Kruskal Walis test. To explore the relationships among variables a set of inferential statistics tools been used, Spearman's Correlations and Multinomial Logistic Regression Analysis.

1.7 OVERVIEW OF RESEARCH CHAPTERS

Following this brief introduction, the thesis continues with the remaining eleven chapters, which are closely interrelated. There will unavoidably be some overlapping of discussion and cross-referencing. The overview of chapter 2 to chapter 12 is as follows:

Chapter 2 - Islamic Insurance (*Takaful)* Overview: this chapter highlights the definition and functions of Islamic insurance along with the contemporary jurists' judgments on the validity of commercial insurance contracts. This chapter also discusses the basic principles of the *takaful* contract along with the dominant *takaful* models. A comparison is also made between the *takaful* contract with other types of insurance contracts, such as commercial and the mutual-based contract.

Chapter 3 - Insurance & *Takaful* Corporate Governance Policies: This chapter discusses different theories of conventional and *Shari'ah* governance, corporate governance models, governance key stakeholders, corporate governance challenges, and a reflection of the available international insurance and *takaful* polices. This chapter will provide an answer to the first part of research question 1.

Chapter 4 - Market Conduct and Disclosure: This chapter discusses the relationship between market conduct and discourse, the problems associated with the insurance and *takaful* industry in terms of claim and disputes settlements procedures, the importance of disclosing participants' financial returns. This chapter addresses the second part of research question 1.

Chapter 5 - Customized Approach to Measure Customer Satisfaction in the *Takaful* Industry: The chapter discusses customer satisfaction and how it is related to customer needs, perceptions and preferences. This chapter also discusses the importance of customer knowledge and understanding of the presented products and services, and how lack of knowledge can affect customer confidence and preferences. This chapter also relates service quality and satisfactions, and how lack of service quality can have a great impact on the services presented by the insurance industry.

Chapter 6 - An Overview of Saudi Arabian Judiciary System & Insurance Industry Behaviours: This chapter provides a comprehensive history about Saudi Arabia insurance market developments, the current status of the TOs and the important regulations that were issued by SAMA to bring stability to the Saudi insurance market. This chapter provides an answer to research question 2.

Chapter 7 - Research Framework and Methodology: The chapter discusses the research strategy and methodology adopted for the data collection process. It presents in great detail the recommended research procedures and the used technique. The rationale and justifications for each of the tools and techniques used throughout this study are presented.

Chapter 8 - Description of Participants' Characteristics' and Perceptions: This chapter gives a descriptive insight into participants' replies to the survey questions according to five sections of the survey: participants' demographic characteristics, their perceptions about TOs disclosure system, participants' knowledge, preferences and satisfaction levels about the services and products presented by the TOs. The descriptive analysis benefited from a frequency analysis which also includes the frequency percentage, mean, and standard deviations, value for each of the variables; this provides the reader with the grounding knowledge of the overall results. This chapter provides a justified answer to research question 3.

Chapter 9 - Exploring the Relationship between Variables Affecting Participant Satisfaction: Bivariate Analysis: This chapter uses bivariate analysis statistical analysis tools to non-parametric data. In this chapter, participants' satisfaction levels about TOs services and products are analyzed using statistical tools such as Mann-Whitney U-test, Kruskal-Wallis test. To find the strength and directions of the relationships between participants, satisfactions in accordance with their perceptions, knowledge and preferences Spearman's correlations has been used. The results of the analysis are discussed and justified in order to respond to research questions 4 & 5.

Chapter 10 - Exploring the Relationship between Variables Affecting Participant Satisfaction: Multivariate Analysis: The chapter uses a multivariate analysis approach for further analysis, of participants' satisfaction levels. In this chapter, to find out the form of relationships, *i.e.* which variables causes the occurrence of the other variables, the multinomial logistic regression analysis has been used between participants satisfaction levels as a dependant variable, with participants perceptions, knowledge and preferences as independent variables. The results of the analysis are discussed and justified in order to respond to research question 6.

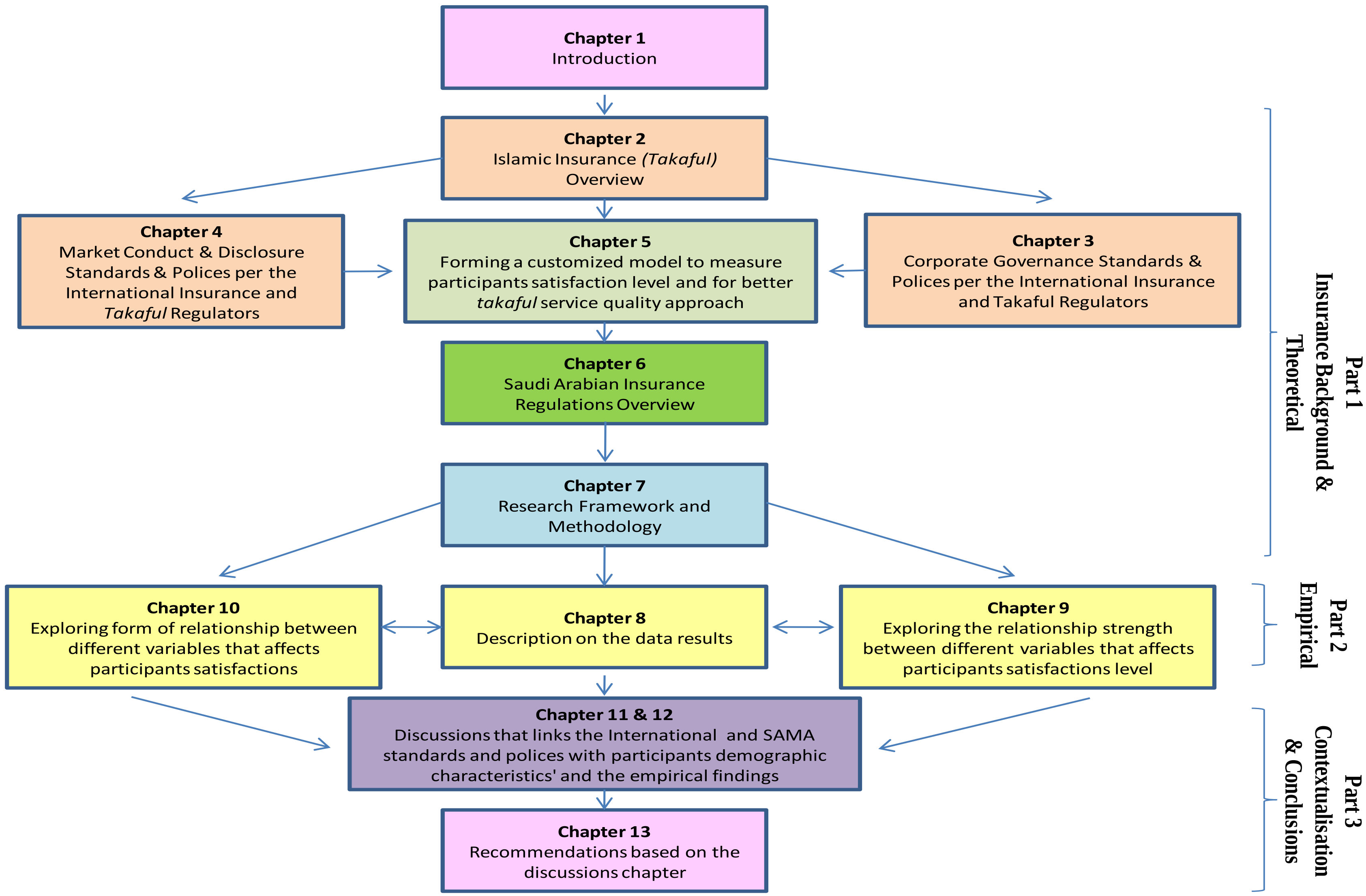
Chapter 11 - Contextualization of Research Findings: Implications for SAMA: The chapter provides an interpretation and discussion of participants replies to the survey questions as per chapter 8. It also provides a discussion and justifications of the findings of the statistical analysis findings of chapters 9 and 10. The outcome of this chapter gives some insight in deriving the overall conclusions of the study which gives comprehensive answers to research questions 7.

Chapter 12 - Contextualization of Research Findings: Implications for TOs: The chapter discusses in great detail the current situation of the Saudi insurance market in terms of market behaviours and in terms of SAMA regulations. The outcome of this chapter gives some insight in deriving the overall conclusions of the study which gives comprehensive answers to research questions 8.

The discussion, interpretations and justifications of chapter 11 and 12 makes cross-references to the theory and findings (that have been provided in the literature chapters) with the findings of the bivariate and multivariate analysis with the literature chapters, and with participants' demographic characteristics in order to link all the pertinent main findings in this study together and for better understanding and contextualization approach.

Chapter 13 - Conclusion and Research Recommendations: The concluding chapter presents a summary of the major findings, recommendations, limitations, and offers suggestions for future research. To give a visual dimension to the structure of this research, Figure 13.1 provides an overall picture of the structure of the thesis:

Figure 1.1: Contents and Structure of the Thesis



CHAPTER TWO
ISLAMIC INSURANCE (*TAKAFUL)* OVERVIEW

2.1 INTRODUCTION

Takaful offering insurance policy that complies with Islamic law is a growing and fast-developing industry. Such business is highly recommended by most Muslim scholars because it reflects the real meaning of brotherhood in protecting individual and corporate bodies against loss or hazards to themselves and their properties. Akin to the English insurance law, Islamic insurance has its fundamentals and conditions which must be adhered to. These include the parties to the contract, legal capacities of the parties, offer and acceptance, consideration, subject matter, insurable interest and utmost good faith. The presence of certain elements and the absence of others can make a difference between a valid or void contract as per the Islamic laws. The *takaful* contract, however, will definitely rely on the used *takaful* model used. For instance the relationship between participants and the *takaful* operators (TOs) will differ in the case of *wakalah* model than the *mudarabah* model.

The chapter is organized as follows: section 2.2 presents background of Islamic insurance in terms of definition and functions. Section 2.3 discusses classical and contemporary jurists' judgments on the validity of commercial insurance contracts. Section 2.4 gives an overview on the basic principles of the *takaful* contract. Section 2.5 highlights different *takaful* regulation bodies. Section 2.6 explores the most dominant and practiced models used to operate *takaful* companies worldwide. Section 2.7 gives an overview on the mechanisms of the *takaful* contract and Section 2.8 compares the *takaful* contract with other types of insurance contracts, such as commercial and the mutual- based contract and explains other *takaful* models such as the Sudanese *takaful* model and the Saudi Cooperative *takaful* model. Finally, section 2.9 draws conclusions.

2.2 DEFINITIONS AND FUNCTIONS OF ISLAMIC INSURANCE *TAKAFUL*

Takaful is derived from the Arabic root word *kafala* a verb which means guarantee, bail, warrant or an act of securing one's need (Ali *et al* , 2008). The idea of insurance in Islam must be in harmony with the objectives *maqasid* of *Shari'ah* with regard to securing benefits for the Muslim client and preventing elements of *harm* (sin). The specific objectives are to protect religion, life, intellect, lineage and property (Al-Atar, 1983).

Takaful is defined in Section 2 of the *Malysian* Takaful Act 1984 as:

> "A scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose."

AAOIFI[2] (2004/2005) also defines Islamic insurance as per its Financial Accounting Standard No. 12, in Appendix E as:

> "Islamic insurance is 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."

In 2007 AAOIFI defined Islamic insurance as per its *Shari'ah* Standard 26 (2) 2007: "Islamic insurance is an agreement between persons who are exposed to risks to protect themselves against harm arising from risk by paying contributions on the basis of a commitment to donate (*iltizam bi al-tabarru*). Following from that, the insurance fund is established and it is treated as a separate legal entity (*shakhsiyyah i'tibariyyah*) which has independent financial liability. The fund will cover the compensation against harms that befall any of the participants due to the occurrence of the insured risks (perils) in accordance with the terms of the policy."

Additionally, IFSB[3] and IAIS[4] (2006) described *takaful* as the Islamic counterpart of conventional insurance which can exist in either life (or family) and general forms. It is based on concepts of mutual solidarity and a typical *takaful* undertaking will consist of a two-tier structure that is a hybrid of a mutual and a commercial form of company.

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[2] Accounting Auditing and Governance Standards for Islamic Financial Institutions.
[3] Islamic Financial Service Board.
[4] International Association of Insurance Supervisors.

Takaful can be understood as an imperative upon Muslim believers only. It may be thought at first glance that *takaful* does not deviate from conventional insurance, since both types depend on the concept of pooling money from a group for the sake of helping the unfortunate of the same group in the event of encountering financial loss. However, unlike *takaful*, the spiritual mutual support is not a requisite of commercial insurance. Commercial insurance is based on the exchange whereby the insured pay a premium in exchange for protection in case of calamity exposure, thus it is common in conventional insurance not to compensate the insured in a case of no loss. In other words, the insurer's promise to provide security to the insured will be so intangible that its value cannot be appreciated. However, the *takaful* mechanism is based on the concepts of *tabarru* (donation) combined with the intention (*niah*) to participate in the pooling aid mechanisms. Thus those who participate in the *takaful* mechanism will be less likely to encounter the feeling of receiving nothing if no claim occurs, the complete opposite will happen. They will be satisfied enough to help their colleague at the same pooling group in his loss, and they will feel grateful that no one has encountered any real loss. The concept of donation is considered to be the backbone of *takaful* in supporting the real meaning of mutual cooperation, as per *Quran* (5:2), "*Help one another in furthering virtue and God-consciousness, and do not help one another in furthering evil and enmity*". Prophet Muhammad, peace be upon him (P.B.U.H.) also said, "*Verily a believer is one who can give security and protection to the life and property of mankind*".

On the other hand, other contemporary Muslim scholars such Al-Qaradawi, suggest that donation should be the basis of the contract, if insurance is to be *Shari'ah*-compliant (Al-Qaradawi, 2003). Another unique function which differentiates between conventional and Islamic insurance is the strong relationship between the TO and the participants. Relationship that goes even beyond the provisions of spiritual satisfaction needs, by providing services that stretch from the cradle to the Hereafter, services such as calculating and distributing *zakah*, hajj plan, arrangements for continued charity involvement (*Sadaqah Jariah*) such as building mosques, hospitals and schools on behalf of the participant upon his/her death (Nordin, 2007).

While the conventional way of satisfying a customer is accomplished by fulfilling their material or worldly needs with benefits such as low prices, higher returns, faster delivery or even benefiting the deceased's family members after his death in the form of life insurance, this service goes from cradle to grave only. However, it does not mean that customer satisfaction in terms of price, quality, delivery and precision are not important to the TO, in fact they are important as along with the customer's spiritual needs satisfaction. So when Muslims buy *Islamic* insurance they can combine two benefits; (i) They receive *Islamic* protection that complies with *Shari 'ah* rules against financial loss, in the same way as conventional insurance, (ii) Customers can distance themselves from the possibility of the prohibition incurred by purchasing conventional insurance in line with Islamic law.

Finally, although a believing Muslim is required to accept destiny, which may incorporate certain misfortunes, Islam encourages Muslims to take extra precaution to minimize potential misfortune, losses or injury arising from unfortunate events. Thus, having an insurance policy is not considered to be against the will of Allah, rather the will of Allah can be enhanced by holding an insurance policy to elevate the unexpected risk that exists in day-to-day life (Al-Zarqa, 1962; Attar, 1983; Moghaizel, 1991).

2.3 MUSLIM SCHOLARS' OPINIONS ABOUT THE INSURANCE CONTRACT

Muslim scholars differ in their views on the permissibility (*halal*) or prohibitions (*haram*) of conventional or commercial types of insurance. The majority of Muslim jurists invalidate commercial insurance since it does not closely resemble Islamic business transactions (Baltiji, 1987; Al-Qaradawi, 2003). However, Islam is not against the concept of insurance itself, rather the means and methods being used (Hassan, 1979; Al-Qaradawi, 2003). While other jurists call for cooperation and solidarity by implementing insurance to benefit Muslims, they consider it a necessary means for economic progress and prosperity for the whole community (Siddiqi, 1985). The main disputes among jurists are due either to a lack of references in the primary sources of Islam *i.e. Quran* and *Sunnah* and the absence of any classical Islamic law on this subject with the exception of the Ibn Abidin reference regarding marine insurance (Al-Salih, 2004). It is also due to a different degree of understanding of the insurance contract among jurists. In addition, jurists have used different judgmental approaches towards the insurance contract, using approaches to insurance contracts from the *Shari'ah* perspective such as *riba* (usury), and *gharar* (uncertainty) while others follow the economical, moral, social and political approach (Al-Salih,2004; Moghaizel,1991).

Accordingly, Islamic jurists and researchers were divided into three groups according to their opinion of the permissibility of insurance contract specifically:

1. Those who call for the prohibition of the insurance contract which they regard as being against *Shari'ah* principles, regardless of the insurance activity (general, life) and regardless of the types of insurance, *i.e.* conventional, cooperative or mutual (Aliyyan,1978 ; Abdu,1987 ; Al-Salih,2004).
2. Those who allow all types of insurance, on the condition that it is free from usury or interest (Al-Zarqa, 1962; Al-Khafif, 1966; Mudkor, 1975; Siddiqi, 1985; Mawlawi, 1996).
3. Those who hesitate in making straight judgements on insurance contracts; they validate some of the contracts such as mutuality and co-operation as long as it does not include usury activities and invalidate other commercial contracts (Attar,1983; Al-Sayed,1986; Baltiji, 1987; Al-Mahmood, 1994; Mawlawi, 1996; Melhim, 2002; Al-Qaradawi, 2003). While other scholars invalidate all life insurance contracts regardless of the types of insurance be it co-operative, mutual or commercial (Al-Mahmood, 1994).

2.3.1 Commercial Insurance Contract Permissible School

Conventional insurance was declared forbidden in the ninth declaration at the second session of the *Fiqh* Academy of the Organization of the Islamic Conference, with a notable dissent by the late Professor Mustafa Al Zarqa (Muslehuddin, 1969; El-Gamal, 2006) who permitted conventional insurance of all kinds. Al-Zarqa presented two papers in conferences in 1961 and 1976, respectively in which he showed the historical roots, objectives and mechanisms of commercial insurance which he asserted. There is no proof in the texts of Islamic *Shari'ah*, or its legal theory, that would forbid insurance itself, in any of its three forms. On the contrary, the proofs of *Shari'ah* and its general objectives to point jointly toward its permissibility and approbation, as a means of eliminating risk and loss (Al-Zarqa, 1962).

Based on Al-Zarqa's analysis, a number of scholars published several papers that validated commercial insurance with minor recommended corrections such as Ali al-Khafif, Najatullah Al

Siddiqi, Ali Jum'ah, Rafiq Al-Misri (El-Gamal, 2006). The permissible scholars relied on specific justifications to validate commercial insurance, their justifications dealt with logical, moral, economic and social necessity concepts when interpreting and manipulating some of the *Quran* verses that support their position (Al-Salih, 2004). Their justifications were as follows:

(i) Insurance is considered part and parcel of the necessary development of modern Islamic concepts. They argue that the universe is described as an adornment of Allah, hence Muslims are allowed to use all resources on the universe and earth, and all that is needed to facilitate this usage are thus permissible such as contracts. Accordingly, since an insurance policy is a contract by itself and there is no specific evidence to prohibit it in *Quran* or *Sunnah* then it is permissible, as they depend on *Quran* (45:13) and (2:29) respectively.

(ii) The word 'trade' mentioned in the *Quran* is a broad and comprehensive subject. The insurance policy is a kind of business where the insured and the insurer know their duties and obligations very well, since they have agreed on the wording and conditions of the insurance contract; they rely on *Quran* (4:29): "*O ye who believe! Eat up not your property among yourselves in vanities: But let there be amongst you traffic and trade by mutual good will*".

(iii) Muslims are committed to satisfy contract obligations in accordance with the *Quran*. However, it was a broad and comprehensive approach which would naturally comprise every contract that the Lawgiver has not specifically forbidden. The only basic requirement is the mutual consent of the parties (*taradda minhum*). Thus, an insurance contract is valid as long as it is intended for a good cause, and brings benefits (*maslahah*) to the insured; they rely on *Quran* (5:1) "*O ye who believe! Fulfil (all) obligations*".

On the other hand, the Hanbali School gives the freedom to contract as long as there is willingness (*ridha)* between them. Thus some scholars rely on Imam Ahmad bin Hanbal's opinion that the norm in regard to contracts and stipulation *(uqud wa shurut*) is permissibility. Other scholars added another reason to accept commercial insurance based on an important concept in *fiqh* that is the *illah* (effective cause) and *hikmah* (wisdom). *Illah* is the basic feature of command whilst *hikmah* is the wisdom underpinning that command. An example of this is when the *Quran* has prohibited drinking alcohol because of its harmful consequences that lead to certain disaster and to keep humans away from violent acts; the *illah* then is the loss of mind and the *hikmah* is the awful consequence that is built in drinking alcohol. However, it is permissible on some occasions to depart from the above procedures if the *hikmah* effectively renders the *illah* invalid, as with the case of eating pork. If there is no other food available, and it is a matter of death or life, then it is permissible to eat pork to remain alive and worship Allah (Ismail, 2006).

In the case of a contract which is dependent upon a future event occurring, the basic prohibition (*illah*) is due to disagreement between parties at a future date. In a similar vein with insurance the compensation to be paid in the event of loss of property is clearly defined from the outset, no arguments or disagreement should arise as the sum assured is clearly defined in writing, no more or less than the assured can be paid out. Thus as *hikmah* (avoidance of disputes) behind *gharar* is not an issue in insurance, therefore, the insurance contract is perfectly valid. Obviously the above scholars claimed commercial insurance as permissible due to insufficient evidence to declare it unlawful, hence they believe that any injunction to overrule this principle of permissibility must be decisive in meaning and transmission (*nassul qati'ul thubut wa-dalalah*).

2.3.2 Commercial Insurance Contract Impermissible School

The majority of Muslim scholars have invalidated the idea of insurance on its conventional concepts, since it is effectively a gamble upon the incidence of the contingency insured against, because the interest of both parties are diametrically opposed and both parties are not aware of their respective rights and liabilities until the occurrence of the insured events (Lewis, 2003). Another vital reason is due to the majority of insurance companies conducting their business by investing the collected premiums and reinsuring with other insurers, thereby, contravening the Islamic laws. Such a contract inherits aleatory elements and a wagering contract of which the consequences are unknown (Lewis 2003). Accordingly, a number of resolutions prohibit the commercial insurance contract including the unanimous decisions of the *Fiqh* Council of Muslims in Makah 1977[5], The European Council for *Fatwa* and Research (ECFR) 1992[6], and the

[5] For more details visit <*www.islamonline.net/servlet/Satellite*>
[6] Ibid

Organization of the Islamic Conference's (OIC) *Fiqh* Academy's. Hence, after reviewing commercial insurance contracts in terms of forms, types, principles, and objectives of insurance and re-insurance, and after reviewing different papers in this regard, the OIC Fiqh Academy announced the following decisions: (i) the commercial insurance contract with a fixed insurance premium contains substantial *gharar*, which renders the contract defective, *i.e.* religiously forbidden, (ii) the alternative contract is cooperative insurance that relies on the principles of voluntary contribution and mutual cooperation, (iii) the academy called on Islamic countries to exert effort toward establishing mutual cooperative insurance institutions (El-Gamal, 2006). Furthermore, the *Fiqh* Academy declared that commercial insurance is a form of gambling, since the insured pays premium and receives no compensation or compensation far exceeds what he paid; also they debunked as invalid analogies all the arguments permitting insurance (El-Gamal, 2006).

A number of individual scholars and researchers have condemned dealing with insurance on its conventional concepts such as Sheikh Yusuf al-Qaradawi, who defines the mutual agreements between the two parties in the commercial insurance as invalid in a transaction which is not based on justice and equities and not devoid of any trace of ambiguity or exploitation, where one party is to take all with no benefits guaranteed to the other, which prove that the relationship between parties does not constitute any partnership (Al-Qaradawi, 2003). Other scholars such as Sheikh Jad-al-Haq Ali Jad al-Haq, the former Grand Mufti of Egypt declared all life insurance to be prohibited under *Shari'ah* (Wahib, 1999; Billah, 2001; Lewis, 2003). He also advised Muslims through a *fatwa* against practicing life insurance policies as it involves unlawful elements and therefore, Muslims should not be making money or profits through unlawful means (Billah, 2001). While Sheikh Abdullah El-Galgeily, the Mufti of Jordan, judged all kinds of insurance as illegal in *Shari'ah* laws specially in the commercial form for several reasons *i.e*, they (a) are incompatible with natural and familiar methods of earning money, such as buying and selling, (b) are not free of the taint of gambling, (c) are not free of temptation and cheating, (d) involve an element of usury (Khorshid, 2004).

On the other hand, scholars have denied and responded to the three justifications made by other scholars who validate commercial insurance in the following way (Al-Salih, 2004). All kinds of contracts in Islam cannot be broadly valid, that the contract should not contradict the Islamic law, and since commercial insurance embodied major prohibition elements which are *gharar*, gambling and interest, then it is an invalid contract. Prohibited business is not allowed in Islam even if the contract parties were agreed upon, that the insurance contract that contains *gharar* is not a permitted trade. Islam has prohibited a number of contracts such as contracts containing *gharar* and interest, or contracts that deal with wine and pork business; thus the contract is never broadly without obligations and that the contract should be away from any prohibition elements that contradict Islam.

Furthermore contracts in Islam can be deemed as impure or invalid if contains;

1. Coercion (*ikrah*)
2. Exploitation of distress
3. Fraud and cheating (*ghishsh wa ghaban*)
4. Obvious indeterminacy and hazard and ignorance likely to cause disputes (*gharar-fahish* and *jahl mufdi ila niza*)
5. Detriment (*darar*)
6. A contract within a contract (*safaqat-fi-safaqat*), or a contract where the outcome is dependent upon a future event (Siddiqi, 1985; Ismail, 2006).

Discussions on insurance contracts are concentrated on points 4 and 6 only, which possess the prohibited elements of uncertainty of outcome (*gharar*) and gambling (*maisir*), and dealing with interest (*riba*) which is frowned upon by *Shari'ah* law. Thereby, the following explains the reason to forbid the aforementioned three concepts.

2.3.2.1 *Riba* (Usury or Interest)

The past tense root of the term *riba* is the Arabic verb *raba*, meaning to increase (El-Gamal, 2006). *Riba* was interpreted by classical scholars such as Ibn Arabi, Mujahid, and Tabari as increase which has no wealth (*mal*) corresponding to it (Ibn Arabi); as reward for waiting (Mujahid) or increase which accrues to the lender on account of deferred payment due to an extension in the actual period of loan (Tabari), (Mirakhor *et al*, 2004). Literally *riba* refers to excess, addition and surplus, while the associated verb implies to increase, multiply, exceed, to exact more than was due, or to practice usury (Al-Salih, 2004). Early Muslim scholars considered money to be a medium of exchange, standard of value and a unit of account, but rejected its function as a store of value; lending on interest was rejected as an act of ungratefulness and considered to be unjust, since money was not created to be sought for its own sake, but for other objects (Mirakhor *et al*, 2004). The prohibition of *riba* is mentioned in different verses of the *Quran* (30:39, 4:161, 3:130-2, 2:275-81). However, there is no available explanation of the prohibition of *riba* in the practice of the Prophet Muhammad (P.BU.H.) for two reasons; firstly, the Quranic verses regarding *riba* were revealed at the end of the Prophet's life, hence *riba* questions were seldom asked to him. Secondly, the knowledge of *riba* was already known in the pre-Islamic period. When the *Ka'bah* was being re-built the donations made (for its rebuilding) containing an element of *riba* were rejected, as they were considered to be impure money (Mirakhor *et al*, 2004). Prophet Muhammad (P.B.U.H.) declared war on usury and those who deal with it; he pointed out its danger to society by saying "*When usury and fornication appear in a community the people of that community render themselves deserving of the punishment of Allah"* (Al-Qaradawi, 2003).

Riba can be divided into two types; the first is *riba al-nasiah. Al-nasiah* comes from the root *nasa'a* which means to postpone, defer, or wait. This type of *riba* deals with money-to-money exchange, that when exchange is delayed an additional charge is associated with such deferment. The worst type of *al-nasiah* is *riba al-jahiliyya* because it contains a time factor as was practiced in the pre-Islamic period. The second type of *riba, riba al-fadl*, occurs when trading the same goods but exceeding the quantities and qualities of one of the exchange parties which is prohibited as per the *hadith* of Prophet Muhammad (P.B.U.H.), "*gold for gold, silver for silver, salt for salt, dates for dates, barley for barley, and wheat for wheat, hand to hand, in equal amount; any increase is usury"* (Al-Qaradawi, 2003).

Riba starts when the insured person has paid his premium to the insurance company which then invests the accumulated premiums from different clients into interest-bearing securities, such as bonds, deposits and equities that do not conform to *Shari'a'h* principles (Hassan, 1979; Attar, 1983; Siddiqi, 1985; Al-Sayed, 1986; Baltiji, 1987; Al-Salih, 2004). The investment procedures start when the accumulated premiums exceed the claims that the company has to pay out to the insured.

2.3.2.2 *Maysir* (Gambling)

Maysir or gambling is the second prohibited element that is embodied in commercial insurance, the literal meaning being the activities which involve betting, whereby the winner will take the entire winnings and the loser will lose his bet. *Maysir* is a sort of gambling, hazard game, game of chance or a zero-sum game, where the gamblers are looking for a huge amount of wealth without exacting much effort (Siddiqi, 1985). Gambling is forbidden in Islam in all its forms as per the *Quran* (5:90-91). The most extreme form of unbundled sale of risk is gambling: paying a predetermined price for some unproductive game of chance (a lottery ticket with a hope of winning the jackpot) (El-Gamal, 2006). The ancient Arabs also used to hold raffles (like the lottery) with their arrows, using them as a source of good fortune in a way that controlled their daily lives. Later, Islam considered such an act as gambling and prohibited it (Khorshid, 2004).

Maysir is involved in insurance when the person to be insured purchases an insurance policy and hopes to get compensation in terms of indemnity if he encounters misfortune (Ali *et al*, 2008). Vaughan defined insurance as an aleatory gambling contract since there is a chance of paying either the indemnity by the insurer if the insured has suffered a loss, or not to pay if the insured has not encountered a loss (Vaughan, 1999). Ibn Qayyim on the other hand considered the aleatory sales prohibited by the Prophet and it falls either under the heading of *riba* or gambling (Ibn Qayyim, 1968).

2.3.2.3 *Gharar* (Uncertainty)

The third prohibition element encountered in commercial insurance is *gharar*. The literal meaning of *gharar* is ‘fraud’ but in transactions the word has often been used to mean risk, uncertainty, hazard and the ignorance of one or both parties of the substance or attributes of the object of sale, or of a doubt over this object's existence at the time of contract (Kamali, 2000). However, *gharar* is a broad concept which carries different meanings in different transactions. A number of scholars from different generations and schools cited *gharar* and they were specific in representing special cases of *gharar*, but many of them such as Ibn Abdin related *gharar* to uncertainty about the existence of its subject-matter (Kamali, 2000) The Ibn Abdin definition is shared by Hanafi and Shafi'i schools (Al-Saati, 2003). Other scholars such as Al-Sarakhsi (Hanafi school) defined *gharar* as consequences which are hidden. Al-Shiraazı (Shafi'i school) defined *gharar* as nature and consequences which are hidden and Ibn Taymiya (Hanbali school) defined *gharar* as consequences which are unknown (Khorshid, 2004). Another explicit definition by Professor Mustafa Al-Zarqa is that *ghara*r is the sale of probable items whose existence or characteristics are not certain, due to the risky nature which makes the trade similar to gambling (Al-Zarqa, 1962). Reviewing the above definitions Al-Zuhayli comments that *gharar* sale is any contract which incorporates a risk which affects one or more of the parties, and may result in loss of property (Al-Zuhayli, 1997).

While the *Quran* explicitly forbids gambling (*maysir*) and usury, the *Sunnah* forbids *gharar* sale and considers it to be vanity (*albatil* (Al-Darir, 1990; Al-Saati, 2003; Khorshid, 2004). Accordingly, *gharar* was forbidden in a number of *hadith*, perhaps the most strongest *hadith* is the one narrated by Muslim, Ahmad, Abu Dawud, Al Tirmidhi, Al Nasa'i, Al Darami and Ibn Majah on the authority of Abu Hurayra that the Prophet (P.B.U.H.) prohibited the pebble sale and the *gharar* sale, such as selling sperm and/or unfertilized eggs of camels, unborn calf in its mother's womb, birds in the sky or fish in the water (Al-Qaradawi, 2003). Another *hadith* narrated by Muslim is that the Prophet (P.B.U.H.) forbade sales by throwing stones and sales involving uncertainty (Al-Qaradawi, 2003).

Furthermore, vanity is forbidden in many Quranic verses: "*And do not eat up your property among yourselves for vanities, nor use it as bait for the judges,"* (Quran, 2:188). The prohibitions were repeated in many other Quranic verses (4:29; 4:161; 9:34). The *gharar* mentioned in the *Quran* verses above are interpreted as vanity. Ibn Al-Arabi explains vanity as unlawful because it is prohibited by the *Shari'ah* such as usury and *gharar*. While Al-Tabari considered vanity as eating up another's property in a manner which was not permitted by *Shari'ah*. Sheikh Zamakhshari also considered acts forbidden by S*hari'ah* (such as theft, dishonesty, gambling and *gharar* contracts) as vanity. Al-Darir defines vanity as eating up property in ways forbidden explicitly by the *Shari'ah* (Khorshid, 2004).

However, not all *gharar* is invalid, since there is minor *gharar* which is tolerated as a necessary evil, and major or excessive *gharar* which invalidates contracts. Hence the main distinction between major and minor *gharar* is a strong cost-benefit analysis as the foundation for prohibition (El-Gamal, 2006). Al-Darir stated four conditions for *gharar* to invalidate a contract (Al-Darir, 1997; Zuhayli, 1997; El-Gamal, 2001) Firstly, *gharar* must be excessive to invalidate a contract, thus minor uncertainty about the object of sale (*e.g.* weight is known only up to the nearest ounce) does not affect the contract. Secondly, if the principles of contract such as price or object of sale is affected then the contract is invalid because of *gharar*, thus the selling of a pregnant cow is not considered invalid because the object of sale is the cow itself;, however, selling the unborn calf which is not the object of sale here is not valid based on *gharar*. Thirdly, if there is a real need for the commutative contract containing excessive *gharar* then the contract is valid, such as *salam* (prepaid forward sale) where the object of sale does not exist at contract inception, but because of the vital benefits behind such a contract, which might be used in agricultural and industrial activities, then the contract is valid. Fourthly, the potentially affected contract must be a commutative financial contract (*muawadah*) such as sales. Thus, giving a gift of a diver is valid, while selling it is invalid based on *gharar*, as in the case of *takaful* where it is based on donation and agency (*wakalah),* not a financial exchange contract. *Gharar* is the argument backbone of the permissibility of commercial insurance.

2.4 PRINCIPLES OF THE *TAKAFUL* CONTRACT

There are two basic building blocks to the *takaful* contract, the concepts of *tabarru* and *mudarabah* (Sharif, 2000). *Tabarru* means donation, contributing, offering or granting, while *mudarabah* is when the TO invests the policyholders' accumulated donations or premiums in an islamically acceptable business. Thus, any person in society who has the legal capacity may contribute a sum of money to a mutual co-operative fund in view of ensuring material security for oneself against a defined risk probably encountered by another's life or property. The business is conducted based on the concept of *sharikat al-anan* (unequal partnership) which allows the partners to evaluate each other's skill and capability to determine the profit-and-loss sharing ratio between them; even if one contributes a smaller share of the capital a larger share of profit may be given to him (Hassan *et al* , 2007). Furthermore, akin to English law dealing with contracts, Islam has its fundamentals which are required in an insurance policy. These fundamentals or conditions that are considered important pillars of the *takaful* contract:

- *Age of the policy holder*, for the sake of public interest to ensure that proper co-operation, solidarity and brotherhood are taking place, the right of mutual co-operation may not be rendered to some people in society, because they are not capable to be participants in a *takaful* policy; these people are minors, or people who have not reached the age of maturity *rushd*, *i.e.* below the age of 18[7], unless a guardian holds full supervision over the policy. The policy should be for the benefit of the minor such as for the sake of education when the minor reaches the required age. While there is no specific maximum age specified in the Malaysian *Takaful* act 1984 however, practically the *takaful* companies have fixed the maximum age at 50 for family *takaful* (Hassan *et al*, 2007).

- *Liability and Dhaman (*guarantee*)* is based on the general insurance concepts of vicarious liability under the law of Tort, that the insurer is liable to compensate the insured in case of financial loss on the agreed subject matter (Rejda, 1982). Such concept was agreed upon by the *Quran* and the *Sunnah* and known as *al-aqila*. The *dhaman* or guarantee may only be payable to the victim or to the legal heirs if the victim dies, according to their respective shares in inheritance.

- *Utmost Good Faith*, or as per the Latin phrase *uberrimae fidei* which is the name of a legal doctrine which governs insurance contracts .It is the enforcement of the policy that the parties involved should have good faith. Therefore, non-disclosure of material facts, involvement in a fraudulent act, misrepresentations or false statements is all elements which could invalidate a policy of insurance (Rejda, 1982; Rawlings, 2005).

- *Mirath' and 'Wasiyah',* is a principle implemented in a life policy, the assured (Muslim) appoints a nominee who is not the absolute beneficiary, rather a mere trustee or executor who

[7] Section 64, *Takaful* Act 1984, based on Age Majority Act 1971.

receives benefits from the policy and distributes them among the heirs of the deceased, in accordance with the principles of '*mirath*' and '*wasiyah*' (Kassim, 2007; Ali *et al* ,2008).

- *Al-wakalah* (agencies) is practiced for the purpose of making the transaction and dealings between the agents representing the insurer and the broker representing the insured more effectively. Thus the *takaful* agency is someone who binds himself bilaterally to manage the fund according to *Shari'ah* principles and also to provide a reasonable financial security for those who genuinely deserve it against the loss or damage suffered by them resulting from a defined risk.

- *Al-Mudarabah, Al-Musharakah and Mutual Co-operation* is based on the cooperation between the participants (paying their periodic premiums) and the TO (investing the accumulated premiums), through *Shari'ah* investment channels. Both parties mutually agree to share the profits based on an agreed portion. At the same time the TO is obliged to provide the insured with compensation in an unexpected future loss. This kind of partner relationship between the TO and the participants is called *al-musharakah*, where the policy is run by the insurance company (Kassim, 2007; Ali *et al* , 2008).

- *Rights, Obligations and Humanitarian law* is a principal that was emphasized by the holy Prophet on several occasions, that any person in the society is obliged to provide material security and protection against unexpected loss, damage or risk for himself, his property, family, and for the poor and helpless, widows, and for children against unexpected peril and dangers. As was narrated by Saad bin Abi Waqas, that the Prophet Muhammad (P.B.U.H.) said, *"It is better for you to leave your offspring wealthy than to leave them poor asking others for help."* Another *hadith* narrated by Safwan bin Salim, that the Prophet Muhammad (P.B.U.H.) said, *"The one who looks after and works for a widow and a poor person, is like a warrior fighting for Allah's cause or like a person who fasts during the day and prays all the night"* (Al-Qaradawi, 2003).

The afore-mentioned principles must be dealt fairly and in a proper manner among the *takaful* contract parties, fair relationships among *takaful* parties can be achieved when the right conditions of the *takaful* contract mechanisms are adhered to.

2.5 TYPES & MODELS OF *TAKAFUL* CONTRACT

The *takaful* products are available in two forms: general (Islamic General Insurance) and family (Islamic Life Insurance) *takaful* with the former being more comprehensive than the later. The global average market share figure of mixed life and general *takaful* was 30% for life and 70% non-life in 2007. However, there are some reasons leading family *takaful* to lag behind general *takaful* (Bhatty, 2007):

- Muslims are more reluctant when it comes to insuring their lives (life, health and personal lines) due to religious concerns (Abdul Rahim, 2006).
- Life insurance appeared to be more as a wager on life, since it has intangible benefits, unlike general insurance where it offers protection for business and assets.
- Islamic investment tools were short-termed and very limited, thus not suitable to accommodate long-term liability products for family *takaful*.
- Human factor, well-educated and trained people are needed to handle *takaful* products.

More development was noticed for the family *takaful* business by early 2000, which led to more growth for the product by 2002, especially in the Middle East where family *takaful* represented less than 1 or 2% of the total, compared with 5% or more in life commercial insurance. Sudan was first to introduce family *takaful* followed by Malaysia in early 1980, Qatar 2001, and Bahrain 2002. The Arab countries are more focused on the group family *takaful* while Malaysia, Singapore and Indonesia are offering several types of family *takaful*. Family *takaful* offers different types of savings and protection products, such as education, mortgage, retirement plan, protection for critical illness or disability, retirement annuities, and a *waqf* plan. The family plan, may last as long as 10, 15 or 20 years (Bhatty, 2007).

General *takaful* started first in Sudan in 1979, then developed in the Middle East market by the early 1980s (UAE 1980, Saudi Arabia 1983, Bahrain 1989 and Qatar 1995), driven by the boost in economic development as a result of high oil prices. General *takaful* is more concerned with causality types of product in the form of individual retail products such as household fires, motor, medical and health, personal accident during Hajj season, or corporate segments products such as marine and aviation to cover transit cargo, engineering, or fire, the contract for which normally stands for one year (Bhatty, 2007).

Overall, the global *takaful* market (life, family and general) was thought to be over US$2.1 billion of premiums for 2002 and is estimated by market analysts to increase to premiums of US$12.5 billion by 2015 with over US$30 billion in funds. Interestingly, this figure for 2015 was revised from an earlier similar estimate of US$7.5 billion done in 1999, which indicates that business expectations may be materializing at a faster pace, driven to a large extent by strong market growth in the Gulf region and especially Malaysia (Wahab, Lewis and Hassan, 2003).

There are several *takaful* operational models that have been adopted by TOs world-wide such as *mudarabah*, *wakalah*, *waqf*, hybrids of *mudarabah* and *wakalah*, *ta'awuni* and non-profit funds. However, the first two models are most dominant; *mudarabah* is widely used in Asia, while *wakalah* has become popular in the Middle East (Smith, 2007). Thereby, the operational mechanisms of the *mudarabah* or *wakalah takaful* models are described in the following section.

2.5.1 Basic *Wakalah* Model

The *wakalah* model can be operated according to two main models: either General or Family as follows:

2.5.1.1 General *Takaful*

There will be separate contracts in the *wakalah* model, of which one is used for underwriting and the other is used for investment activities of *takaful* funds. Although the *wakalah* model has widely been practised by TOs in underwriting activities, it is rarely adopted for investment activities (Tolefat, 2008). In the *wakalah* model the participants (policyholders) place their contribution into a pool of donations (*tabarru*), hence the *wakalah* operator (agent), is entitled to a *wakalah* fee for their effort to manage the *takaful* fund regardless of the performance of the fund. It is an upfront fee which is calculated based on an agreed percentage of the total fund; nevertheless the TO cannot ask for an additional *wakalah* fee in the future if the calculated fee was underestimated (Tolefat, 2008). The *wakalah* fee should be approved by the *Sharia'h*

Supervisory Board (SSB)[8]. Thereby, most of the TOs will declare their *wakalah* fee at the beginning of the contract, but the loading will be calculated at the end of the year once the actual encountered expenses have been declared for an accurate fee calculation.

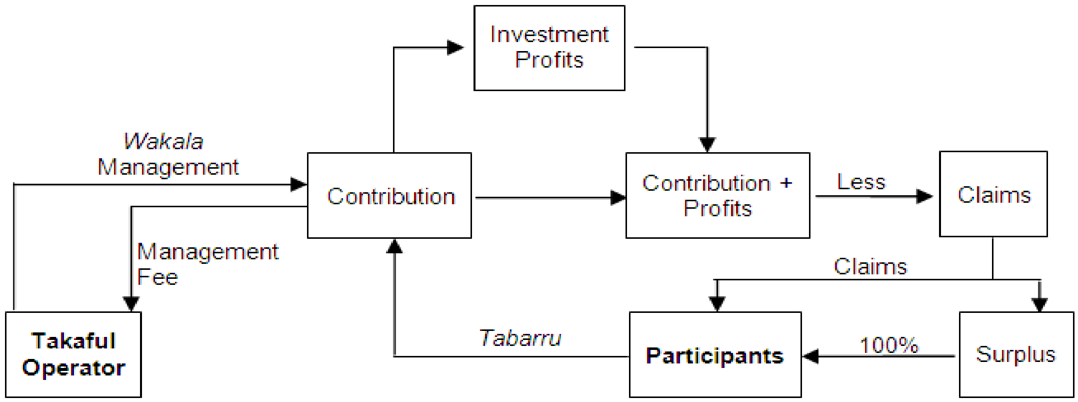
The *wakalah* fee should be directed to the shareholders fund as an income for the TO, after that the TO manages the fund by complying with the following procedural steps:

1. All direct expenses such as claims, expenses, legal claims costs and re-*takaful* arrangements, will be deducted from the remaining fund.
2. Indirect expenses such as salaries and rents are paid by the TO only if there is a surplus in the *takaful* fund that has been shared between the TO and the participants, otherwise it will be paid from the *takaful* fund (Lewis, 2003; IFSB, 2009a).
3. Participants will give the right to the TO to invest their funds for an operator investment fee, based on an agreed percentage of the total managed assets, regardless of the investment performance.
4. The *takaful* fund at this stage represents the income generated from investments after deducting the management fee for the TO; add to that the underwriting surplus, the combination of them represents to total surplus in the *takaful* fund.
5. The TO will take part of the surplus as a reserve to strengthen the position of the *takaful* fund.
6. The remaining surplus in the *takaful* fund is purely owned by the participants and the TO has no right over this fund (AAOIFI, 2007). It is important to mention that some companies distribute the surplus for all participants including those who incurred a claim, which reflects the real purpose of brotherhood.

As a result, the TO has three sources of income (i) *wakalah* fee from underwriting activities, (ii) fund investments fee and (iii) investments on operator's own capital.

[8] CCB Rulebook, 2005.

Fig. 2.1 Basic *Wakalah* Model for General *Takaful* Operational Flow-Chart

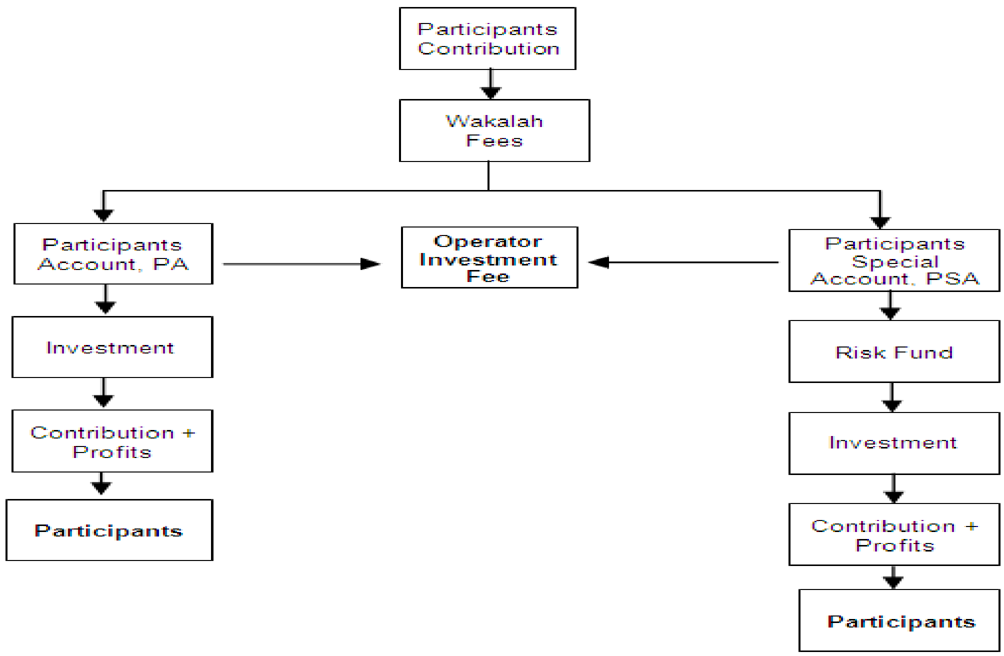


Source: IFSB (2009a: 28), Asaria (2009: 7).

2.5.1.2 Family *Takaful*

Like the general *wakalah* model, the model used here for underwriting and investment activities as shown in Figure 2.2, can deviate according to the nature and sensitivity of the underwriting policy encountered (Tolefat, 2008). For example, if the policy is regarding (i) Risk protection from death, then the contributions split into two channels. The first contribution goes to the *wakil* (Agent), for their management effort and other fees related to the family policy if any, while the second contribution goes to the Participants' Special Account (PSA), in the form of donations (*tabarru*) to participate in the risk of death protection pooling, the donations of the participants varies in accordance to his age at the time of the contract (Hassan *et al*, 2007). On the other hand, if the policy is written as (ii) Family *Takaful* savings policy, then the contributions split into three channels. The first two channels follow the aforementioned policy. However, a small portion also goes to the PSA to cover mortality risk, while a substantial portion goes to the Participants' Account (PA) for the purpose of savings and investments. Furthermore, the PSA, and shareholders fund operates the same way as in the general basic *wakalah takaful* model. While the PA represents the savings policies, most of the investments here are accomplished on a long-term basis, thereby the TO deserves a management fee which is calculated as a percentage of the total invested assets and this fee represents their effort to manage such an investment fund. The TO as a result has four sources of income: (i) *wakalah* fee from underwriting activities, (ii) fund investments fee from PSA, (iii) fund investments fee from PA and (iv) incentive performance fee if it followed the operational procedures (Tolefat, 2008).

Fig. 2.2 Basic *Wakalah* Model for Family *Takaful* Operational Flow-Chart



Source: IFSB (2009a: 28)

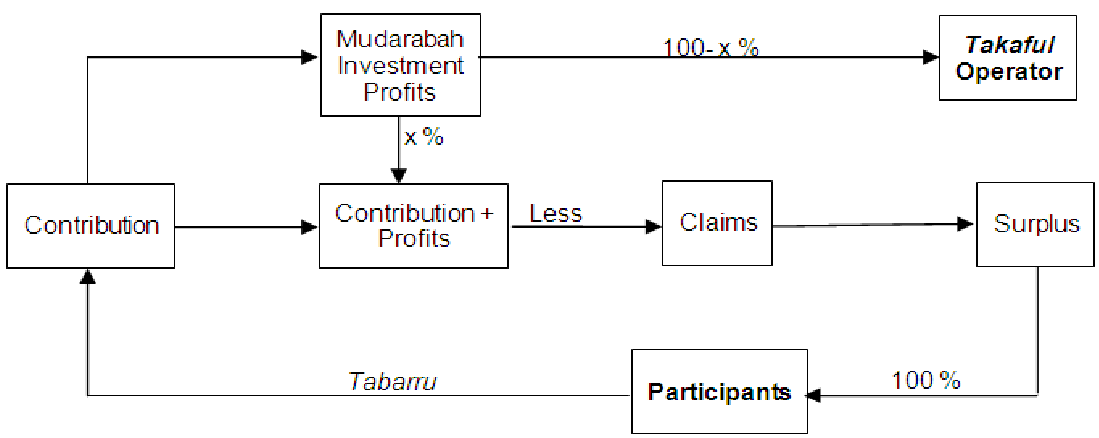
2.5.2 Basic *Mudarabah* Model

The *mudarabah* model can be operated according to two main models either General or Family as following:

2.5.2.1 General *Takaful*

The contract under the *mudarabah* model will involve profit-sharing between the investor (*rabb al-mal*) and the fund manager/entrepreneur (*mudarib*), according to the predetermined ratio. In the classical contract there is no fixed return for investors as profit is undetermined. The TO or the *mudarib* has full control, *i.e. rabb al-mal* cannot participate in the ordinary course of business conducted by the *mudarib* (Tolefat, 2008). This model has been practised mostly in Malaysia, especially by the two oldest *takaful* companies, Syarikat *Takaful* Malaysia and National *Takaful* Company (Tolefat, 2008). The participants do not pay their contribution for the *mudarabah* investments capital as a principal objective, but the main objective is still to enter into a brotherhood mutual indemnity scheme by implementing the donations or *tabarru* contract. However, the *mudarabah* investments are considered a side activity to optimize the use of funds until claims are made or other expenses are incurred (Ali *et al*, 2008). There is only one contract to cover both underwriting and investment activities, the contract scheme usually operates on the basis of one-year participation. There will also be no upfront management fee or investment fee to be taken out of the contribution toward the shareholder fund as in the *wakalah* model. However, other expenses such as claims, re-*takaful* arrangement and direct expenses are deducted directly from the *takaful* fund and paid by the participants, while other indirect expenses such as salaries and rent will be paid from the shareholder fund (Hassan *et al*, 2007). Furthermore, the TOs and the participants only share direct investment income as per a mutually agreed *mudarabah* profit share, while the underwriting surplus after deduction of all claims and reserves should not in principle be shared with the TOs because they are not a *mudarabah* investment profit but a residue of the *takaful* fund (Ali *et al*, 2008). The TO as a result has two sources of income (i) profit share in the investment activities surplus and (ii) profit on their capital investments activities.

Fig. 2.3 Basic *Mudarabah* Model for General *Takaful* Operational Flow-Chart

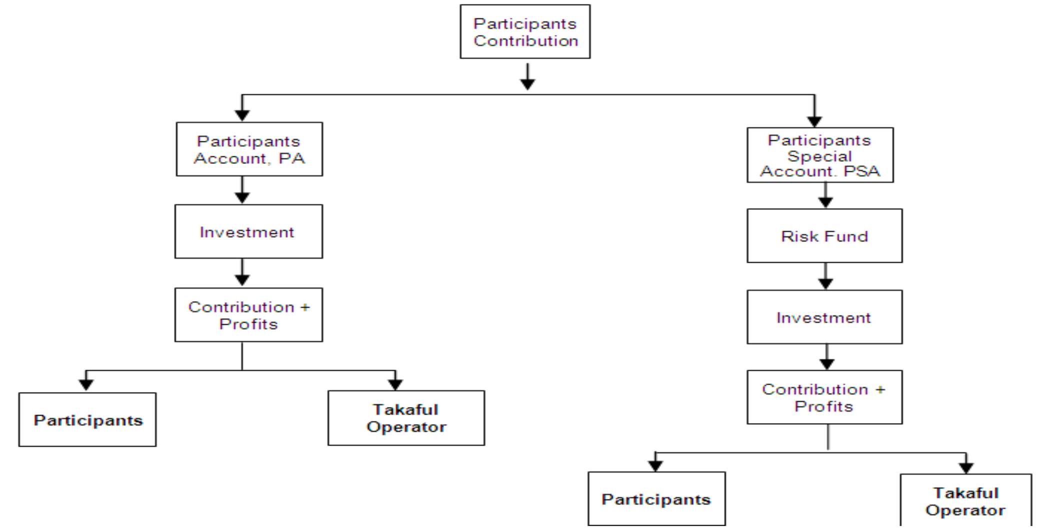


Source: IFSB (2009a: 28), Asaria (2009: 7)

2.5.2.2 Family *Takaful*

The operational scheme here follows the same operation channels of the shareholder fund and the PSA that were followed in the basic family *wakalah* model. However, since the PA contains only a saving element of family *takaful*, the TOs share profits generated from investment activities. TOs as a result have two sources of income: (i) profit share from investment activities for PSA and (ii) a profit share from the asset investment under PA (Tolefat, 2008).

Fig. 2.4 Basic *Mudarabah* Model for Family *Takaful* Operational Flow-Chart

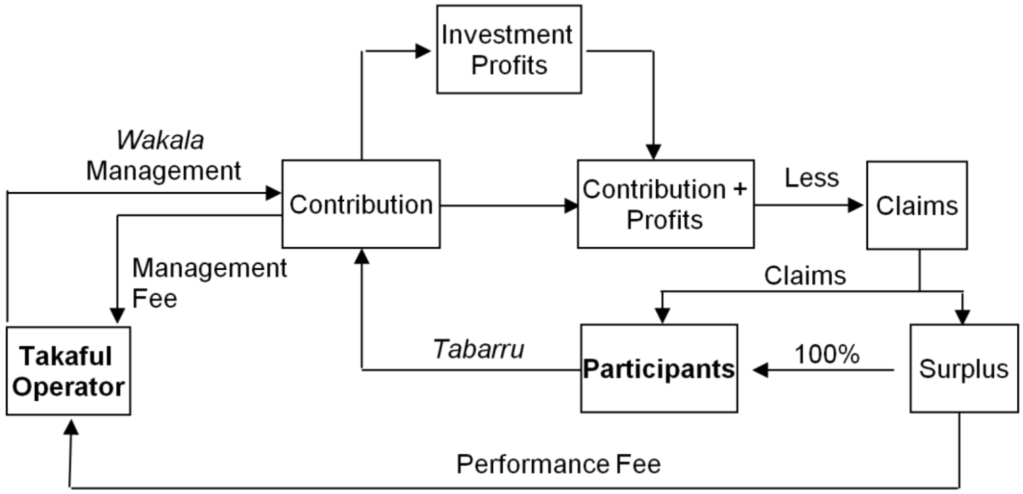


Source: IFSB (2009a: 28)

2.5.3 Modified *Wakalah* Model

The modified *wakalah* model follows the same operational concept as in the general basic *wakalah* model. However, the TOs here will share in the net underwriting surplus of the participants' fund, such an act should be conducted with the full consent of the participants (Ali *et al*, 2008; Asaria, 2009). The underlying argument is that since the TOs will provide *qard hassan* to cover any deficit in the *takaful* funds, then the TOs is entitled to share in the good performance of *takaful* funds. Additionally, they argue that the surplus is a result of good and expert management by the TOs especially in the underwriting of contributions, assessment of risks and claim management. As good management contributes to the availability of the surplus thus they should be rewarded for such good performance. TOs as a result have four sources of income (i) *wakalah* fee from underwriting activities, (ii) fund investments fee, (iii) investments on the operator's own capital and (iv) incentive performance fee, *i.e.* sharing in the net underwriting surplus of the *takaful* fund.

Fig. 2.5 Modified *Wakalah* Model Operational Flow-Chart

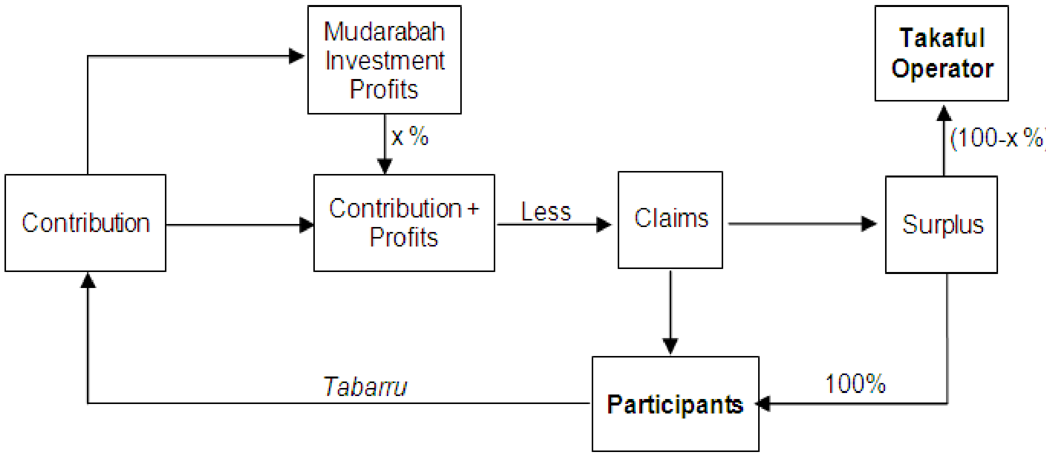


Asaria (2009: 11)

2.5.4 Modified *Mudarabah* Model

The modified *mudarabah* model follows the same operational concept as in the general basic *mudarabah* model. However, the TO here will share the net underwriting surplus, the investment income is ploughed back into the *takaful* fund and the *takaful* company shares with the participant the surplus from the *takaful* fund (Ali *et al,* 2008; Asaria, 2009). This model was a necessary adaptation of the pure *mudarabah* model at a time when certain products such as a group *takaf*ul, yearly riders, and general *takaful* only had a very small savings element, thus making a pure *mudarabah* model not feasible (Ali *et al,* 2008). Under the modified *mudarabah* model, no profit from the *mudarabah* investment is shared between the TO and the participants. Instead profits are defined as the positive difference (or surplus) between the balance of the *takaful* fund at the end of the *mudarabah* contract and the balance of the *takaful* fund at the beginning of the *mudarabah* contract, *i.e.* the TO treats the net underwriting surplus as *mudarabah* profit and shares the 'surplus' on an agreed profit-sharing ratio. Such a practice been criticized as not complying with the definition of profit in *mudarabah* and thus is not compliant with *mudarabah* rules generally (Ali *et al*, 2008; Asaria, 2009). TOs as a result have two sources of income under this model: (i) a profit share in 'net underwriting surplus', and (ii) a profit on their capital investments activities.

Fig. 2.6 Modified *Mudarabah* Model Operational Flow-Chart



Asaria (2009: 10)

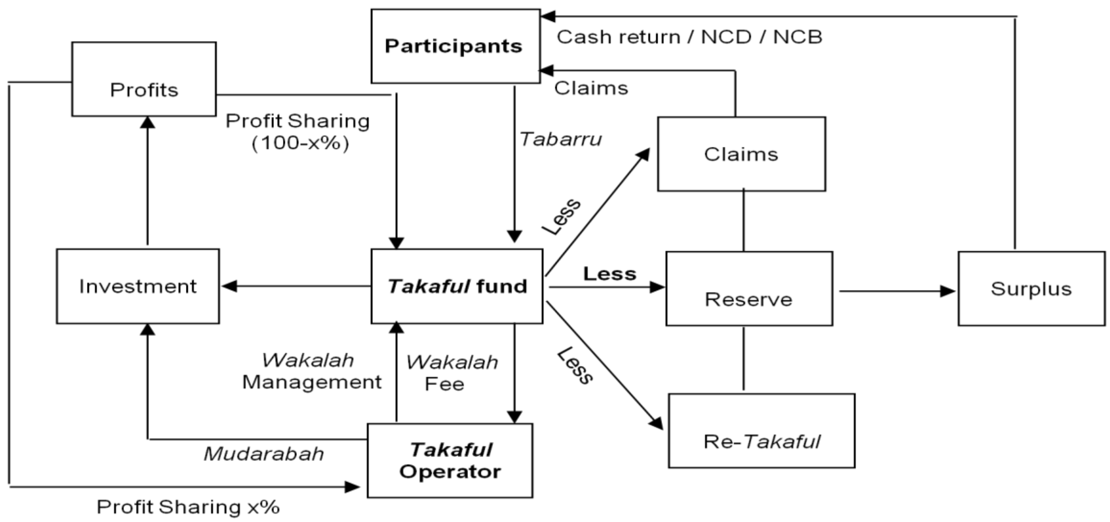
2.5.5 Mixed Module

This model is highly recommended by the AAOIFI to be used by the TOs (AAOIFI, 2003). It is dominating both the Middle Eastern and global markets, and it can be divided into general and family models as follows:

2.5.5.1 General *Takaful* (*Wakalah* for Underwriting and *Mudarabah* for Investments)

Under this model the *wakalah* contract is used for underwriting activities, risk assessments, re-*takaful* and claim management. For this the *wakil* charges a specified and agreed management fee which may vary based on the performance of the TO (Ali *et al*, 2008; Asaria, 2009). At the same time, a *mudarabah* contract is used for the purpose of investments, that the operator acts as a *mudarib* on behalf of the participants (*rab al-mal)* and manages the *takaful* fund assets and shares in the income generated from the investments based on a pre-agreed profit ratio at the contract inception period to satisfy the *Shari'ah* requirements. Unlike the *wakalah* model the TO receives a share in the profit once generated from investment, otherwise there will be no income for the operation. However, the participants will be liable for a loss encounter. TOs under this model have three main sources of income: (i) profit from *wakalah* fee for underwriting activities, (ii) a profit share generated from asset management of the *takaful* fund, and (iii) a profit from the operator's own capital investments. Add to that the possibility of incentive or good performance fees (Tolefat, 2008).

Fig. 2.7 General *Wakalah-Mudarabah* Model Operational Flow-Chart

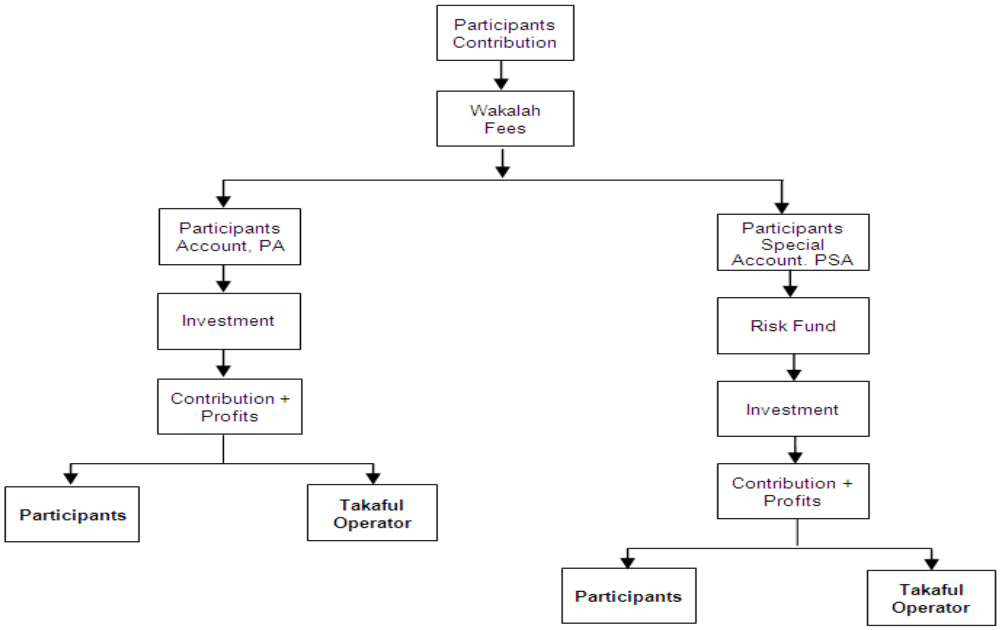


Source: Ali *et al* (2008: 53).

2.5.5.2 Family *Takaful* (*Wakalah* for Underwriting and *Mudarabah* for Investments)

Under this scheme the shareholder fund and the PSA operates the same way as explained in the general mixed *takaful* model. While the operator invests the PA fund on a *mudarabah* basis, the generated profit will be shared between the operator and the participants upon the agreed ratio. The TO has four main sources of income in this model: (i) profit from *the wakalah* fee for underwriting activities, (ii) a profit share under PSA investment activities, (iii) profit share under PA investment activities and (iv) a profit from the investment of the operator's own capital coupled with the possibility of incentive or good performance fees (Tolefat, 2008). However, the participants will be liable for any loss encounter (Ali *et al*, 2008).

Fig. 2.8 Family *Wakalah-Mudarabah* Model Operational Flow-Chart



Source: Source: IFSB (2009a: 30)

2.5.6 Other *Takaful* Models

I. Sudanese Model

The *takaful* operating in Sudan works in the same way as the mixed *wakalah -mudarabah* model in that *wakalah* is used for underwriting activities and *mudarabah* is used for investment activities. The operator will act as a manager looking after participants' funds and dealing with technical issues for a *wakalah* fee. However, the fee is not calculated as a percentage of the total available fund rather than a lump sum as remuneration to the board of shareholders; the remuneration amount is considered negligible compared with the regular *wakalah* percentage fee. A *wakalah* percentage fee of the total contributed amount was prohibited by the Higher *Shari'ah* Supervisory Council (HSSC) in Sudan, which is run by an influential scholar, Professor Al-Darir. Al-Darir considers the *wakalah* percentage fee as *riba* in that the money is grown without any effort from the company (Al-Darir, 2004). Al-Darir argues that the participants of an Islamic insurance company should establish the company and they should act as shareholders of the company in the same way as in the mutual insurance company. He also believes there is no need for capital in the Islamic insurance company apart from legal requirements to establish the company. The shareholders are not allowed to share the surplus of the *takaful* fund or to share in the investments' profits and also they are not required to provide *qard-hassan* in the case of deficit. The loan can gained from the available fund reserves. If the reserves are not sufficient to compensate the deficit then the operator will establish a central fund to act as the lender (Al-Darir, 2004).

II. Saudi Arabian Cooperative Insurance Model

The Saudi Arabian Monetary Agency (SAMA) requires all insurance companies to operate under a cooperative insurance business model, which is a key feature of the *takaful* model (E & Y, 2010). *Shari'ah* scholars have indicated that the Saudi cooperative model is similar to a *takaful* model (funds segregation and surplus distribution) (Abouzaid, 2007).

The cooperative insurance model works in the same way as the *takaful* model. The SAMA directives called the Implemented Regulations, Article 70, has identified the surplus distribution between the company and the participants. SAMA has indicated that 10% of the net surplus shall be distributed to the policyholders either directly or in the form of reduction in premiums for the next year. The remaining 90% of the net surplus shall be transferred to the shareholders' income statement. Shareholders' net income shall be transferred to the statement of shareholders' equity similar to the *takaful* model. Furthermore, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of the paid capital (SAMA, 205b). Therefore, any deficit in the policyholders' fund is borne solely by the shareholders.

Despite SAMA regulations which are directed towards cooperative insurance, only a number of cooperatives operate as sole TO (E & Y, 2010, 2011). Examples of these operators are (AlJazira, 2008; SAAB, 2009; AlAhli, 2010). These TOs are using the *wakalah* model to operate their *takaful* scheme and they have appointed *Shari'ah* boards to supervise business operations, including investments and ensure compliance with Islamic law. However, these TOs are following the Saudi cooperative insurance laws as SAMA did not issue specialized *takaful* laws and directives.

2.6 MECHANISM OF THE *TAKAFUL* CONTRACT

Based on the above discussions about the different types of *takaful* models, there are four parties involved in a *takaful* contract: participa nt, TO, insured person, and beneficiary. Those who contributed to the mutual fund (*ra's al-mal*) are known as participants (*sahib al-mal*), while those who among the participants face the risk and are assisted by the fund are known as insured (*almoaman alih*) and those who actually benefit from the fund are known as the beneficiaries (*al-mostafid*) to the cooperative fund. The fund, managed by a registered or licensed body or corporation is known as a TO, defined[9] as a person/organization who carries out *takaful* business as an operator, *takaful* agent or *takaful* broker, respectively. Hence, cooperation among these parties creates four mechanisms in the *takaful* scheme. Accordingly, *takaful* policy should witness a collaboration between the participants themselves, collaboration between the TO and the participants, and a linked mechanism between these parties and the *takaful* fund as follows:

I. Contract between participant and fund

The money belonging to the participant is transferred to the fund. In current practice, the fund is based on *tabarru*. In case of loss-risk the participants, as the members of the fund, can receive benefit by the cover that the fund provides. Thus, the money belonging to the fund operator is transferred to the participant when the risk events occur. The spirit embodied in the concept of *tabarru* is that the participants are not thinking only of their own protection but they should also be thinking of helping other participants; without the concept of donation the contract will be that of buying and selling of insurance (Lewis, 2003). However, *tabarru* in current *takaful* practices is not pure *tabarru*, but the commitment to *tabarru*. The difference between pure *tabarru* and commitment to *tabarru* is on the timing of transferring the ownership. In pure *tabarru* the ownership of the *mutabarri* (donor) is not transferred by the absolute contract wording, but transfer occurs after the donation is handed to the needy, *i.e.* ownership of such material money transfers from the donor to the needy once the money reaches the needy. In the commitment to *tabarru*, the ownership is automatically transferred to the *mutabarra* (donation recipient) by the absolute contract. The TOs cannot make demands to the participants to pay premiums if the contract is based on pure *tabarru*, because the ownership is not transferred when the participants pay their premiums as delivery to the recipient has not occurred when the

[9] According to Section 2 of the *Takaful* Act 1984

agreement was signed. On the other hand, the TO as an agent of all participants can make a demand to the participants to pay their premiums if the contract is based on commitment to *tabarru,* because the ownership has been transferred when the agreement was signed[10].

II. Contract between company and participant

The relationship here is not as insurer-insured rather than as participants-operator – the participants insuring themselves, while the TO is engaged by the participants to manage the *takaful* scheme on behalf of them (Ali *et al*, 2008). The participant in a *takaful* contract is considered to be a *muwakkil* (principal) and the company as a *wakil* (agent) to manage the participant's money. The duties of the company as a *wakil* or agent of the participant, is to manage the fund in terms of contract arrangement, all administrative matters, underwriting activities, technical issues, manage the investment portfolio of the fund. Depending on the type of the underlying contract, the TO may receive a fee, or share of the investments profit as a reward for managing the *takaful* scheme. The *takaful* company and the participant will enter into a long-term *takaful* contract, the contract spells out clearly the rights and obligations of the parties to the contract, where the participants is required to pay regularly the *takaful* instalments in consideration for his participation in the *takaful* plan, he/she decides the amount of *takaful* instalments that they wish to pay subject to the company minimum sum at the time of signing the contract (Hassan *et al*, 2007).

III. Contract between company and fund

The relationship here is as a contract to invest the participant's money. The money belonging to the fund is transferred to the company, whether as a *wakil* (if the contract is based on *wakalah*) or as *mudarib* (if the contract is based on *mudarabah*). The *mudarib* will invest the general *takaful* fund in line with *Shari'a* principles and all returns on the investment will be pooled back to the fund. On the other hand, the participant agrees that the company shall pay from the general *takaful* fund, compensation or indemnity to fellow participants who have suffered a defined loss upon the occurrence of a catastrophe or disaster. The fund shall also pay for other operational

[10] Based on an interview with Dr. Abdul Sattar Abu Ghuddah, Member of Islamic *Fiqh* Academy, at the First Public Meeting with Bank AlJazira *Shari'ah* Board Members, Hilton Hotel Jeddah, Oct. 2009.

costs of general *takaful* business such as for re-*takaful* arrangements and the setting up of technical reserves (Tolefat, 2008)

IV. Contract of participants' mutual assistance

Under this system, participants mutually and voluntarily agree to contribute money to support a common goal of providing mutual financial aid to the members of the group in case of specific need, such as perils or hazard. This system is based on mutual protection and solidarity the participants should embody certain principles and beliefs when dealing with each other such as piety, purification, brotherhood, charity (*tabarru* or contribution), mutual guarantee, community well-being as opposed to profit maximization (Ali, 2006). However, if the participants are intending to invest some of the money as their savings and donate some portions for mutual indemnity, then the governing contract is *musharakah*, together with *tabarru* or donation of a portion of the contribution to the *takaful* fund (Ali *et al*, 2008). On the other hand, everyone is allowed to buy a *takaful* policy whether Muslim or not. In fact, in Malaysia by 2007, non-Muslims made up the largest portion of *takaful* policy buyers with a range of 60% (Bhatty, 2007).

2.7 DIFFERENCES BETWEEN *TAKAFUL* AND OTHER TYPES OF INSURANCE

The following paragraphs illustrate the basic differences between insurance run on *takaful* approaches and other types of insurance such as conventional and/or mutual.

2.7.1 *Takaful* and Conventional Insurance

As can be seen from the previous sections, *takaful* is based on the concepts of *tabarru*, where the participants donate to guarantee cover for each other. The donation fund is managed and run by the TO in two ways, either as an agency (*wakil)* for a specified percentage of the whole available fund, or the operator can share the profit and/or the deficit out of investing the donation fund as a *mudarib*. In the two approaches mentioned above the TO is responsible for managing the underwriting and investment activities, while the participants bear all underwriting losses. Therefore, the TO has the right to call the participants to contribute for additional contributions to cover such loss, where *qard hasan* can be provided in case of underwriting loss in the *takaful* fund (Tolefat, 2008). Unlike *takaful*, conventional insurance is an exchangeable contract where policies are sold and policyholders are the purchasers. The insurer is liable to bear underwriting loss and claims encountered according to the wording of the insurance contract. More details between *takaful* and conventional insurance differences can be found in Appendix A, Table A.1.

2.7.2 *Takaful* and Mutual Insurance

Islamic insurance is based on the principle of mutuality, in that members are both the insured and the insurers themselves (Lewis, 2003). The mutual insurance firm is owned by policyholders who are also the providers of capital, thus they cannot raise equity capital (Wilson, 2007). While in *takaful* the participants own the fund but the capital is owned and provided by the TO. In mutual insurance any profits made of investing premiums income is distributed to the policyholders or re-invested to build up reserves, rather than being paid out as dividends to independent shareholders (Wilson, 2007). Mutual insurance members on the other hand, do not have a limited liability, hence they may increase their premiums if they need to do so, and that occurs in the case of increasing numbers of claims (Wilson, 2007). Although the premiums/contributions are owned by policyholders/participants under both structures, the existence of the operator under *takaful* operations makes the cost of protection more expensive than mutual insurance since the TO is seeking profit from insurance business (Tolefat, 2008). Mutual insurance is acceptable by Muslim scholars provided that the assets are being invested in *Shari'a*- compliant assets.

In contrast, other scholars and researchers claim that mutual insurance does not differ that much from commercial insurance because when the insured is asked to contribute an additional premium to enable the company to meet its financial obligations, such contributions cannot be pre-determined which involves an excessive uncertainty. Another reason is that the policyholders in formal terms own and manage the company. However, evidence shows that in the case of insolvency the policyholders will lose only their premium as would any other insured person who had contracted with a commercial insurer. Such an act may be due *inter alia* to the extremely low rate of participation in the election of directors (Khorshid, 2004). More details between *takaful* and mutual insurance differences can be found in Appendix A, Table A.2.

2.8 *TAKAFUL* REGULATION BODIES

Many of the leading conventional insurance and re-insurance companies such as Munich Re, Swiss Re, Hannover Re, AIG, established either subsidiaries or windows to offer *takaful* products, which reflects the potential and strong of the *takaful* business. Also, organizations such as the Islamic Financial Services Board (IFSB), International Association for Insurance Supervisor (IAIS) and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) are playing a vital role in setting up standards and rules for *takaful* companies. In December 2008, the IFSB and IAIS established a joint working group[11], to enhance the cooperation and understanding in mutual areas of supervision in the *takaful* industry. Both organizations have a common goal to promote the soundness and stability of the insurance/*takaful* industry through the development of international prudential standards and enhancing the cooperation among supervisory authorities. They will focus on standards that need to be adopted to cater for *takaful* structures such as corporate governance and solvency margins.[12]

IFSB is based in Kuala Lumpur. Officially inaugurated on 3rd of November 2002, it started operations by 10th of March 2003. It serves as an international standard-setting body of regulatory and supervisory agencies that have a vested interest in ensuring the soundness and stability of the Islamic financial services industry, which is defined broadly to include banking, capital markets and insurance. In advancing this mission, the IFSB promotes the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing international standards consistent with *Shari'ah* principles, and recommend their adoption. Furthermore, the work of the IFSB is complementing that of the Basel Committee on Banking Supervision, International Organisation of Securities Commissions and the International Association of Insurance Supervisors[13]. By 2009, the 185 members of the IFSB included 43 regulatory and supervisory authorities as well as the International Monetary Fund, World Bank, Bank for International Settlements, Islamic Development Bank, Asian Development Bank and the Islamic Corporation for the Development of the Private Sector, Saudi Arabia, and 136 market players and professional firms operating in 35 jurisdictions.

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[11] IFSB & IAIS – Issues in Regulation and Supervision of *Takaful* (Islamic Insurance), 2006.
[12] http://www.ifsb.org/preess_full.php?id=101&submit=more
[13] http://www.ifsb.org/background.php

Furthermore, Malaysia has enacted a law known as the Islamic Financial Services Board Act 2002, which gives the IFSB the same immunities and privileges that are usually granted to international organizations and diplomatic missions.

Another standard setting body AAOIFI was established on the 26th February, 1990 in Algiers then shortly registered in the state of Bahrain on 27th March, 1991 when an Agreement of Association was signed by 14 Islamic financial institutions. AAOIFI is an Islamic international autonomous non-profitable corporate body that prepares accounting, auditing, governance, ethics and *Shari'ah* standards for Islamic financial institutions and the industry. Also it prepares different professional programmes to enhance the industry's human resources base and governance structures. As an independent international organization, AAOIFI is supported by institutional members (200 members from 45 countries, so far) including central banks, Islamic financial institutions, and other participants from the international Islamic banking and finance industry worldwide. AAOIFI has gained assuring support for the implementation of its standards, which was issued as the initial *Shari'ah* aspects standard in October 2006, which are now adopted in Bahrain, Dubai, Jordan, Lebanon, Qatar, Sudan and Syria. The relevant authorities in Australia, Indonesia, Malaysia, Pakistan, Kingdom of Saudi Arabia, and South Africa have issued guidelines that are based on AAOIFI's standards and pronouncements (Kassim, 2007).

At the national level, a few countries have their special laws governing *takaful* such as the issuance of Act 1984 (Act number 312) of Malaysia. Unlike Malaysia, there is no specific law that regulates the *takaful* operation in Bahrain. However, the Central Bank of Bahrain, formerly known as the Bahrain Monetary Agency, has introduced special regulations for *takaful* operations, which specify that the *wakala* model should be used for underwriting activities and the *mudarabah* model for investment activities and this approach appears to be favoured by AAOFI. Unlike Malaysia and Bahrain,, there is no specific regulation that specifically governs *takaful* in Saudi Arabia., The introduction of *takaful* in Saudi Arabia for more than a decade now is regarded as an advance in the principles of cooperative insurance and is becoming more accepted due to *takaful* adherence to the tenets of *Shari'ah* law (Smith, 2007). There are other Muslim countries have not established their own laws, which might be due to the fact that the English Insurance Act 1996 covers all insurance companies in more significant matters (Wilson, 2007).

2.9 Summary and Conclusions

This chapter comprehensively defines the meaning and the function of *takaful*, along with the spiritual aspects that distinguish between conventional and Islamic insurance. This chapter also presents Muslim jurists' judgments on commercial insurance. Scholars have divided into three groups according to their opinion of the permissibility of insurance contracts. However, the majority of them prohibit dealing with conventional insurance, because of the three prohibitive elements that are embodied in commercial insurance (*riba, maysir, and gharar*). This chapter highlighted different aspects of the *takaful* contract, that as the conventional insurance contract has its principles, *takaful* also has its own principles that leads to a fairness in conducting the business between the four main parties in the *takaful* contract (participants, operator, insured person, and beneficiary), principles such as liabilities, age, utmost good faith, *mirath and wasiyah*, obligations, *wakalah* and *mudarabah.*

This chapter also highlighted the functions and works of two of the most active international *takaful* bodies AAOIFI and IFSB, along with three of the most active *takaful* territories in the world: Malaysia, Bahrain and Saudi Arabia. This chapter also presented the dominant *takaful* models (*mudarabah*, *wakalah*, hybrids of *mudarabah* and *wakalah*, *ta'awuni* and the Sudanese model) as has been adopted in different countries. However, a convergence is observed in the market toward implementing the hybrids model, and that a number of TOs have implemented the mixed model, such as National *takaful* in Malaysia and Qatar Islamic Insurance.

CHAPTER THREE
INSURANCE & TAKAFUL CORPORATE GOVERNANCE POLICIES

3.1 INTRODUCTION

The previous chapter provided a comprehensive view on the most dominant *takaful* models, along with their features and operational mechanisms, which show participants' eligibility to receive financial benefits out of their contributions in the *takaful* fund. Thus, it is important to highlight some of the international standards that reserve their rights in the *takaful* fund.

Accordingly, the current chapter will highlight corporate governance standards and polices, as per the international insurance organizations bodies: International Association of Insurance Supervisors (IAIS), Organization for Economic Co-operation and Development (OECD), Islamic Financial Service Board (IFSB), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The main purpose of viewing such policies is to provide an answer to research question 1.

It is important for the *takaful* operators (TOs) to implement an innovative cultural environment for better information transformation between upper and lower management levels, and to achieve better communication with the participants. TOs should adopt the best available corporate governance practices as outlined in the international standards bodies for insurance and *takaful* industries. The system should suit stakeholders' needs and wants by providing better communication channels between participants and TOs to achieve better protection to participants' rights. Therefore, the current chapter will provide a response to Research Question 1: What are the best regulatory practices and standards of the TOs in terms of corporate governance, market conduct and disclosure?

The layout of the current chapter is organized as follows: section 3.2 presents corporate and *Shariah* Governance Concepts and Fundamentals. Section 3.3 highlights different corporate governance models. Section 3.4 highlights *Takaful* Corporate Governance Model. Section 3.5 elaborates on different types of corporate governance key stakeholders. Section 3.6 explains the challenges incorporated in corporate governance field. Section 3.7 highlights IFSB efforts to standardize the takaful Industry. Section 3.8 concludes the chapter.

3.2 CORPORATE AND *SHARI'AH* GOVERNANCE CONCEPTS AND FUNDAMENTALS.

The word governance has been traced back to the Greek etymological root of the word *kybernan*, to the Latin *gubernare* and to the Old French *governer*, which means to 'steer', 'guide' or 'govern'[14]. Additionally, Arabic officially translates governance as *hawkama* (Chapra *et al*, 2002; Sourial, 2004; Lewis, 2005).

The World Bank has defined the concept of governance, broadly, as the political and institutional factors affecting structural adjustment (Frischtak and Atiyas, 1996). OECD has also defined governance from the particular viewpoint of donor institutions as denoting the use of political authority and exercise of control in a society in relation to the management of its resources for social and economic development (OECD, 1995).

An early definition of corporate governance was provided by Fuller (1954: 477) in relation to the economics concept as "good order and workable arrangements". The second definition, based on Commons (1932: 4), "is the means by which order is accomplished in a relation in which potential conflict threatens to undo or upset opportunities to realize mutual gains. These definitions make clear that the concept can be applied to a variety of organizations and institutions, and not limited to economic activities, and can be used in a variety of political and social science."

Proper governance arrangements are considered as preconditions for the workings of a market economy; however, what is also required is a culture of business. Hence, the system of corporate governance interacts with a number of other factors that shape the business environment and thus influences business outcomes. Corporate governance involves the conditions needed by any organized society engaged in productive activities. Such society needs to establish conditions or rules related to business organization, conditions related to (entry and establishment, form of business enterprise, ownership, financing, operation, exit and closure) (Lewis *et al*, 2009).

Corporate governance is the set of processes by which companies are run (Tricker, 1984). Zingales (1995) argues that corporate governance is a system by which directors and managers

[14] The Macquarie Encyclopaedia Dictionary, 1990.

act in the best interests of outside investors (creditors and shareholders). OECD (2004: 11) defined corporate governance as “a set of relationships between company’s management, its board, its shareholders, and other stakeholders”. Shleifer *et al* (1997) define corporate governance as a means of satisfying providers of finance to corporations such that they get returns on their investment. Kaplan *et al* (2000) also claim that corporate governance is intended to establish a connection between directors, managers, employees, shareholders, customers, creditors, and suppliers to the corporation.

Accordingly any weakness in the connections between these stakeholders can lead to substantial diversion of assets by managers in many privatized firms, and a non-existence of external capital supply to firms, such as in Russia (Boycko *et al*, 1995). A considerable amount of evidence has also documented a prevalence of managerial behaviour that does not serve the interest of investors (Shleifer *et al*, 1997). Therefore, a good corporate governance system should protect the rights of investors and policyholders by providing answers to how corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. How do the suppliers of finance get managers to return some of the profits to them? How do they make sure that managers do not steal the capital they supply or avoid investing that money in bad projects? How do suppliers of finance control managers? (Shleifer *et al*, 1997).

In terms of protecting policyholders in the insurance business, IAIS (2003; 2004) has identified corporate governance as the manner in which the board of directors (BoDs) and senior management oversee the insurers’ business. It encompasses the means by which members of the board and senior management are held accountable and responsible for their actions. Corporate governance includes corporate discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. IAIS also asserts on the accuracy of disclosure on all material matters regarding the insurer, including the financial situation, performance, ownership and governance arrangements, as part of a corporate governance framework, corporate governance also includes compliance with legal and regulatory requirements.

IFSB (2009a) also stresses on treating participants fairly, as TOs might act against the interests of participants. This problem is observed particularly in proprietary structure company, where the BoDs and senior management are considered as shareholder representatives, hence they have fiduciary duty to maximise shareholders value. The company management should have similar fiduciary duty towards the participants. However, as participants lack representation and due to inadequate information environment, TOs management may have ample room for the maximisation of value for the shareholders at the expense of the participants' interests.

Shari'ah governance on the other hand, is the way of conducting activities in accordance with *Shari'ah*. It entails "the institution pledge not to engage in interest-based debt transactions, not to conduct pure financial transactions disconnected from real economic activity, not to participate in transactions where there is exploitation of any party, and not to participate in activities regarded as harmful to society" (Grais *et al*, 2006: 1).

IFSB (2009b: 2) also identifies "*Shari'ah* Governance System" as:

> "A set of institutional and organisational arrangements through which an IIFS ensures that there is effective independent oversight of *Shari`ah* compliance".

This means that Islamic banks have a fiduciary responsibility towards their customers to comply with *Shari'ah* rules and principles at all times (IFSB, 2009b). Accordingly, TOs must duly observe their fundamental obligations towards participants, particularly with regard to compliance with *Shari`ah* rules and principles; *Shari`ah* governance must remain an inherent feature of TOs (IFSB, 2009a).

3.3 Corporate Governance Models

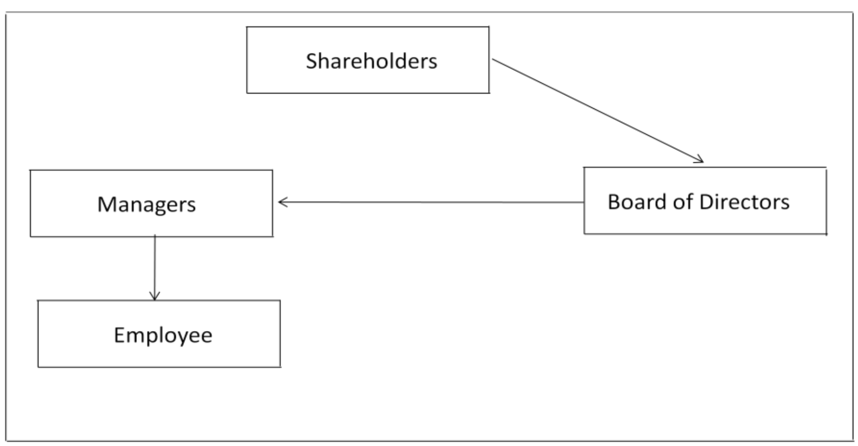
Most of the differences between systems of corporate governance around the world stem from the differences in the nature of legal obligations that managers have towards financiers as well as the differences in how courts interpret and enforce these obligations (Manne, 1965; Easterbrook and Fischel, 1983). Such debates about corporate governance tends to focus on two alternative paradigms or models, with an innovated Islamic model that been modified from the conventional stakeholder model.

3.3.1 The Anglo-Saxon Model

Also known as a market-based system or a shareholder value system or principle agent model, it is considered the most dominant theory used in the United States and the United Kingdom, which is characterized as a relationship between corporations and investors who are concerned about short-term returns (Frank *et al*, 1994). "The shareholder value system has been the dominant academic view of corporations for many years that are concerned with shareholder value only" (Miller, 2004: 2).

Cernat (2004) explained, as shown in Figure 3.1 below, that this model is based on the corporate concept of the fiduciary relationship between the shareholders and the managers which is motivated by profit-oriented behaviour. This is derived from the belief of market capitalism in which the interest and the market can function in a self-regulating and balanced manner. Accordingly, share ownership is widely dispersed and shareholders influence on management will be weak, hence the main focus of the Anglo-Saxon system is to protect the interests and rights of shareholders along with typical capital market and ownership features.

Figure 3.1: Corporate Governance - Anglo-Saxon Model.



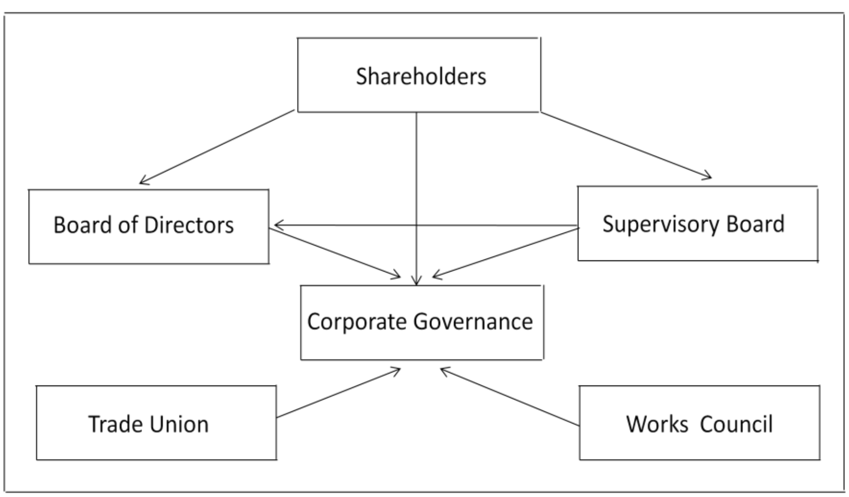
Source: (Cernat, L., 2004: 153).

3.3.2 The European Model

The continental European or stakeholder model gives consideration to a number of classes of stakeholder including shareholders, creditors and employees. In this system, companies raise most of their external finance from banks that have close, long-term relationships with their corporate customers. The model is focused on a relationship-based model that maximizes the interests of a broader group of shareholders (Adams, 2003: 4). The European model of corporate governance is practiced by the majority of European countries where many large firms are part of the social and economic structure. The European model implies that all stakeholders have the right to participate in corporate decisions that affect them, that managers' fiduciary duty is to protect the interests of all stakeholders, while the objective of corporations is to promote the interests of all stakeholders and not only shareholders (Mirakhor *et al*, 2004: 46).

The special attribute of the European model of a corporate governance system is the practice of the two-tier system which has been used in Germany and France. The system, as per Figure 3.2 below, would comprise of an outside supervisory BoDs and a separate management board of executive directors - a structure in which the two boards meet separately (Yvon *et al*, 2005: 7). The same concept has been practiced in France where boards of directors and managers have a duty not only to the company itself but to the employees, trade unions, work councils and to the public at large (Snyder, 2007: 238- 239).

Figure 3.2: Corporate Governance - European Model



Source: (Cernat, L., 2004: 153).

This ongoing debate over the two models has recently been critically reviewed by Letza *et al* (2004: 257) who argued that:

> "The current dichotomised and theoretical approach used in corporate governance research, which presupposes two extreme and opposite ideal models, cannot fully explain the complexity and heterogeneity of corporate reality".

This view is given support in a review of the failure of Enron (Deakin *et al*, 2004) in which they concluded that effective corporate governance would result from directors being regarded as stewards of the longer-term interests of the company.

In fact, the subject of corporate governance is of enormous practical importance. Even in advanced market economies, there is a great deal of disagreement on how good or bad existing governance mechanisms are. For example, Easterbrook *et al* (1991), Romano (1993), Shleifer *et al* (1997) made a very optimistic assessment about the United States', Germany's, and Japan's corporate governance systems. These countries have some of the best corporate governance systems in the world, because they are governed through a combination of legal protections that give investors power from expropriation by managers and by concentrated ownership (ownership by large investors). Thus a good corporate governance system should combine some type of large and small investors with a legal protection for both sets of rights, In fact, the opinion of authors who voted that the U.S. corporate governance system is strong, was consolidated with the passage of the Gramm Leach Bliley Act in late 1999 which allowed U.S. banks to enter the insurance business and mandated a greater reliance on internal corporate governance to control the actions of financial institutions (Wang *et al*, 2007).

In terms of the insurance industry, Macey *et al* (2003) believe that the insurance industry confronts a different set of agency costs and may lack adequate corporate governance controls as a result of the distinctive nature of its assets and liabilities, the special character of its ownership structure, fewer hostile takeovers, and a higher degree of financial leverage. Therefore, the corporate governance research needs to recognise the complexity and heterogeneity of corporate reality even within the Anglo-Saxon model; this is why most of the international organisations such as OECD, IAIS, and IFSB agree that there is no single model of corporate governance that can work well in every country and for all types of business. Thus each organization should develop its own model that caters for its specific needs and objectives (OECD, 2004; IAIS, 2004; IFSB, 2008, 2009a).

3.3.3 The Islamic Corporate Governance Model

Corporate governance is one of the most vital elements of any corporation's development and it is even more challenging to the Islamic finance system on account of the additional risk involved when compared to the conventional banking system. For example, a depositor would be exposed to various kinds of risks when an Islamic bank involves itself in risk-sharing modes such as *mudarabah* and *musharakah* (Chapra, 2007: 338). However, despite the fact that conventional corporate governance models are based on attaining maximum profitability, economic efficiency and fair dealing in accordance with moral standards it seems very difficult to use for the Islamic model on account of the following:

(i) Western ethical foundations stem from a secular humanist rather than a religious moral basis, (ii) Western corporate culture in its basic or modified model is based on self-interest rather than the interests of society, and (iii) Available corporate governance models are based on agency theory rather than on stewardship theory (Davis *et al*, 1997).

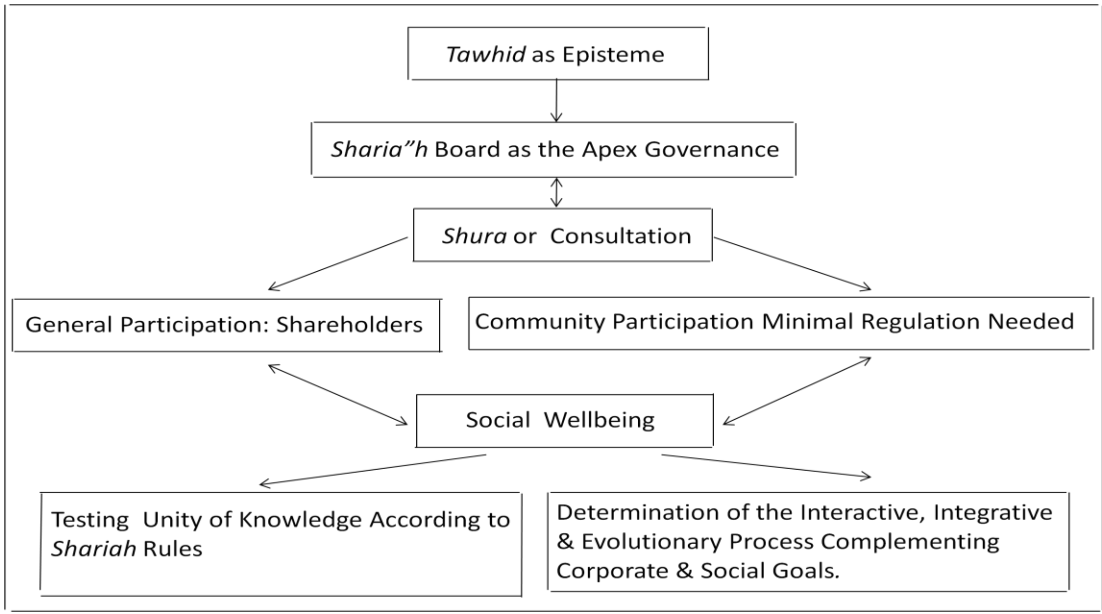
On the other hand, scholars believe that the basis of Islamic corporate governance emanates from the Islamic concept of *tawhid*, or the oneness of God (Allah) (Al-Faruqi, 1982). Nienhaus, (2003: 290) states that "Islamic corporate governance should be value-oriented and promote the principle of fairness and justice with respect to all stakeholders". While Chapra *et al* (2002); Mirakhor *et al*, (2004) suggest adopting the stakeholders' model with some modifications. Other scholars argue that Islamic corporate governance is a modified model of the stakeholder-oriented model, which may adopt different elements of corporate governance that are based on the principle of *shura* or consultation where all stakeholders share the same goal of *tawhid* (Choudury *et al*, 2004).

Figure 3.3 below represents Choudhury *et al* arguments (2004), that there are four principles of Islamic corporate governance which were originally embedded in the *Quran* and *Sunnah.* These principles are an extension of *tawhid* via interactive, integrative and evolutionary processes to the interacting environmental factors; the principles are justice, productive engagement of resources in social, economic activities, and recursive intention amongst the above stages.

Other scholars argue that Islamic corporate governance is a system based on *shura*, *hisba*, and the *Shar'iah* supervisory process and religious audit. The holy *Quran* clearly mandates that any decision involving more than one party should access and consult on the basis of principles of *shura*, that *shuratic* decision-making procedures should provide a vehicle for ensuring that corporate governance activities and strategies are fully discussed and a consensus seeking consultative process is applied. Thus directors and senior managers would be expected to listen to the opinions of other executives before making a decision. *Shura* members would include, as far as possible, representatives of shareholders, employees, suppliers, customers. Also other stakeholders including the community should also play a role in providing mutual cooperation to protect interests as a whole and to stimulate the social wellbeing function for social welfare (Choudhury *et al*, 2004).

Hisba offers a framework of social ethics that encourages and monitors correct and positive ethical behaviour, such as *ihsan* (goodness), *tawakkal* (trust in God), *amanah* (honesty), *infaq* (spending to meet social obligation), *sabr* (patience) and *istislah* (public interest) (Lewis, 2005). *Shari'ah* or Islamic auditing on the other hand, considers a device to solicit juristic advice, and to monitor compliance with *Shari'ah* law by a means of implementing the principles of Islamic economics, which has a direct impact on corporate practices and policies such as *zakah* (the alms tax), and the prohibition of malpractices such as *riba* (usury) and speculation. Also, it should help avoid negative values such as *ihtikar* (hoarding), *zulm* (tyranny), *bukhl* (miserliness), *hirs* (greed), *iktinaz* (hoarding of wealth) and *israf* (extravagance).

Figure 3.3: Corporate Governance – Islamic Model



Source: (Choudury *et al*, 2004: 80)

Accordingly, there are two main institutions involved in the above process of corporate governance namely, the *Shari'ah* board and the constituents of the *Shura*'s group of participants *i.e.* all the stakeholders.

3.3.4 Comparison between Western and Islamic Corporate Governance Models

For decades the managed corporation[15] model of Western corporate governance has dominated the American corporate arena, it has a legacy of the rise of large public companies and dispersed share ownership (Pound, 1995). In this model the managers lead and directors and shareholders follow. Boards and shareholders are kept at a distance from the corporate decision-making process and strategy and policy settings. Boards have the job of hiring managers and firing/rewarding them depending on company performance, while shareholders have the sole function of replacing board members should the corporation not perform well. Hence, the Anglo-Saxon model focuses more on prioritizing shareholders' value alone, while the European model protects all the stakeholders' interests and rights. Islamic corporate governance on the other hand, rejects rationality and rationalism as the episteme of *Shari'ah* corporate governance and replaces it with the episteme of *tawhid* or the oneness of Allah (Hasan, 2009). The ultimate goal

[15] Managed model is another name of the Anglo-Saxon Model (Pound, 1995).

of Islamic corporate governance is to protect the interests and rights of all stakeholders by complying with *maqasid al-Shari'ah* (Chapra, 2007). Thus, Islamic corporate governance considers *Shari'ah* to be the governing law of all affairs of the corporation which leads to the establishment of the *Shari'ah* board as part of the corporate governance institution.

3.4 *TAKAFUL* CORPORATE GOVERNANCE MODEL

The debate in corporate governance literature has mainly focused on whether corporate governance should focus exclusively on protecting the interests of shareholders or stakeholders (Many *et al*, 2003). Thus, good corporate governance is a mechanism that encourages management to work towards the interests of the shareholders, by establishing an effective risk management system, audit committee, a visionary BoDs representing the interest of shareholders and investments account holders (IAH), adequacy of information to shareholders and IAH, *etc* (IFSB, 2009c).

The situation of participants and shareholders in a *takaful* undertaking is comparable to that in Islamic banks where two principals exist *i.e.* shareholders and IAH. In both types of institutions the management is the agent, with the absence of control over other governance rights for both participants and IAH. Accordingly, it is likely that the management would prioritize shareholders' interests because (i) shareholders have control of the governance organs in both institutions, *takaful* and Islamic banks, that shareholders will have the power to appoint the TO management, and (ii) there are no incentive structures to make the management act in the interests of participants or the IAH. Such behaviour would cause a conflict of interest between shareholders and participants (Archer *et al*, 2009). Also Greuning *et al*, (2007: 29) stated that,

> "IAH are like quasi-equity holders but without participation in the governance of the Islamic bank. As a result, IAH do not have any direct recourse to the bank to protect their rights".

According to Grais *et al* (2006a), IIFS offer three categories of depositors or IAH accounts: current, restricted investment (RIA) and unrestricted investment (UIA). The most similar account to the participants in the *takaful* scheme is UIA holders, since they enter into a *mudaraba* contract with the institution, bearing the risk of the performance of the investment pool, except for misconduct. The UIA holders do not have an institutional voice in the conduct of business, and delegate the appointment of their agent to another principal whose interests may not always accord with theirs.

Furthermore, because the *takaful* hybrid structural scheme is combined of mutual and proprietary, simultaneously following the principles of *taawun, tabarru* and the prohibition of *riba*, then a conflict of interest may appear. As TOs are considered the custodian of a *takaful* fund they might exert a good amount of discretion to determine the range of products, pricing, terms and conditions of contracts. An additional conflict arises due to an agency problem; the separation between TOs and participants' funds will raise an asymmetric information and insufficient power of the participants to monitor TOs as a result of lack of representations (Hussain, 2009). Hence, a clear separation is required in Family *takaful* between the assets of the Participant Risk Fund (PRF) and those of the Participant Investment Fund (PIF), as well as between the assets of the T*akaful* Fund and those of the shareholders' funds. Therefore, the accumulation of investment profits in the PIFs requires transparent methods of profit calculation and accounting, and an efficient accounting system to record the declared PIF's profit and credit it to the respective *takaful* PIF (IFSB, 2009a).

However, because proper management of participants underwriting and investment funds determines, among other factors, the returns of shareholders, then shareholders should have a long-term interest in monitoring the performance of the BoDs so that it exercises proper control over management in order to look after the interests of the participants. Such a practice is used by the Islamic banking system to attract IAH, known as vicarious monitoring; shareholders can also minimize their equity as much as they can to mobilize IAH funds to benefit from generated profits under *mudarabah* mechanisms (Archer *et al*, 2009). However, the situation would be different in the case of short-term opportunisms or in the absence of effective competition, since it would encourage the benefits of shareholders at the expense of participants (Archer *et al*, 2009).

While, the BoDs would serve the interests of shareholders by setting the *wakalah* fee and *mudarib* share of the profit at a level that would give the shareholders a return on their equity comparable to similar instruments in the market. They must, however, bear in mind that they have enough funds to meet participants' claims and to achieve a surplus and to pay or avoid deficit. Thus, by adhering to such a balance, shareholders would exert enough discretion toward participants; in return participants would show similar loyalty toward the company. An alternative action that might be utilised by the BoDs to satisfy participants and IAH is similar to what is currently being used by the Islamic banking system as described by Archer *et al* (2009).

(i) Profit Equalization Reserve (PER) which is an amount set aside from the income of both IAH and shareholders before the allocation of the bank's share as *mudarib* to smooth the profit of IAH to match the returns of instruments in the market, thereby encouraging IAH to retain the funds with the bank to manage them on their behalf. (ii) Displaced commercial risk, that banks would ask shareholders to give up part or their entire *mudarib* share to the IAH to motivate them into continuin*g to pl*ace their funds with the bank. This technique is comparable to the situation in *takaful* where shareholders in TOs have to provide capital baking in the form of a standby *qard*-loan facility to finance an underwriting deficit. The difference, however, is that shareholde*rs in b*anks will not require a refund for their loan, unlike the case in a *takaful* scheme.

Another method that can be used by the TOs simulating those used by the deposit insurance schemes approach to satisfy participants, is what is known as Investment Risk Reserve (IRR) which is likely to encourage management to engage in excessive risk-taking (Grais *et al*, 2006b). However, such a technique might raise the moral hazard awareness of policyholders. Any losses would be financed by the IAH fund and shareholders which could increase the management's risk appetite to a higher level than that of the IAH. The IRR is appropriated from profits after the calculation of the *mudarib* share which is unaffected, while in the case of a loss, *mudarib* share is zero irrespective of the size of the loss. Even if a loss arose due to misconduct and negligence, it could wrongly be absorbed by the IRR, although, according to the *mudarabah* contract it should be borne by the shareholders. It would indeed be difficult for IAH to be aware of such occurrences because of the absence of either adequate disclosure or adequate governance structures to prevent such practices (Grais *et al*, 2006b).

3.5 CORPORATE GOVERNANCE KEY STAKEHOLDERS

This section will identify the key stakeholders that play an important role in the insurance company's corporate governance system. Accordingly, BoDs, External Auditors, Actuary, and *Shari'ah* supervisory Boards with their affiliated staff members will be presented in this section. The elaboration about insurance companies' key stakeholders' rules and power will be based on Islamic and conventional insurance international standards (IAIS, IFSB, OECD, and AAOIF). However, some of the Pakistani *takaful* rules and the British Financial Services Authority (FSA) reform policies on actuaries will be used to reflect the importance rules of the actuaries in the insurance market, since the UK market has gone through a noticeable development stage to regulate the actuarial works.

3.5.1 Board of Directors

Board of directors BoDs (known in other jurisdictions as statutory board, external board, supervisory board, administrative board, or board of governors or overseers) must be individuals, in most cases elected by the owners or shareholders or by policyholders in case of mutual insurance, while the Chair of the board can be elected by the board members (IAIS and OECD, 2009).

BoDs can be structured in two tiers (tier 1 and/or 2). The main difference between 1-tier and 2-tier structure of BoDs, is to rely on BoDs powers, duties, qualifications, independence and responsibilities. The 1-tier structure is allowed by law to delegate the managing of the insurer to a designated president or chief executive officer CEO or to a collective of managers. The 2-tier structure compromises two formal bodies - a supervisory board and a management board. In the two-tier system, for shareholders in USA to sue management in case of negligence or tort, it would take a majority, or 10 per cent at a general meeting to file a court petition (Scott, 2003: 529-530).

The supervisory board is responsible for overall strategy and oversight whilst execution and management is carried out by a management board whose chairman sometimes is also referred to as CEO (IAIS and OECD, 2009; IAIS, 2011; OECD, 2011). Thus, the supervisory board will have the power to elect and monitor the effectiveness of the management board. However, the supervisory boards do not have much decision-making responsibility (IAIS, 2011; OECD, 2011). The management board relies on another body of senior management for executing decisions made by the board and for managing the insurers on a day-to-day basis (IAIS and OECD, 2009; IAIS, 2011; OECD, 2011).

In all board categories the BoDs must satisfy the fit and proper criteria for their roles, of which they should have a good reputation for honesty, fairness, and should have sufficient skills, expertise, necessary judgment, leadership, independence and prudence to understand and oversee the activities of the insurer, assess the major risks facing the insurer and develop appropriate strategies and business plans (OECD, 2011). The BoDs should act in good faith and exercise their powers in the best interest of policyholders, shareholders and the insurer as a whole, in compliance with the law and they should not allow their own personal interests to come before or conflict with the interest of the insurer (IAIS and OECD, 2009; IAIS, 2011; OECD, 2011). BoDs have a duty to respect the rights of participant and give due regard to their interests in its decision-making, and participating policyholders should be able to exercise any governance rights attached to their contract effectively and receive the information necessary to exercise such rights (IAIS and OECD, 2009; IAIS, 2011; OECD, 2011).

BoDs must set the direction for and oversee the affairs of the insurer and ensure that it meets its strategic objectives and is managed efficiently and prudently (OECD, 2011). Accordingly, BoDs should establish appropriate internal control framework, policies and an effective governance system to achieve these aims and for better communication and information delivery, they should review governance arrangements and assure that internal policies have been monitored, and act as the final decision-maker in the case of ambiguity or overlap (IFSB, 2009a).

The BoDs as a governance steering body has other duties as follows:

1. Assigning an actuary who can be internally appointed as an employee of the firm or an external party. In the case of the latter, a strict process shall be adopted to protect the sanctity of participants.

2. Assigning an independent governance committee or independent trustee, which usually in the *takaful* industry consists of three parties (non-executive directors, *Shari'ah* scholar, and actuary) who report their recommendations directly to the BoDs, the committee may also include a participant's representative (IFSB, 2009a: 14). The purpose of the committee is to act as a whistle-blower for the sake of stakeholders, particularly participants, and the main objectives of the committee are to:

   - Achieve adequate protection for *takaful* participants by monitoring the reserve and distribution of underwriting and/or investment profit.
   - Resolve operational and management conflicts of interest, particularly in relation to setup costs and expenses chargeable to the *takaful* fund, and to review the level of underwriting surplus produce in order that the *takaful* fund will not be abused.

On the other hand, the shareholders, BoDs or the audit committee should appoint the external auditor. The external auditor is the one who performs an audit of the accounts of the insurer, at least annually, to assure the board and shareholders that the financial statements fairly represent the financial position and performance of the insurer in all material respects, in accordance with the applicable financial reporting framework (IAIS, 2011; OECD, 2011).

3.5.2 *Shari'ah* Supervisory Board

Each institution offering Islamic financial services (IIFS) has in-house religious advisers, who are known as the *Shari'ah* Supervisory Board (SSB) which may consist of no less than three members (who are not full-time employees of the institution) appointed by the general assembly. Members of the SSB are appointed by the bank shareholders or in some cases by the BoDs (AAOIFI, 1999; IFSB, 2009b). However, the remuneration of the SSB members is decided by the BoDs based on the recommendation of the management (AAOIFI, 1999). Furthermore, the SSB has the right to attend the annual general meeting of the institution and to perform all or some of the following duties (Karim, 1990):

1. Design and approve contracts for a bank's basic activities and issue religious rulings in response to requests by the staff.

2. Advise the external auditors and the management of the bank of the accounting treatments which require departure from generally accepted accounting principles in order to comply with *Shari'ah* precepts.
3. Ensure that IFS practices conform to the spirit as well as the letter of Islamic teaching.
4. Prepare a religious compliance report as part of the annual report, in which it attests whether the IFS operations are in conformity with the *Shari'ah*.

Grais *et al* (2006b) added another two duties: calculating and paying *zakat*, and advising on the distribution of income or expenses among shareholders and IAH. The *Shari*'*ah* board shall meet regularly to carry out periodic reviews to monitor *Shari'ah* compliance of the operations of the TOs. However, when necessary, the *Shari*'*ah* board can hold a meeting if the TOs urgently require its advice and opinion on *Shari*'*ah*-related matters. The *Shari*'*ah* board should arrange to meet with the BoD's of the TOs at least twice a year to discuss issues of common interest (IFSB, 2009b).

In practice, the role of the SSB is limited in conducting ex-post monitoring of *Shari*'*ah* compliance. The ex-ante monitoring is carried out by the staff members of the Internal *Shari*'*ah* Review Audit (ISRA). The ISRA is responsible for the internal review/audit for verifying that *Shari*'*ah* compliance has been satisfied. Accordingly, the *Shari*'*ah* review/audit should be conducted by someone adequately trained in *Shari*'*ah* compliance review/audit and in accordance to the SSB pronouncements / resolutions (IFSB, 2009b).

The finding should be then reported to the SSB and where the ISRA should recommend the findings to the company management to address and rectify any issues of *Shari*'*ah* compliance. However, the burden of ensuring a sound and effective *Shari*'*ah* governance system should not be left to members of the SSB alone, such task may be also assigned to an appropriately competent external auditor or external *Shari*'*ah* firm (IFSB, 2009b).

The ISRA is an integral part of the organs of governance of IIFS and operates under the policies established by the IFS. The staff members of ISRA are nominated by the management and approved by the SSB because they are considered to be the 'right hand' of the SSB in that the

SSB carries out its tasks in accordance with the information and the various reports given by ISRA. ISRA is tasked with looking into the day-to-day transactions of the bank and reports back to the SSB for major *Shari'ah* issues that need collective discussion.

On the other hand, it has been strongly recommended to develop an in-house capability by having a dedicated Internal *Shari'ah* Compliance Unit (ISCU) comprising *Shari'ah* officers with appropriate qualifications and experience. The job of ISCU would be to ensure compliance with the *Shar*i'*ah* pronouncements/resolutions and seek refererence to a juristic opinion on any matter pertaining to *Shari'ah* issues (Gambling *et al.*, 1993; IFSB, 2009b). The IIFS should equip the ISCU with the appropriate compliance-monitoring skills and relevant knowledge of the *Shari'ah.*

The IIFS should also ensure that the ISCU is separate and independent from the business units and departments. The SSB is responsible for appointing an ISCU or an individual *Shari'ah* officer, to enable future delegation of SSB main functions to the ISCU. The SSB may also delegate its powers and authority to the ISRA in reviewing, from time to time and on a regular basis, the level of *Shari'ah* compliance, particularly with regards to the actual implementation and operation of financial contracts involving the IIFS (IFSB, 2009b). Accordingly, IIFS should clearly segregate the process and procedures between the ISCU and ISRA through a written standard operation manual and/or framework. The main difference between the two groups, while the internal auditor ISCU will usually report to the audit committee, the ISRA shall report to the *Shari'ah* board.

Also, the SSB should have separate and independent access to the ISCU and ISRA, respectively, to check that internal control and compliance procedures have been appropriately followed and that applicable rules and regulations to which the IIFS is subject have been complied with (IFSB, 2009b). Furthermore, as IIFS requires the BoDs and senior management to comply with certain minimum criteria, it has been appropriate that a certain 'fit and proper' criteria be imposed on members of the *Shari'ah* board as well as on officers of the ISCU and ISRA (IFSB, 2009b).

The SSB report should follow AAOIFI Governance Standard No. I (AAOIFI, 1999), which generally reflects all contracted documents and related transactions, processes and profits are conducted with an adherence of the Islamic *Shari`ah* principles. It is also worth noting that AAOIFI Governance Standard No. I on *Shari`ah* Supervisory Board: Appointment, Composition and Report, states that the SSB's report should be appropriately address the requirements of the local laws and regulations. The reports should also indicate whether the TO has complied with *Shari`ah* requirements throughout the financial year, the report can be in a form of annual report or more detailed account of compliance work undertaken addressed specifically to the supervisory authorities. For *takaful*, undertaking corporate governance would extend to the *Shari'ah* board to ensure all governance relationship and responsibilities are clearly and appropriately allocated to overcome any conflict of interest.

In this regard, the IFSB has assigned *Shari'ah* governance Guiding Principles which focus mainly on the SSB. The principles are then divided into five parts or objectives, General Approach to the *Shari`ah* Governance System or disclosure, Competence, Independence, Confidentiality, and Consistency. The Guiding principles enable all stakeholders to understand and perform their roles in achieving the *Shari`ah* governance objectives, and help to promote the soundness and stability of the IIFS (IFSB, 2009b). The SSB should also demonstrate truthful assessment and disclosure of *Shari'ah* compliance of all the required information by stakeholders such as *fatwa*, duties, *Shari`ah* compliance channels, *etc.*

The SSB should also be competent in its knowledge of both *Shari`ah* law (*Fiqh al-Muamalat*) and commercial and accounting practices. The SSB should show independent decision in accordance to the *Shari`ah* law and not be influenced by the agenda of the BoDs because it would damage the SSB’s reputation and the confidence of shareholders and stakeholders (Grais *et al*, 2006b). The SSB should also exert a degree of confidentiality particularly if the members of the *Shari'ah* board are significant shareholders in the *takaful* firm or hold managerial positions, or because of the limited number of *Shari'ah* scholars competent in the field. There is also a possibility that they may hold shares or management roles including *Shari'ah* board membership at the firm’s counterparts or competitors. In this case the rules must be put into place to require appropriate management of any conflicts of interest as per (ICP 7, Suitability of Persons) (IAIS, 2004). The SSB should also show a consistency of judgment across different TOs over time, or across jurisdictions within the same firm (IFSB, 2009b).

3.5.3 Appointed Actuary

The repetition of insurance sector failures led to the appearance of an individual, known as the Actuary, who takes the role of judging over and protection of the interests of a specific group of stakeholders, namely policyholders. The appointed Actuary can either be an employee or external to the firm; however, for larger insurers the appointed actuary can be a senior employee (Letza *et al.*, 2004).

Actuaries' roles in UK life insurance governance and regulation go back as far as the Life Assurance Companies Act of 1870. The Act gave authority to report a firm's assets and liabilities and to make this information available to the public so that shareholders and policyholders could evaluate the firm's financial position and apply proper judgement. This regulatory principle was known as freedom with publicity (Daykin, 1999). The onus was for policyholders and shareholders to take all responsibility in evaluating whether or not the firm was financially healthy before engaging them in business and thus detailed regulation of the sector was avoided (Dewing *et al*, 2001).

The appointed Actuary had an indirect relationship with policyholders, due to the broad nature of the company and its approach to the treatment of policyholders, and was expected to take steps to ensure that prospective policyholders are not misled in their expectations. Thus, whenever needed the Actuary should act independently of the TO in accordance with the professional code of conduct and ethics established by the professional body of which he or she is a member. The Actuary must disclose to the relevant stakeholders (including the supervisory authority) any material concerns in respect of having accurate data, integrity and sufficiency in the course of the work that is undertaken with all honesty and with the highest professionalism (IFSB, 2009a).
Therefore, the role of the appointed Actuary was reviewed by FSA (2002) to:

(i) Unify supervisory arrangements across each sector of the financial services industry.
(ii) Apply a single financial soundness measure to each individual institute, which depends on the long-term risk encounter in the case of insurance firms.
(iii) Resolve the problems of insurance companies.

Thus, the appointed Actuary of life insurers has a unique corporate governance role based on statute with responsibilities to the board, to policyholders and to supervisors, including responsibility for whistle-blowing. Another vital rule is added to the appointed actuary in the *takaful* industry that the actuary and the *Shari'ah* Board will be in charge of finding proper investments contracts to run participants funds either by *mudaraba, wakala* or a combination of the two. They should also be in charge of appointing *wakala* fees for investments management or any other combination, and they should set and advice the fee structure and the profit-sharing ratio on the investment management between participants and the operator – such a task for the appointed Actuary to be clearly spelled out in the participants' membership documents (Pakistan *Takaful* Rule, 2005). The actuary is also responsible for allocating and approving the *takaful* benefits to participants in the family *takaful* business such as distribution of underwriting and/or investment profit (Pakistani *takaful* rule, 2005).

The appointed Actuary in family *takaful* should ensure that the products are sound and workable whereas the *Shari'ah* Board should ensure that these conform to the Islamic principles (Pakistan *Takaful* Rule, 2005). In short, the appointed Actuary is responsible for controlling the integrity and quality of information disclosed by TOs to the board, participants and other organs in the firm. The Actuary is also responsible for monitoring risks, financial solvency, evaluating *takaful* funds, estimations of fund contribution to the participants, valuation of PRF assets to meet liabilities (IFSB, 2008).

Table 3.1, summarizes the controlling and compliance functions of the TOs governance system in comparison with the conventional insurance business, which includes the roles and functions of key stakeholders for corporate governance.

Table 3.1 Governance Function Comparisons between Conventional and Islamic Insurance Companies

Functions	**Typical Financial Institutions**	**Addition in IFS**
Governance	BoDs	*Shari`ah* board
Control	- Internal auditor - External auditor - Actuary	- ISRA - External *Shari`ah* review - Actuary
Compliance	Regulatory and financial compliance officers, unit or department.	ISCU

Source: (IFSB, 2009b), Author has added the work of Actuary to the table.

3.6 CORPORATE GOVERNANCE CHALLENGES

The main challenge of corporate governance arose from the implications of separating ownership (shareholders) and control (management) of an industrial corporation, in a situation known as an agency problem (Fama *et al*, 1983).This was supported by the emergence of large firms with dispersed shareholdings in certain countries such as USA and UK (Berle *et al*, 1932). The problem arose because the owners were not able to control the management due to asymmetry of information, since the management is much better informed about the firm's condition and prospects than the owners. Smith (1776: 700) outlined the problem as follows:

> "The directors of joint stock companies are managers of other people's money, hence, it cannot be expected that their actions will be taken with same vigilance as if they are the owners of the company. Therefore, negligence and profusion will always exist in the management of the company".

Managers might expropriate investors and shareholders resources by entrenching themselves and stay on the job even if they are no longer competent and qualified (Ruback, 1983; Shleifer *et al*, 1989). However, when managers cannot expropriate resources outright and they have the right not to return money to investors as discussed by Jensen *et al* (1976) then managers will go ahead with investments that will assure their benefits despite the fact it might be costly for investors. Investors are not guaranteed to get paid if managers, in case of shortage in funds, believe that the future benefit of being able to raise external funds are lower than the cost of paying what the investors already promised. Such a problem unravels so that there is no possibility of external finance because the fact that the legal enforcement contract virtually does not exist, the phenomena is explained as managers paying initial investors with money raised from later investors, thereby creating an illusion of high return (Eaton *et al*, 1981; Bulow *et al*, 1989).

In countries like USA and UK, the relevant political philosophy is neo-liberalism, which requires less intervention by the government in the capital market and allows the market to regulate itself giving more priority and protection to shareholders over other interested parties of corporation (Cook *et al*, 1999). Thus, policyholders are always kept in a disadvantageous position, policyholders are treated as 'customers' rather than 'stakeholders' which leaves them dependent on market forces and competition for protection of their rights (Archer *et al*, 2009).

Such treatment exists on account of a lack of product transparency and problems relating to information asymmetry which blunts the effectiveness of market forces (Archer *et al*, 2009). While, neo-corporatism is related to stakeholder theory based on the combination of a society's culture and history as well as cultural and social changes that occur with modernisation, economic development and industrialisation.

Unlike neo-liberalism and pluralism, under neo-corporatism the government plays a central role in regulating and organizing the social and economic interests of society such as employers' organisations and labour unions. Hence, if a neo-corporatist position is adopted, then the issue of control rights for participant's policyholders has to be considered.

3.6.1 Asymmetry of Information and Stakeholders (FSA Reform)

In United Kingdom, the reform of corporate governance arrangements for life insurers were undertaken after the failures of Equitable on December 8th 2000, as a result of illegal allocation of terminal bonuses between groups of with-profit[16] policyholders, which led the company to reduce terminal bonuses to meet guaranteed annuity claims. However, the claim is not solely responsible for the crises, since the claim of £1.5 billion should not have brought down a society

[16] With-profits policies are long-term in nature, where the insurers use the premiums to invest in a pooled of fund, made up of a range of assets; accordingly, it will be a share of profit and loss, and it will be a share in any distributions from the inherited estate, the with-profit will also work as a general investment/savings vehicle (FSA, 2001).

with funds of £32 billion. The problem was a culture of manipulation and concealment of the true state of the company's financial position by the previous senior management team which had allowed a bonus policy to develop (Dewing *et al*, 2001).

Despite the clear responsibility placed on the appointed Actuary to inform the board in that regard, the appointed Actuary failed to report to the board, while the board additionally failed to check society policy. As a result, the board found itself in 2000 and 2001 without full knowledge and understanding of the developing position which led to financial weakening (Dewing *et al*, 2001).

Accordingly, one of the important suggestions to prevent this failure to encounter in future is to rely on the regulator to ensure that the continued relevance of the regulatory tools is regularly assessed and implemented, especially in a constantly developing industry. Government also has a responsibility to inform and educate consumers about the nature of the financial system (Dewing *et al*, 2001).

The FSA (2000) has suggested four regulatory objectives: market confidence, public awareness, policyholder protection, and reduction of financial crime. The new regulations will mainly set a minimum amount of capital required to be held by insurers and to provide more protection to policyholders by increasing the accountability of actuaries, auditors and the board, and improves information flows, both in terms of quality and quantity. The FSA has also launched the Financial Capability Steering Group, which will examine the approach to consumer education, since the UK is considered as the world pioneer to incorporate consumer education as a key statutory objective of the financial services regulator (FSA, 2003).

The FSA suggests special corporate governance arrangements for with-profits review to resolve the breadth of discretion of management in managing the fund. Accordingly, the FSA has constructed rules and guidance in relation to treating with-profits policyholders fairly according to the FSA's Conduct of Business Handbook (COBS 20) and the associated Principles: Principle 6, Customers' interests, Principle 7, Communications with clients, and Principle 8, Conflicts of interest (FSA, 2010). The purpose of the guidance principles and rules is to examine the insurance company to support:

I. With-profits policyholders' interests are properly protected.
II. Policyholders receive sufficiently comprehensive, timely and clear information to enable them to view their balance at the fund.
III. Policyholders receive fair payouts and firms apply policy conditions fairly and proportionately to ensure all classes of policyholders are treated fairly.
IV. Policyholders only bear costs that are incurred in the running of the fund.
V. Investments are appropriate to the with-profits fund and do not prevent policyholders from receiving fair pay-outs or bonus distributions.
VI. New business is written on terms that, at a minimum, are unlikely to make existing with-profits policyholders materially worse off (FSA, 2010).

With proposed changes in the role of actuaries, the FSA has removed responsibility for making key decisions on asset allocation and distribution in with-profits funds from the appointed actuary and transferred it to the company BoDs to take full responsibility for its decisions (FSA, 2003). Furthermore, the board's responsibility toward actuarial valuation has increased so that the appointed actuary no longer certifies nor confirms any aspects of regulatory return; this responsibility is in the hands of the board. The boards now will be fully informed of the company important issues, and to provide fair treatments to policyholders, since the actuaries might be put in a position of advocating a shift towards one group of stakeholders (*ex.* policyholders at the expense of shareholders). The FSA has also identified several points of reform towards three roles for actuaries: (i) actuarial function, (ii) with-profit actuary, and, (iii) reviewing actuary (FSA, 2003).

The role of with-profits Actuary will be an advisor to the board. The with-profit Actuary will advise BoDs on the methodology and calculation of the valuation of policyholder liabilities. The reviewing Actuary will report directly and privately to the auditor, giving his/her reasonableness of the valuation of liabilities by the firm, the methods used and the economic, market and actuarial assumptions. As a result, it is not permitted that the Actuary holds a position on the board, because he/she may provide input into other business decisions (FSA, 2003).

The FSA has also imposed certain changes in the rules of the auditors, in that the auditors are now responsible for the audit of liabilities, so that auditors no longer rely on the calculations previously certified by appointed actuaries (FSA, 2003). Auditors are now required to make use of the advice of the reviewing Actuary and to state they have done so in their audit opinion. This change in reporting was described by the FSA as realistic reporting; the new reporting system should increase confidence of users.

3.7 IFSB EFFORTS TO STANDARDIZE THE *TAKAFUL* INDUSTRY

In an effort to standardise the *takaful* industry, the IFSB has conducted an agreement of development and implementations of the IAIS Core Principles (ICPs) and practice guidelines on the *takaful* industry in order to achieve a number of objectives. One of these objectives is to provide appropriate levels of consumer protection in terms of both risk and disclosure (IFSB, IAIS, 2006). Since, most of the IAIS (2011) Core Principles (ICPs) tend to highlight the correct way of dealing with policyholders both before a contract is entered into through to the point at which all obligations under a contract have been satisfied. A very important core principle of IAIS is (Corporate Governance, ICP 7) focusing on the BoDs because they are supposed to be in charge of insurer performance. One of their many functions is to set out policies that address conflicts of interest, the fair treatment of policyholders and information sharing with stakeholders, while senior management should provide direction on a day-to-day basis in accordance with the firm objectives and policies that were set out by the BoDs.

Accordingly, as the ICPs codes are considered vital to bring protection to policyholders and to provide the required stability to the insurance industry, the IFSB has launched in 2005 a development agreement called the (JWG)[17] with IAIS concerning the applicability of IAIS core principles ICPs issued in 2003 (recently 2011) to the regulatory and supervisory standards for the *takaful* industry, and relying on OECD guidelines for insurers' governance issued in 2005 (recently 2011).

[17] Joint Working Group.

3.7.1 IFSB Standards and Guidelines for *Takaful* Operators

IFSB (2008) has identified several premises and objectives that serve the interest of all parties involved in a *takaful* business arrangement. Accordingly, six guiding principles divided into three parts are put forward for adoption and implementation by TOs. The guiding principles should apply to all *takaful* undertakings, irrespective of their legal status, or operational models. These parts are focused on the reinforcement of good governance practices as in insurance companies while addressing the specificities of *takaful* companies, a balanced approach that calls for their fair treatment of all stakeholders, and an impetus for a more comprehensive prudential framework for *takaful* undertakings. As far as this thesis is concerned, the following represents some of IFSB recommendations related to dealing fairly with the participants of the *takafull* scheme (IFSB, 2008):

TOs should structure a corporate governance framework that specifies the strategic, operational roles, responsibilities, functions of all organs of the firms including but not limited to the BoDs and its committees, the management, *Shari'ah* governance function (whether in the form of a *Shari'ah* Supervisory Board, as well as the internal and external auditors (IFSB, 2008).

It must address the rights and interests of stakeholders, and assign compliance mechanisms of underwriting and investment according to identified legal and regulatory frameworks. The TOs should also design a balance of governance mechanisms that satisfies all stakeholder parties *i.e.* shareholders and participants. Such a balance environment will create a good and strong culture of governance. The mechanisms will be structured so that a clear segregation of the *takaful* participants' funds from the TOs shareholders' funds will be declared to avoid information asymmetry, misalignment of the incentives of the principal and agent, which results in a reconciliation between shareholders and participants (IFSB, 2008).

TOs shall put in place an appropriate code of ethics requiring employees and agents to observe high standards of integrity, honesty and fair dealing. Thus, codes observation should be conducted periodically via an adequate system that can monitor compliance with this code and to effectively address any dishonourable behaviour. They should strive to assure that the code of ethics is properly delivered by whoever promotes or advertises the *takaful* product, such as a conventional bank with a *takaful* window, brokers, agents, actuaries, representatives, *etc*. In terms of investment activities, TOs should strictly adhere to Islamic ethical codes.

Furthermore, for long-term *takaful* contracts especially family *takaful* plans where long-term relationships are established between *takaful* participants and the TOs, an adequate code of ethics and conduct should be observed by the representatives of the TOs at the point of contract and after the point of contract. For example, in the case of family *takaful* investment products, the pre-contract illustration should be clearly expressed and presented for better understanding and appreciation by *takaful* participants who may not be familiar with *takaful* terminology (IFSB, 2008).

Takaful participants must recognize in which structure the company is operating *i.e.* is the company totally established in a mutual structure, or hybrid structure with a proprietary company as TO, rather than a pure mutual. Under the mutual structure, participants can vote for the appointment of the board and/or the management, while they cannot achieve such goals when the *takaful* scheme is run as a proprietary scheme. However, it should be noted that experience with mutuals in conventional insurance suggests that effective governance by participants can be difficult once they grow above a certain size. In this situation, management may effectively become autonomous (IFSB, 2008). The TOs must establish a mechanism of checks and balances that gives participants appropriate powers to review their PRF and PIF. This ensures the TOs adherence to interest protection while satisfying the mutual assistance scheme among the participants (IFSB, 2008).

3.8 SUMMARY AND CONCLUSION

This chapter has provided a comprehensives review on the Corporate Governance polices and regulations as per the international insurance organization (IAIS, OECD, IFSB, and AAOIFI). It also highlighted the rules, power and activities of some of the key personnel in the insurance companies such as BoDs, *Shari'ah* Supervisory Board (SSB), and actuaries, since it's believed that these key stakeholders has an effective impact on the success or failure of any insurance company.

The current chapter has also identified the main issue related to corporate governance *i.e.* the agency problem, which is a result of the existing ownership separation between the owner (shareholders) and the controller (management), since management is much better informed about the firm's condition and prospects than the owners, which causes asymmetry of information. Accordingly, this chapter reflect the the failures of Equitable insurance company which was the result of the failure of the company senior management to convey the required information about the company financial position to the BoDs, with an obvious missing role of the company actuaries to inform the BoDs of the current financial positions of the company which caused the insurance company to declare bankruptcy.

The chapter also distinguished between the types of roles that the government can adopt to control the financial system in the country – that the government can either follow the Neo-corporatism or Neo-Liberalism system. Furthermore, insurance companies can adopt a certain corporate governance to run their business – that the companies can follow the Anglo-Saxon Model, the European Model or the Islamic corporate governance Model.

To resolve the issue of the agency problem in the *takaful* industry which might cause denial of some of the participant's rights, the IFSB and the IAIS (2006) has conducted a Joint Working Group, which aims to implement the IAIS conventional insurance core principles into a suitable set of core principles that can suit the *takaful* insurance industry, since most of the IAIS (2011) Core Principles are aimed to provide better treatment of policyholders. The IFSB (2008) has also made a couple of recommendations which eventually will serve the financial benefits of the contributed participants. This chapter also highlighted some of the FSA roles that give better protection to policyholders.

CHAPTER FOUR
INSURANCE & TAKAFUL MARKET CONDUCT AND DISCLOSURE

4.1 INTRODUCTION

This chapter is a continuation of the previous chapter (corporate governance policies), but focusing on the international[18] insurance and *takaful* regulations and policies regarding Market Conduct and Disclosure. Market conduct and disclosure are considered important issues with regards to *Takaful* Operators (TOs) obligations towards participants, since participants will be interested to review their financial benefits in the *takaful* fund from time to time as well as being interested to review their claims and indemnities situation. An active company disclosure system will allow participants to review the company financial profile, such as the rate of investments return and underwriting surplus, amount of loan available in the shareholders balance sheet to support the *takaful* fund whenever a deficit encounters.

Overall TOs adherence to the best available market conduct and procedures standards and policies will bring better stability in the insurance market, as well as better protection for stakeholders. This chapter will give an answer to the second part of research question 1, which is : What are the best regulatory practices and standards of insurance and *takaful* companies, in terms of Corporate Governance and Market Conduct and disclosure?

The chapter is organized as follows: section 4.2 defines market conduct and disclosure. Section 4.3 presents the hidden disclosure problem. Section 4.4 presents the requirements for public disclosure. Section 4.5 presents sound investment return in accordance with the established insurance market conduct and disclosure standards. Section 4.6 presents sound surplus distribution in accordance with the established insurance market conduct and disclosure standards. Section 4.7 draws a conclusion.

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[18] International Association of Insurance Supervisors (IAIS), Organization for Economic Co-operation and Development (OECD), Islamic Financial Service Board (IFSB), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

4.2 MARKET CONDUCT AND DISCLOSURE

Market conduct refers primarily to the way insurers deal with existing or prospective policyholders whether directly or through intermediaries; it also covers other market players such as investments managers. The strength of market conduct varies from one jurisdiction to another. However, even in advanced jurisdictions market conduct regimes for insurance have lagged behind the development of prudential regulation and behind other sectors (Casey, 2009). Regulators are always concerned about market conduct in terms of contract terms and pricing (rate and reform), disclosure requirements and suitability (Casey, 2009). The supervisory regimes as a result requires insurers to have sound market conduct policies and procedures, especially when dealing with policyholder expectations (IAIS, 2002). Disclosure is considered as a prudential aspect for proper efficiency of the financial market, as per IAIS (2002: 3):

> "When provided with appropriate information that allows them to assess an insurer's activities and the risks inherent in those activities, markets can act efficiently, rewarding those companies that manage risk effectively and penalizing those that do not. This is often referred to as market discipline. It serves as an adjunct to supervision".

Accordingly, sound market conduct policies and procedures will not be satisfied without having effective supervisors that can encourage insurers to make effective disclosure, by maintaining efficient, fair, safe, and stable insurance markets for the benefit and protection of policyholders (IAIS, 2002). The supervisors will need to have sufficient knowledge about *takaful* to be able to understand the products which they are dealing with and the significant differences between *takaful* contracts and conventional ones. The *takaful* contract should cover the contractual relationships between TOs and participants, including the circumstances of any additional contributions that may be sought and the basis for the distribution of any surplus.[19] Such a contractual relationship will have one main goal which is participants' protection while not restricting competition and innovation in the market (Casey, 2009).

[19] The contractual structure in case of family *takaful* should cover relationships governing Participants Investment Fund (PIF) and circumstances in which PIF may be called upon to meet a deficit of Participants Risk Fund (PRF), another disclosure should be made in regards to *Shar'iah* supervisory process especially if *Shari'ah* principles lead a *takaful* operator to exclude circumstances that would normally be covered by a conventional insurer.

4.3 HIDDEN DISCLOSURE PROBLEM

The main market conduct problem faced by TOs is the issue of intermediaries[20] and regulations, which vary from one jurisdiction to another in regulating intermediaries. For example, some jurisdictions regulate intermediaries directly, and some place the onus on the insurer, while others have scarcely any provisions at all (Casey, 2009). However, TOs should ensure that their representatives provide relevant and meaningful information to the *takaful* participants to avoid any risk of misleading the *takaful* participants into expecting that *takaful* is no different from conventional insurance (IFSB, 2009a).

Although regulations might ask the TOs to take the responsibility of letting their intermediaries disclose the required information to the customers, a suitability regime however, is very difficult to apply especially if an intermediary is an agent to another company. Thus, the suitability issue will be much easier if the *takaful* product is sold via the operator itself, since intermediaries will be required to acquire a wide set of information about customer preferences, such as customer perspective and their views on *Shari'ah* issues (Ali *et al,* 2008).

As the intermediaries can play an important role, IAIS (2011) has identified ICP 18 as one of the core principles to enhance the intermediaries' roles in the insurance business. Accordingly, they apply certain criteria which are considered essential for intermediaries: (i) be licensed or registered, (ii) have adequate general, commercial and professional knowledge and ability, (iii) have a good reputation, (iv) have sufficient safeguards to protect participants funds, (v) to provide consumers with information on their status. In case of *takaful* insurance the intermediaries shall have adequate knowledge on *Shari'ah* issues and its implications (Ali *et al*, 2008).

Even non-Muslim customers should indicate their preferences on matters such as the required amount of underwriting surplus, investment portfolio and the expected profits, type of assets instruments used by the *takaful* business. As a result supervisors will have a responsibility of ensuring consumer satisfaction by receiving a suitable *takaful* product. Even when intermediaries

[20] An agent such as a broker, who is given commissions by insurance company for selling its policies (Source: Dictionary of Insurance Terms, 4th Edition, 2000, Barron's).

are directly regulated, the supervisors' roles should be there to measure the required output and to make sure that the prescribed disclosures are made, and that this is done in a way that is clear, fair and not misleading (Casey, 2009).

Furthermore, another common problem in the insurance industry is the level of inherent uncertainties in the business. As a result of the inverse nature of an insurance contract, whereby the policyholder can pay single premium in exchange for an uncertain amount of benefit in time in future, a systematic problem can arise as a result of under-/over-estimations of liabilities.

In the *takaful* business the payment of claims might cause a problem, especially when TOs treat participants' indemnity as an issue of *ex gratia*[21] payments since the TO may be tempted to make payments, in pursuit of goodwill and future business, ignoring the fact that the PRF from which the payments are made belongs to policyholders and not the shareholders. Therefore, the proper way to overcome some of the disclosure problems is by putting in place a proper system for claims decisions along with documentation justifying the reasons for any unusual decisions (Casey, 2009).

4.3.1 Claim Settlement Procedures

The concept of insurance was established to provide indemnity or to substitute personal loss of an agreed amount as per a stipulated policy. However, not all claims or losses are identified and sometimes a dispute might take place as to whether to provide an indemnity or not. It is very important that the insurance company pays its claims fairly and promptly, and it is equally important that the company resist unjust claims and avoid overpayment. Thus, claims adjuster/representative should be appointed by the insurance company to investigate, negotiate and settle such disputes (Lawry *et al*, 2004).

An adjuster is a person who investigates losses and determines the liability and the amount of payments to be made. The Adjuster can be an agent (authorized to settle small first-party claims

[21] Payments can be paid as a gift from the insurer to the insured, whether the insured deserve it or not, to overcome a harsh situation (Lawry and Rawlings, 2004).

up to some maximum limit), salaried staff (when a company has a large volume of claims), a bureau (an adjusting claims organization supported by insurers who use their service), an independent (an individual who offers his service to insurance companies for an agreed fee) or a public adjuster (representing the insured in case of complex loss situations, where he received a certain agreed fee by the insured) (Lawry *et al,* 2004).

To indemnify a policyholder upon a claim of loss occurrence, the adjuster shall verify that, the claimant is included in the policy; the loss took place during the policy period and to check if the perils causing the loss against are in the policy (Lawry *et al,* 2004).

However, the insured should adhere to certain settlement procedures for the insurance company to accept his/her indemnity request. One of these requests is the notice of loss which is informs the insurer that a loss has occurred. The insured shall also file a proof of loss within a specific time after the occurrence of loss. Upon, satisfying these procedures an investigation would be conducted to determine if there was actually a loss covered by the policy: if so, the amount of loss shall be identified (Lawry *et al,* 2004).

4.3.2 Payment or Denial

If the above steps were satisfied then a payment will be made to the insured; sometimes a payment can be made as a gift (e*x gratia*). However, the payment can be denied in case of no loss, the policy did not cover the loss or there is a dispute about the amount of the claim (Lawry *et al,* 2004). In this case, the situation has to be resolved by either negotiation, litigation (court proceeding to resolve the dispute) or arbitration[22]. Arbitration can provide five distinct advantages to the policyholders:

I. Speed: reduce the amount of court hearings which might take place over a period of years.
II. Privacy: to avoid media involvement and reporting of such cases that may create a negative reflection on the insurer’s reputation.

[22] Arbitration is a condition sometimes stated on the policy, whereby if there is a dispute about the quantum (amount to be paid) and not a dispute about liability as per legislation, then the parties are allowed to go through a process of arbitration before embarking upon litigation.

III. Cost: arbitration might be cheaper than the normal court hearing fees which is extremely expensive. However it is not implemented all the time.

IV. Protection: the insured might blackmail the insurer to proceed with the court sessions, which might adversely affect the insurer's public image, but which would be impossible with arbitration.

V. Expertise: an arbitrator[23] can be hired to come up with a better decision than that achieved through litigation; it is unlikely that the judge would have the same degree of knowledge as the arbitrator (Vaughan, 1999).

Another way of resolving an insurance dispute is to use the Financial Ombudsman Service[24]. This body is an independent organization with professional expertise to provide a free service to resolve a dispute in insurance or other financial service in the UK as per the Ombudsman Act, 1980 (Act XV of 1980). The organization receives tens of thousands of disputes every year, and they are easy to get in touch with as they have a dispute form which can be filled online or via the phone. The Ombudsman service is not as formal as the law court but it is as completely independent as the judge in a court since it fairly treats both sides of the dispute, giving fair judgment and advising of the proper steps to be taken to resolve such a dispute.

4.4 PUBLIC DISCLOSURE REQUIREMENTS

Public disclosure to the market contributes to good corporate governance by identifying those insurers who are using best practices and those who are lagging behind, as well as insurers, key stakeholders who are responsible for such underperformance. In short, disclosure, transparency, proper corporate governance and internal control will contribute to proper corporate conduct and deter fraud and corruption, allowing insurers to compete on the basis of their products offered and to differentiate themselves from insurers who do not practice good governance (IAIS, 2011; OECD, 2011). One of the IAIS (2011), core principles is ICP 20 (Public Disclosure), which states that supervisory authorities are to require that insurers disclose relevant information on a timely basis. Since proper disclosure will give market participants a clear view of the business

[23] A person of expertise who has technical knowledge on quantum dispute cases.
[24] Material of this paragraph has been taken from the Information of Financial Ombudsman Services by accessing the following Web-Sites:
http://www.financial-ombudsman.org.uk/default.htm
http://www.lawcommissionbangladesh.org/reports/31.pdf

activities and financial positions of the insurers and facilitate the understanding of the risk exposures of the insurers, disclosure shall also address insurance company obligations and commitments towards their customers.

4.4.1 Disclosure of Product Suitability and Obligations

Accordingly, the concept of disclosure is closely linked to the requirement to provide information to the prospective policyholders to enable them to make proper and informed choices as to the suitability of the proper insurance product to be selected to meet their needs. Suitability is linked to the insurer's obligation to ensure that the product sold is suitable for the policyholders to prevent policyholders suffering when insolvency situations are encountered. Unfortunately, *takaful,* contracts and product information tend to be drafted in legalistic and protective terms, with the aim primarily of protecting the TO, rather than of plainly informing the *takaful* participants of their rights and obligations (IFSB, 2009a).

It is necessary for participants to make proper judgments about TOs before entering into a contract, and for better comparison[25] between different TOs available in the market (Casey, 2009). Hence, information should be characterized as accessible, comprehensive, reliable, comparable[26] and consistent. Information should reflect *takaful* benefits, the *takaful* fund's asset allocation, claims information, encountered expenses, fees and other relevant aspects of the operations of the *takaful* fund, including methods applied, assumptions used, and the accounting and actuarial policies (IFSB, 2009a). *Takaful* contracts should be written in plain language utilizing consistent *takaful* terminology (including applications of the *takaful* core principles). In this respect, it is recommended that the supervisory authority develop a set of prescribed disclosures to be made prior to contract, including disclosures on the *takaful* core principles and *Shari'ah* governance arrangements (IFSB, 2009a).

Complying with *Shari'ah* is another commitment of TOs. For instance TOs should ensure that the re-*takaful* and reinsurance arrangements are consistent with the sound *takaful* principles and

[25] By exploring one reporting period to another, which can only be made if the reader is informed how the methods and assumptions of preparation have changed and, if practicable, the impact of that change.
[26] It is recognized that, until international standards are developed and adopted uniformly, true comparability cannot be achieved.

are as per the guidelines provided by its *Shar'iah* Board; such a practise is considered acceptable so long as there is no practicable *Shari'ah* compliant alternative (Pakistan *Takaful* Rule, 2005). However, TOs should ensure that any re-*takaful* arrangement duly serves the purpose of the *takaful* undertakings and is undertaken with the interests of *takaful* participants as the foremost consideration. TOs should also strive to use re-*takaful* operators, rather than conventional reinsurers, in support of a fully *Shari'ah*-compliant financial system for the *takaful* undertakings (IFSB, 2009b). Another way of proving company obligations and commitments towards their customers is by spending more efforts on research and development. Accordingly, insurance companies should disclose their strategies toward research, development, education and training of their employees for better reputation in gaining good results on financial performance and risk- management achievement (IAIS, 2011).

Furthermore, information should be properly disseminated according to the international standards and designed through adequate methods and assumptions to bring to the attention of participants of the relevant information. Hence, one of the best channels to disclose information to the public is by using the internet as an effective way to disseminate information, which can easily reflect the development patterns over time with a comparison against the previous periods (IAIS, 2011).

Other channels that might be used as a way of disclosing information might include insurer annual reports, interim financial reports, annual general meetings of shareholders, prospectus reports for public offers and/or listings, merger and takeover documentation, and ad hoc statements. These disclosure channels should reflect the company financial position, financial performance and its risk management by identifying intangible assets and the way to mitigate them. TOs might also reflect the developmental state of the industry and the overall balance of products and markets (IAIS, 2011). Despite the fact that disclosure is a vital approach to participants, more disclosure might increase direct and/or indirect cost for the company and the companies may experience a competitive[27] disadvantage from increased disclosure of proprietary information (IAIS, 2002; 2008). Therefore, various jurisdictions have different requirements on

[27] It is appropriate that commercially sensitive information (such as trade secrets, proprietary information or information that, if disclosed, may have adverse effects on the insurer) not be publicly disclosed (IAIS, 2008).

what communication channels to use, contents of disclosure and disclosures timing (IAIS and OECD, 2009).

4.4.2 Disclosure of *Takaful* Model and Corporate Governance Strategy

Insurance companies should disclose fundamental information about their business activities and models, management and corporate governance strategy (IAIS, 2002). Insurers should disclose their corporate governance policy to deliver accurate information to participants in a timely manner at the beginning of the contract. Corporate governance information should be related to company market position, its strategy and its progress toward achieving its strategic objectives, the board structure[28], senior management structure[29], incentive structure[30] and overall corporate culture, legal entity and lines of business structure including group structure, ownership structure (IAIS, 2002). TOs should also disclose their *takaful* model in their annual report and on their website for better understanding of *takaful* products. IFSB (2009a) asserts that the model disclosure should include the following:

I. Whether contributions are made for the overall fund or for the risk fund, it is important to determine the basis of underwriting surpluses.
II. The source and level of remuneration for the TOs should be shown separately for Family and General *takaful* businesses, including charges performance and fee or sharing arrangements for investment profits and/or underwriting surpluses.
III. Expenses and fees charged to the *takaful* funds.
IV. Distribution of underwriting surpluses and/or investment profits, including the eligibility of *takaful* participants who are entitled to a distribution of profit, the ratio of profit sharing.
V. For Family *takaful*, information about policies and procedures based on the product design/type concerning the separation between PIFs and PRFs, as well as between profit and/or underwriting surplus allocation bases.
VI. Obligations of the TOs and *takaful* participants.

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[28] Size of the board, the board committees and membership.
[29] This would includes responsibilities and reporting lines.
[30] How compensation for executive and staff is set and the amounts of that compensation.

VII. An assurance that all the information given to the potential participant is accurate, fair and not misleading.

Accordingly insurance companies should design and disclose a framework to meet the regulator and/or international specified standards (IAIS, 2002). On the other hand, in order for participants to avoid being misled during the sale process, participants will need to rely on present and past financial performance, be made aware of the current position of the insurance company, have prediction figures about the future financial position of the company and whether it will be able to fulfil its obligations towards participants.

4.4.3 Disclosure of Insurer's Current and Past Financial Position and Performance

Disclosure of an insurer's financial position and performance is considered an important factor in enhancing and developing the insurance business, because these aspects will affect the company's ability to fulfil its promises and its strength to meet its obligations to its participants.

Past financial performance should include information on the sources, amounts of income, and expenditure of the cash flows such as: statements of profit and loss, statement of changes in equity showing gains and losses and financial relationship between shareholders and policyholders, investments return, management discussion and analysis of financial performance, claims history patterns incurred and paid, technical underwriting account, underwriting strategy, gross and net of reinsurance, impact of acquisitions (IAIS, 2002). Past information should be supplemented by present information and prospective risk exposures, risk management strategies and practices, investment strategies, and basic business management and corporate governance information (IAIS, 2002). Accordingly, insurance companies should provide a description on the investment portfolio and the contents of the assets instruments with the weight of written assets and the expected asset return. Description about the investments performance management which should explain the frequency and types of measurement used and methods adopted to monitor performance, with a description on prices fluctuation of equities securities and their income, realized gains/losses, unrealized gains/losses (IAIS, 2005). TOs past and present financial performance will allow policyholders to assess and predict future performance, including any future expenses and profitability and their variability over time.

4.5 INVESTMENT RETURN, SOUND MARKET CONDUCT AND DISCLOSURE

Not Adhering to the proper investment return practises can have a negative impacts on the soundness of the *takaful* market conduct and disclosure, which can affects participants long term financial benefits; some of these of factors are:

4.5.1 *Takaful* Operators Investment objectives

Investment strategy, objectives and the rationale behind conducting investments business is an important factor to attract customers. Some of the objectives might be to create a balance between underwriting and investments activities of the participants. In order to cover deficits of underwriting activities a back-up should be available either from the reserves built through underwriting surpluses or through participants' investments return or by relying on shareholders interest-free loans *(qard hasan*). Accordingly, IFSB (2009a) asserts that TOs should disclose their investment objectives and assets allocation rationale with the content of the assets instruments and their weight in the investments portfolio, and whether they are suitable to match short-term or long-term liabilities. TOs should explain the difference between PIF and PRF accounts and the expected investment return on each account, with a brief on the type of assets instruments used on each account and the expected time horizon to gain profit on their investment fund.

4.5.2 Framework of *Takaful* Model and Participants' Investment Return

Investment contracts will differ depending on the type of *takaful* model that TOs use. If *wakalah* is used then different investment procedures will be used which require two contracts for investment and underwriting, an upfront investment fee, incentive remuneration, a description of the outsourcing[31] investments policy and how it maintains control, ownership and oversight (if the investment is running by an outside investment company). If the used model is *mudarabah*, then only one contract for investment and underwriting is required, which includes the percentage of investment return between the TO and participants. Accordingly, TOs should disclose a framework that includes the used *takaful* model, either *wakalah* or *mudarabah* with the investment management function, the investment profit-sharing distribution, product

[31] Including outsourcing to related entities within the insurance group or financial conglomerate.

benefits[32], termination charges in the case of early termination of a *takaful* contract with the exit options and the consequences of losing benefit payments from both the Participant Risk Fund (PRF) and/or Participant Investment Fund (PIF). The framework should also disclose the frequency of investment profit and/or underwriting surplus declaration and their estimated returns and the complaints-handling and other contractual arrangements (IFSB, 2009a).

The disclosed framework should also fit with the main organization structure, the corporate governance mechanism used by the Board of Directors (BoDs) to control the company, overall risk management, and with the control and update mechanisms[33]. The framework should also include any changes to key personnel and other management infrastructure that can directly or indirectly play a vital role on the company's investments strategy (IFSB, 2009a).

The disclosure framework would also address the issue that will affect participants' investments return, such as disclosure about the management who handle the investment procedures of the *takaful* fund and their incentive fees and remuneration. These are required according to AAOIFI standard on Investments Disclosure No. 13 which also states that disclosure should be toward the party that manage the investment policyholders' funds and shareholders' funds and the remuneration it receives[34].

AAOIFI asserts that TOs should disclose the basis applied for determining incentive remuneration. AAOIFI Standard No 13 indicates that the basis applied by the company in determining the remuneration of the party that manage the company's investments on the basis of *mudarabah* or a specified agency fee should be disclosed. TOs are also required to disclose the used methodology and approach to distribute investment returns among participants, since it will also affect the *takaful* fund's overall investment return. Therefore, as per AAOIFI No 13, there should be disclosure of the basis applied by the company in allocating the profit generated from investing policyholders' funds and shareholders' funds.

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[32] (*Ex*, aims of product, cover, conditions).

[33] It is a mechanism that works in accordance to the changes on the local market behaviour and to the political forces.

[34] Percentage of investments profit in the case of *mudarabah* or a specified agency fee

Takaful-charged expenses can also affect participants' financial benefits in the *takaful* fund; hence TOs need to disclose sufficient information on different type of expenses. According to AAOIFI No.13 disclosure is to be in line with the bases applied by the company in calculating expenses affecting policyholders' funds such as pre-operating expenditures, reserves, cost of assets used in operations, claims and compensations.

4.5.3 Disclosure of Asset-Liability Matching

The manner in which asset-liability matching is managed is of paramount importance to insurers. An unmatched position may increase the risk of loss but can enhance profitability (IAIS, 2005).

One of the main problems encountered in the GCC region is lack of *sukuk* in the primary and secondary markets which raises a problem to match long-term liabilities (Tolefat, 2008). As a result TOs should explain their investments strategy in accordance with the local jurisdiction regulations on the basis that lead them to cover long-term liabilities, as well as their view on investing on volatile or illiquid assets classes such as equities and real estate. Other solutions to overcome the assets-liability matching problem have been suggested by IAIS (2005) which identifies two approaches to monitor the adequacy of matching assets-liabilities:

I. Insurers have to be constantly providing assurances that their assets are in excess of their liabilities (solvency dimension).
II. The ability of an insurer to have enough funds available to meet payments of policy benefits and other obligations as they fall due (liquidity dimension).

Accordingly, TOs should disclose the risk framework or model that leads them to adhere to the two dimensions above for proper achievement of assets-liability matching procedures and management. The framework should give an explanation on types of assets instruments that are being used as well as contingent, or intangible assets. Such information will provide a good picture about the assets and whether or not they have strong capital to absorb losses when needed, which depends strongly on their liquidity situation.

The framework should disclose the suitability of the assets to generate profit in the short-term or on the long-term time horizon (IAIS, 2002; IFSB, 2009a). The framework should also explain how the TO is able to release its investments quickly if necessary without substantial loss in value. They should also identify the sensitivities of these investments to fluctuations in key types of market variables such as exchange rate, and equity price indices and credit risks. TOs should also disclose the reasons of heavily investing in equities which are considered very volatile assets, especially in the GCC market with the high fluctuations equities market. Failure in these markets can drastically reduce the insurer capital, and consequently affect participants' rights in providing investments return, underwriting surplus, or protection by giving the right-deserved indemnity. Therefore, insurance companies should disclose qualitative information of assets-liabilities models, types of parameters used and how they are calibrated, the performance of the model over time, and model testing and validation methodologies (IAIS, 2005).

Furthermore, *takaful* operations require a separation between participants' funds and shareholders' funds. As TOs might have different operational structures to serve participants such as general[35] *wakalah* model and family[36] *wakalah* model, they may be required by statutory laws to design a separate investment portfolio to suit the requirement needs to match assets-liabilities and for better risk controlling of that specific portfolio. Therefore, it is impractical to disclose a generalized balance sheet or assets-liabilities matching framework for different models and structures. Separate disclosure will give participants a more precise view on how each model and structure is intended to be, and is being managed, and to reflect a wide picture on the capital backup structure used on the participants model and a clear guidance on the concentration percentage of assets, as well as amount of loan facility available from shareholders to support deficit of participants (IFSB, 2009a).

[35] Engineering, Coverage, Motor, etc.
[36] Life insurance, educational, Investments purposes, etc.

4.5.4 Asset class segregation, description and profiling

As mentioned previously, *takaful* investments assets portfolio consists of different types of instruments with a variety of characteristics that some classes of assets might differ in their volatility. Equities, for instance, are considered more volatile than investments accounts, while real estate is very difficult to be liquidated when needed. While some assets may be suitable to match short-term liabilities, others may be preferred to match long-term liabilities. Accordingly, assets have to be valued in different manners according to their expected returns, sensitivity to market variables, level of liquidity or constraints on disposal. TOs should also describe the nature and types of intangible assets, or any sort of assets that have uncertain realizable value, embedded risks, double-counting value, physical assets or other assets that can lose their value in the event of run-off or winding-up. TOs should also disclose, describe and list any investments not specified in any other asset class (IFSB, 2009a).

Furthermore, for meaningful analysis of risks and performance, instruments exhibiting similar risk and return behaviour need to be grouped. Grouping them can be achieved either by type of asset classes[37], or more developed jurisdictions can group them in accordance to the risk exposure. The fact of the matter is that disclosure, at an excessive level of segregation, may overwhelm market participants and incur unnecessary costs for insurers. On the other hand, over-aggregation may conceal important information (IAIS, 2005). Therefore, segregation and classifications of assets according to their nature and risk sensitivity will add an advantage for TOs for achieving better investments strategies, and for participants to get a wider picture on the company investments activities IFSB (2009a). IAIS (2005) also stresses the importance of disclosing the methods and assumptions used in measuring asset values, significant terms and conditions that may affect the amount, timing and certainty of future cash flows (IAIS, 2005). TOs should also disclose information in regards to the amount of assets invested in the PIF or PRF, the lent assets, as well as the amount of assets that are dependent on the related parties such as the parent company, subsidiaries or associates. The disclosed assets information should be in line with the local supervisory authority requirements (IFSB, 2009a).

[37] It is preferable since it will not encounter high costs and it will not need highly skilled personnel to effect the segregations.

4.5.5 Disclosure of Investments Return and it's Impact on Participants' Claim Situations

Comprehensive disclosure should be conducted towards claim coverage strategies, *i.e.* how the TO is going to cover PRF claims – is it from the investments return fund of the PIF, or does the TO strategies imply that investment return of a certain PIF should cover a deficit of other business lines of the same *takaful* company for later compensations. Such information, which should be clearly disclosed to the public, will have a great effect on participants' expectations to receive investments return and profit in due time or not, and hence a proper decision can be made by participants to either do business with these *takaful* companies or not.

TO obligations to pay participants indemnity for their claims can also be affected by TOs behaviour in conducting investment. Some TOs might have a high-risk appetite by investing in high volatile assets such as equity which may lose value when the market faces severe economic changes. When these negative scenarios are encountered then participants' rights to receive claims will be affected since TOs will have no back-up to offset any shortage on underwriting activities. TO indemnity obligations can also be affected by operator investments fees, or by the remuneration that the operator requires for the effort spent to generate profit. As these require charging fees increase participants' investment return decreases. Accordingly, TO promises to cover participants' claims will decrease and result in underwriting deficit. The lower return on profit may not be able to cover the encountered deficit.

When participants' claim issues are affected, then underwriting activities will be affected as well. This can cause a delay in providing indemnity to participants. As the TO fails to generate investments return for participants as a result of economic changes which may cause assets to lose value, it is possible for the TO to encounter a huge amount of unpaid claims that will lead it to ask shareholders for *qard hasan*. However, paying back the *qard hasan* will require the TO to increase participants' *taburru* or premium rate, or delay or stop their future investments return to an unknown time in the future until they pay back the *qard* or build up participants' reserves. In either case this will affect participant's rights to receive investments return or getting the required indemnity at the required time.

TOs should adhere to *Shari'ah* in order to satisfy participant's desire to invest their funds. Accordingly, the *Shari'ah* board plays a vital role in setting standards for the types of assets in which TOs can invest, and standards for choice of assets within an asset class. Therefore, TOs will need additional governance structures and processes that facilitate (i) the consistent screening of the investment portfolios in order to ensure they remain *Shari'ah*-compliant, (ii) the purification of any return on the investment from non-*Shari'ah*-compliant income (Hussain, 2009). Disclosure should reflect the *Shari'ah* mechanisms in valuing assets. However, quick *Shari'ah* board judgments on certain assets to be compliant with Islamic law is very important as any delays encountered in making the judgment can cause a loss by not investing the assets in the right timeframe. Accordingly, participants can be affected by losing such a chance to gain a descent investment return on that asset (IFSB, 2009b).

Disclosure should also be made to guarantee participants' rights on receiving investments return and clearly identify a fast and sound *Shari'ah* board response channel that can quickly and effectively approve availability of assets for investment. Also a safeguard mechanism should be disclosed to ensure proper allocation of participants' investments return are reached with no priorities being made to favour shareholders over participants as per AAOIFI No. 13, which requires disclosure of any priority given to policyholders or shareholders in making allocation of income-producing investments and the basis for the priority, in cases where such funds could not be fully utilized for income-producing investments. Therefore, as an important step to ensure *Shari`ah* adherence to the public, the *Shari`ah* board should present a *Shari`ah* annual report which should include the following: (IFSB, 2009b)

I. A fact-finding report.
II. Ex-ante report in relation to product design and development.
III. Ex-post internal *Shari`ah* audit/review report on the products offered to customers.
IV. An annual *Shari`ah* compliance report.

4.6 SURPLUS DISTRIBUTION, SOUND MARKET CONDUCT AND DISCLOSURE

AAOIFI *Shar`iah* Standards (2010) defined surplus as excess of the total premium contributions paid by policyholders during the financial period over the total indemnities paid in respect of claims incurred during the period, net of reinsurance and after deducting expenses and changes in technical provisions. Accordingly, participants should receive relevant, sufficient and reliable information in connection with their participation rights on a timely and regular basis (IAIS and OECD, 2009). AAOIFI also, in its Islamic Insurance Accounting Standards No. 13, identifies disclosure in determining and allocating surplus or deficit in Islamic insurance companies. Rule No. 13 treats underwriting surplus as the excess of the total contributions paid by policyholders during the financial period over the total indemnities paid in respect of claims incurred during the period, net of re-insurance and after deducting expenses and changes in technical provisions (*i.e.* Contributions - Indemnities = Surplus) (Ali *et al*, 2008: 110).

As a *takaful* contract is a combination of *tabarru*' and agency or profit-sharing, the *takaful* fund is considered a *musharaka* (partnership) among participants. The relationship between the TO and participants' funds is based on either *wakala* contract to manage the underwriting activities, and/or a *mudarabah* to manage the underwriting or investment activities[38]. Accordingly, the main difference between *takaful* operations and conventional insurance is the concept of underwriting surplus – conventional insurance underwriting surplus means profit for the insurance company, while underwriting surplus is not regarded as profit for *takaful* operators (Hassan, 2008). Therefore TOs are not entitled to share the surplus of the fund with participants. However, they can, for the sake of the best benefits and with full consent of the participants, use the surplus as reserves, reduction of the contribution, charitable donations and partial/full distribution of the surplus among the participants[39]. AAOIFI *Shari'ah* standard No. 26 (5/5) of 2007, has stated that surplus can only be distributed back to the participants and cannot be taken by the TO; the distribution of surplus will be based on a percentage share of participant's donations.

[38] Refer to Chapter 2 for further discussion.
[39] Refer to chapter 2 for further discussion.

Despite the fact that TOs are not allowed to share the surplus with participants, until recently, the *mudarabah* model adopted by Malaysian TOs refers to profit as the underwriting surplus plus investment returns. This arrangement marks a departure from the original *mudarabah* model, which will entitle the TO a ratio in the investment returns, without sharing in the underwriting surplus (Soualhi, 2008: 2). Later on, the modified *mudarabah* model justified the sharing of the underwriting surplus on the grounds that such an arrangement would allow TOs to withstand competition and avoid overpricing (Soualhi, 2008: 2).

Another AAOIFI[40] standard on *takaful* (5/5) comes as a counter-argument to the Malaysian approach, which stated:

> "It is permissible for the policy to contain a provision to deal with the underwriting surplus according to *maslahah*, as stated in the terms of the policy, such as the establishment of reserves, the reduction of prices, donating to charities, or distributing it or a part thereof to the participants, provided the *Takaful* operator does not share in it".

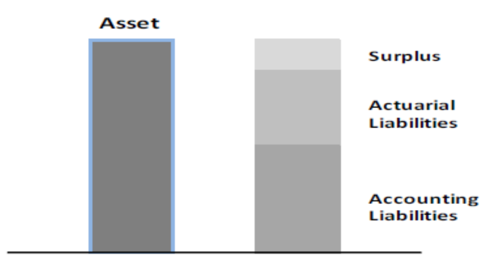
The previous contradictions indicated the need for a united organized body to enforce *takaful* rules and obligations for ultimate protection of stakeholders and for stabilizing *takaful* markets worldwide. On the other hand, the AAOIFI standards rule above indicated that part or the total surplus can be used to support social activities such as building mosques or can go to poor people, or other forms of noble causes. Thus, it is normal to find that a lot of *takaful* participants do not reclaim their portions of the surplus from the *takaful* operators for the sake of supporting noble activities. However, other participants who do not reclaim their surplus may be due to the reason that they are unaware of their rights to receive such surplus or that the surplus might be considered too little for them to claim. Eventually a substantial amount of participants' surplus will accumulate with no one to claim it. Therefore, the *Shari'ah* board resolves the issue by requesting TOs to have in place a special account to cater for the undistributed surplus, by

[40] AAOIFI (Manama: AAOIFI, 4-5), p.437.

distributing this fund through noble channels such as the case in Jordan[41] (Sabbagh, 2009). Accordingly, it is required of the TOs, as a sign of good market conduct, to disclose and announce if there is an account launched for undistributed underwriting surpluses as per AAOIFI No. 13.

Another market conduct matter that touches surplus distribution, is the process of adding the investment profits to the whole *takaful* fund, which will make the surplus distribution process confusing, because of the difficulty to differentiate between gross surplus and net surplus. Another difficulty that may be faced by the TO on the surplus distribution process is the unknown amount of gross surplus at the beginning of the *takaful* contract, in that underwriting surplus can only be known at a given point in time. Thus great emphasis will be put on the reliability of the actuarial calculation to calculate liabilities based on the uncertainty embedded on the future expected value of underwriting liabilities, which will be much higher in value than the accounting liability approach; in other words the actuarial liabilities will impact liabilities more than the accounting ones (Hassan, 2008). This is shown in Figure 4.1.

Fig. 4.1: Surplus in the *Takaful* Operation



Surplus = Assets - Actuarial Liabilities - Accounting Liabilities

Source: Hassan (2008: 51)

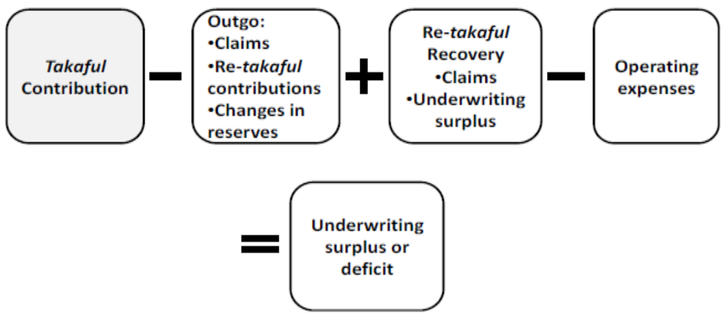
Accordingly, academicians and practitioners suggested that principles of soundness, equity and flexibility must be applied in the distribution of *takaful* surplus, which should be based on solid mathematical and actuarial statistical techniques[42] (Hassan, 2008). However, in order to properly

[41] *Sharikat al-Ta'amin al-Islamiyah* in Jordan spends around 20,000 Dinar through charity channels each year from the undistributed surplus account.
[42] Such techniques will not be discussed on this research as it will be out of the aim of the research.

come up with the right principle, an adequate definition of surplus should be available; such a definition might vary according to the applied model in a certain jurisdiction.

The AAOIFI (2010) *Shari'ah* Standards has defined surplus as an amount which comprises residual premiums of the participants in addition to the reserves and profits, after deducting all expenses and indemnity amounts[43]; hence the total surplus amount in the risk pool can be an excess of the contribution over claims, *re-takaful*, expenses and reserves, as shown in Figure 4.2.

Fig. 4.2: Formation of Underwriting Surplus in the *Takaful* Operation



Source: Tobias (2009)

AAOIFI also in its *Shari'ah* Standards (2010) has indicated the following three approaches to allocate underwriting surplus justly among participants, which is in line with suggestions of authors such as Tobias (2009), Haytham (2009), Younes (2008) and Al-Qurradaghi (2006):

I. Pro-rata mode: Underwriting surplus must be allocated to all *takaful* participants in proportion to the contribution paid by the participants, without differentiating between claimable and non-claimable accounts, since they all contributed to the fund with a noble goal of brotherhood protection with no intention to achieve a surplus. Thus, the surplus must be equally distributed among them (Haytham, 2009).

II. Selective mode: Underwriting surplus must only be allocated to those participants who have not made any claims for a given financial year. This mode tends to indemnify non-claimable accounts only and deprive claimable accounts so that they become more prudent in the

[43] paid or payable during the same year

future. This is meant to apply justice among *takaful par*ticipants as it is unfair to give claimable accounts part of the surplus since they have already received *takaful ben*efits (Haytham, 2009).

III. Ofsetting mode: Underwriting surplus must only be allocated to those participants where the amount of claims is less than the contribution paid. That is. where the claims ratio is below 100%, then the surplus would be distributed after deducting the amounts of claims received in the given valuation period (Tobias, 2009).

The above three approaches to allocate underwriting surplus should be clearly disclosed to participants as per AAOIFI No13, which requires disclosure of the method and the *Shari`ah* basis applied in allocating the underwriting surplus.

4.6.1 Factors affecting Underwriting Surplus

Earning underwriting surplus is considered as a common requirement for both policyholders and TOs so that the distribution of surplus will be an incentive for participants to enhance their loyalty towards the company. In practise paying back part of the surplus makes the *takaful* participants responsible and aware not to make false or fraudulent claims that would lower the surplus rate. On the other hand, surplus means a great reward incentive for TOs as many TOs are very keen to share the underwriting surplus with participants. TOs can argue that the recorded surplus at the end of the financial year is the sign of efficient management and prudent practices[44]. Accordingly, this section will identify some of the factors that can affect the amount of underwriting surplus in the *takaful* fund, which will causes a negative financial impacts on the *takaful* participants, accordingly affecting the overall market conduct and discipline.

I. Amount of Participants' Contributions

Figure 4.2, illustrates that the value of underwriting surplus can be positively or negatively affected by the participants contributions and/or by deductable items (claims, expenses, *re-takaful* arrangement fees, reserves management) from the *takaful* fund. Accordingly participants' contributions represent an important factor in the analysis of the underwriting surplus. The AAOIFI *Shari'ah* Standards (2010) define *takaful* contribution as the amount of the contribution

[44] Refer to chapter 3 for further discussion.

which the participant donates, along with its related profits, for the benefit of the insurance scheme; this is the main source for the *takaful* operator to cover the future damages or losses of *takaful* participants. An adequate amount of contribution can bring a balance to the *takaful* scheme so that the *takaful* business can attract participants if the amount of the contribution is fairly calculated. Conversely if the contribution amount is too high then it will not attract participants. A general concept is that more participants mean more contribution to the *takaful* fund, which implies more surpluses would remain in the *takaful* fund. Thus, establishing a proper *takaful* contribution is a complex job which involves the incorporation of mathematical analysis into competitive business decision processes, which depends on different factors such as *takaful* products, risk degree, statistical information, operational cost and competition in the market (Arther *et al* 1998). As a result of participants making contributions with the intention of helping each other, then they will be eligible to be indemnified from their own contributed fund to cover their claims. As claims are paid out from the *takaful* fund the amount of the underwriting surplus for that financial year is going to be reduced accordingly as the reported claims increase. The reduced underwriting surplus will negatively affect other participants in the same *takaful* fund. Therefore, it is vital for TOs to have proper mechanisms to fairly identify fraudulent claims.

II. Investment Return

Surplus can be positively correlated with investments return if the *takaful* model allows investments to be added to the *takaful* fund; the more investment returns on the participants' fund, the more net underwriting surplus will be encountered in the *takaful* fund, since participants are entitled to get investments return profit as per AAOIFI (2010) *Sharia'h* Standards, which state that the insurance account is entitled to the insurance assets and their returns on investment. However, because of the different structures of *takaful* models and because of company-specific strategy, TOs might decide not to add the investment return on the *takaful* fund due to the reason of covering deficits on other accounts, that the TO might use the investments return of PIF to cover the deficit of PRF or vice-versa.

TOs might add the investment return to the participants' funds; however, they might ask for extra contribution from participants to cover an underwriting deficit that still exists even with the addition of the investments return. Therefore, it is normal to witness participants' accounts generating investments profit. However, if TOs ask participants for extra contributions to cover underwriting activities deficit, it is important for TOs to disclose such information and scenarios in order that the participants be made aware of different expected circumstances (Hussain, 2009).

III. Fees and Expenses

Participants' contributions can also be used to cover different types of expenses, either direct or indirect according to the used *takaful* model as *Shari`ah* Standards of AAOIFI (2010) states that the insurance account shall bear all the expenses and fees that relate to insurance activities. The upfront *wakalah* fee, for instance, is used to cover the encountered expenses, while in the *mudarabah* model the expenses will be covered from the *takaful* fund which will directly affect the amount of underwriting surplus. Thus as more of the *takaful* fund is used to cover expenses so the lower the underwriting surplus will be. Management remuneration and incentives is considered as another form of expenses which will eventually affect the underwriting surplus. Hence TOs need to disclose the incentive percentage they charge as per AAOIFI No. 13 which requires the disclosure by the party that manages the insurance operations of the remuneration it receives, whether in the form of a specified agency fee, a share of underwriting surplus on the basis of *mudarabah,* or other bases.

TO administration and management fees can also affect the participants' fund underwriting surplus – a higher underwriting surplus indicates more benefits to the TOs. For example, Archer *et al* (2009) mentioned that TOs calculate their upfront fees from the year's contribution. Also TOs charge an annual management fee of 1.5 % of the total available fund as well as charging a contract administration fee of 0.25 % of the fund value. Therefore, TOs should disclose enough information in regards to expenses and management fees that will be deducted from participants' funds as per AAOIFI No 13 regarding disclosure of the basis applied by the company in calculating expenses affecting policyholders' funds such as pre-operating expenditures, reserves, costs of assets used in operations, claims and compensations, *etc*.

IV. Amount of Participants' Fund Reserves

TOs are required as part of the regulation and operational requirements to hold a sufficient amount of assets (known as reserves, special reserve, or claims contingency reserve (CCR) or equalization reserve depending on the *takaful* market) to back up the company in case of financial stress. The goal of the actuarial reserve in the *takaful* business is to match the receipt of each contribution in the accounts to the equivalent risks taken (Ali *et al*, 2008). The level and type of reserves depend on the financial position of the *takaful* operator as well as the *takaful* operational model being used. In case of a financial loss which will lead to a deficit, the TO will be required as a manager to back up the deficit. In some jurisdictions such as in Malaysia TOs are obligated to give an undertaking to the regulator to provide a *qard hasan* facility to be drawn down in the event of a deficit of a *takaful* fund (Hussain, 2009).

Accordingly, TOs will make sure to cover the deficit by deducting the reserve amount from the *takaful* fund namely, the claims contingency reserve (CCR) which will lower the underwriting surplus. However, in case the reserve is not enough to cover the deficit then the TOs will ask shareholders to provide *qard hasan*[45] facility to cover the deficit (Tobias, 2009). In order to make up the reserve, participants may be asked to pay regularly more than what is needed for the anticipated compensations in a given period, with the extra amount being built up as reserve back-up capital for extraordinary damages (Archer *et al*, 2009); or the reserve can be built up by deducting from the past underwriting surplus (AAOIFI, 2010).

To pay back the *qard hasan* to shareholders, TOs will either use the available amount of reserve to repay back the *qard hasan*, or they can make a repayment from future participants' contributions which will lower the underwriting surplus (Archer *et al*, 2009), or through future underwriting surpluses, including those from new business developed over time by the *takaful* operator (Hussain, 2009).

On the other hand, as the *takaful* fund is under the direct management of the TO then under normal circumstances the *qard hasan* facility should fall under the concept of related party. Accordingly, under company law transactions it must be publicly disclosed and must be without

[45] Depending on the country's jurisdictions.

unduly favourable terms. However, should the existence of the *qard hasan* facility be disclosed or should it be disclosed only if it is actually drawn down? The latter type of disclosure might be problematic because it might create panic amongst the public and have a negative effect. However, it seems desirable to disclose the existence and amount of the *qard hasan* facility, as well as disclosure if it has been drawn down (Hussain, 2009). Participants should also be assured that certain safeguards are there to ensure that *qard hasan* is not employed to favour certain pools among many pools of the *takaful* funds. Thus, it is vital for TOs to disclose the consequence and conditions that guarantee the *qard hasan* facility to serve the shortfalls of participants' funds (Hussain, 2009). It is also a matter of ethics that the TO should be responsible for the encountered deficits if they were a result of his misconduct or negligence (IFSB, 2009a).

V. Shareholders' Power and Activities

Shareholders can exert their power to use participants' fund underwriting surplus to enhance their financial position, as shareholders have the right to appoint the company BoD's. Accordingly, there are acceptable practices in the *takaful* contract, which allow shareholders' intrusion in participants' fund *e.g.* (i) Shareholders are allowed to invest the underwriting surplus with an express provision for an agreed consideration (profit-sharing or fee), with a complete consent for policyholders to either agree or reject the contract, (ii) Shareholders have exclusive right to invest and share the return from investments, (iii) Shareholders have the right to share in the underwriting surplus with policyholders (Ali *et al,* 2008).

From the previous contractual options it seems that shareholders will have the ultimate power to decide surplus distribution channels that suit their needs. However, the three practises relationship between participants and shareholders should be clearly disclosed to the public as per AAOIFI No. 13 which states that disclosure of the bases governing the contractual relationship between policyholders and shareholders that touch on:

I. Management of insurance operations.
II. Investments of policyholders' funds.
III. Investments of shareholders' funds and the body that approve these bases.

4.7 SUMMARY AND CONCLUSION

Market conduct and disclosure is a vital topic that deals with regulations and polices defined by the local supervisory authorities for the purpose of protecting stakeholders. Hence, local authority should have all the knowledge and expertise needed to regulate and control the local insurance market. The current chapter has provided an answer to research question 3, which reflects the best available market conduct and disclosure policies in accordance with the international insurance standards. Accordingly, the IAIS (2011) has issued the core principles ICP 18 to enhance the intermediaries' role in conveying the required knowledge to the policyholders and the importance of defining a certain measurement by the local authority to measure the intermediaries output.

Policyholders' claims and indemnities are other important issues that insurance and *takaful* companies should consider in order to achieve policyholders' ultimate goal of buying an insurance policy. Insurance and *takaful* companies should assign an adjuster who can fairly make the right judgment to indemnify policyholders' claims; the company should also make a proper disclosure for claims and indemnities decisions along with documentations of the reasons for any unusual decisions included. Public disclosure is one of the items that the IAIS, (2011) has addressed by issuing core principle ICP 20, which requires insurance companies to disclose relevant information on a timely basis in order to give market participants a clear view of the business activities and financial positions of the insurers. Investments disclosure, on the other hand, is an important issue for policyholders, especially if they possess an investment *takaful* policy. Accordingly, the IFSB (2009), has stressed that TOs should clearly and simply disclose their business model, type of investments contracts they use to run their business is it *wakalah* or *mudarabah*, assets allocation and classifications, investments managers, TOs historical figures of investment return, assets-liabilities matching plan, impacts of the intangible assets on the whole investments performance, *etc.*

Furthermore, IAIS (2005) has identified two approaches to monitor the adequacy of assets-liabilities matching plan, that insurance companies should make sure at all the times that their assets is in excess of their liabilities and insurance should have at all times enough funds available to meet payments of policy benefits and other obligations. TOs should also disclose the type of underwriting surplus they are offering to their participants *i.e.* is it gross underwriting surplus or net underwriting surplus. This chapter also reflected the factors that affected underwriting surplus such as amount of participants' contributions, investment return, shareholders' power and activities, fees and expenses, amount of reserves, *etc*. Hence, it is importance to notify participants of the used approach to allocate underwriting surplus among policyholders *i.e.* Pro-rata mode, Selective mode, or Offsetting mode.

In conclusion, participants should therefore receive periodical disclosures on: (i) Overall investment strategy and objectives, (ii) business lines performance management, (iii) the management of liquidity, and asset-liability matching, explaining the appropriateness of investments in matching liabilities; (iv) the actual and historical distribution of underwriting outcomes (surpluses or deficits) and/or investment profits; (v) reserving policy; (vi) *Shari`ah* compliance; (vii) actual and historical fees and participation ratios; and (viii) investment activities for both the PIFs and PRFs.

CHAPTER FIVE
MEASURING CUSTOMER SATISFACTIONS IN THE TAKAFUL INDUSTRY: A CUSTOMIZED APPROACH

5.1 INTRODUCTION

The previous chapters indicated the importance for the *Takaful* Operators (TOs) to implement a well structured framework based on the international corporate governance and market conduct and disclosure polices and standards as per the international insurance and *takaful* bodies. By doing so, insurance market stability will be achieved which will eventually bring the required protections to *takaful* participants. In line with the previous chapters, the current chapter will highlight the importance of implementing a proper customized service quality system which relies on participants' behavioural aspects such as, participants' needs, preferences, knowledge, perceptions, expectations, and satisfactions level. These factors will support a better quality of service in the insurance and *takaful* industry, which will eventually lead to participants' protection.

This chapter is organized as follows: section 5.2 conceptualises satisfaction. Section 5.3 elaborates on customer needs and perceptions towards satisfaction. Section 5.4 presents customer knowledge and motivation in the Islamic Financial Institutions. Section 5.5 links between service quality and satisfaction. Section 5.6 presents services evaluation techniques in the insurance industry. Section 5.7 concludes the chapter.

5.2 SATISFACTION CONCEPTUALIZED

Although the subject of satisfaction has received considerable attention in various disciplines, there is no consensus on the definition of the concept, which is admittedly difficult to define (Oliver, 1997). If the customers perceive the performance of products (goods or services) being below their expectations then dissatisfaction results. Alternatively, a consumer is happy or satisfied if the benefits received or performance after purchase either matches or exceeds expectations (Jobber, 1998; Adcock *et al.,* 2001; Kotler *et al*, 2001). In other words satisfaction will depend on the evaluation or judgment of customer-perceived performance against their expectations. However, Gorst (2000) asserts that in today's competitive business world, it is no longer enough to merely satisfy customers, because a 'satisfied' customer remains a customer so long as there is no better offer; whereas a 'delighted' customer is more than likely to remain loyal. Donovan *et al* (1994), McNealy (1994), Jobber (1998), Kotler *et al* (2001) also support this view, that companies should not only satisfy their customers but rather delight them. In simplest terms, a satisfaction is the customer's evaluation of a product or service in terms of whether that product or service has met their needs, wants and expectations (Zeithaml *et al*, 2000). Hence dissatisfaction will be a consequence of failure to meet the customer's needs and expectations. In the case of financial services, where the products are intangible and are sampled only rarely, the services accompanying the product will often form the main determinant of overall customer satisfaction (Krishnan *et al.*, 1999).

Geyskens *et al*. (1999) distinguish between two kinds of satisfaction which are required to provide insight into the role of satisfaction in the development and maintenance of a long-term relationship: (i) economic satisfaction, which is described as a member's evaluation of the economic outcomes that flow from the relationship with its partner such as sales volume, margins, and discounts and (ii) social satisfaction, which is described as a member's evaluation of the psychological aspects of its relationship, in interaction with the exchange partner are fulfilling, gratifying, and facile.

In fact the importance of customer satisfaction and how it can negatively impact financial institutions' sales opportunities has led scholars and organizations to do more research to enhance customer satisfaction levels. The University of Michigan's ongoing American Customer Satisfaction Index shows that between 1994 and 2002, the average customer satisfaction had gone down by 2.5% for life insurance and 6.1% for personnel property insurance. The same rating index has shown that American Customer Satisfaction for year 2010 has dropped by 2.7 % for health insurance; however, life insurance made a small improvement in customer satisfaction, while property & casualty insurance was unchanged.[46]

[46] The American Customer Satisfaction Index (www.theacsi.org).

5.3 CUSTOMER NEEDS AND PERCEPTIONS TOWARDS SATISFACTION

This section reflects different authors' opinions about the definitions of the terms 'needs' and 'perceptions', and the importance for service companies to take effective measures to satisfy customers' needs. This can be done by reviewing their perceptions about the products and services, which imply that the companies should transfer the right knowledge and education to their customers.

5.3.1 Customers' Needs and Satisfaction

Since this research effort revolves around the concept of satisfaction then it is vital to reflect on the idea of needs or preferences because customer satisfaction fulfils the concept need and preference. Kotler *et al* (2001) define human needs as states of felt deprivation, which include basic physical needs for food, clothing, warmth, and safety; social needs for belonging and affection; and individual needs for knowledge and self- expression. Chinyio (1999) also concurs that a 'need' is 'a deficiency of some kind', but goes further to argue that it ought to be desired on a regular basis in order to be regarded as being part and parcel of one's personality. Blythe (1997) argues that need goes beyond lack and describes need as a *perceived* lack, *i.e*. the individual must realize (preference) their need in order for it to be described as need. This recognition (perception) of lack (unfulfilled need) has been linked to a series of resultant activities in the mind of the consumer. Closely related to the term 'need, is the term 'want'. Want has been defined as the form assumed by human needs as they are shaped by culture and personality (Kolter and Armstrong, 2001). Kolter (1997) also defined want as desires for specific satisfying of needs.

Based on the two definitions put forward by Kolter (1997) and Kolter *et al* (2001), it seems that 'wants' are 'needs' modified by preference, whether it be motivated/influenced by culture and/or individual personality, which was illustrated by Samwinga (2009: 64):

> "An individual may need (*i.e.* requires or lacks) food but wants (*i.e.* prefers to satisfy his need with) a hamburger, French Fries, and a soft drink. In contrast, another person may need food but want mango, rice, lentil stew and vegetarian sausage".

The above illustration implies an element of preference and prevailing cultural practice in the definition of wants whereas needs seems to be linked to necessity. Such a conclusion was made by Chinyio (1999) who indicated that observed often suggest ‘necessities’, whereas wants are associated with individual preferences. In short, it is essential for businesses to have an understanding of what their customers’ needs, wants or preferences are and to tailor their services to meet and/or exceed them. In the context of this research policyholders’ preferences about the services from the TOs will be address based on the international insurance organization policies and standards that have been presented on the corporate governance and market conduct literature review.

5.3.2 Customer Perceptions and Satisfaction

It is essential to consider the idea of perception, when individuals make judgment about situations. Encyclopaedia Britannica (2002) defines perception as awareness of the elements of environment through physical sensation; physical sensation interpreted in the light of experience.

The above definition of perception suggests that the individual involved in perception is subjected to some stimuli (a sensation) and that the interpretation is then made in the context of experience (existing data, expectations, past experience) (Samwinga, 2009).

Other researchers suggest that perceptions are generated by stimuli gathered by the senses, *i.e.* the process of perception involves sensory stimulation (Chisnall, 1985; Gross, 1996; Foxall *et al.*, 1998) which is complemented by information gathering, modification and sorting resultings in our own construct of what the situation appears to be. Hence, perception is not necessarily an absolute tangible but rather inherently subjective (Chisnall, 1985; Auchterlounie *et al*, 2001). Ranaweera *et al* (2003: 377) defined customer satisfaction as an evaluation of an emotion, reflecting the degree to which the customer believes the service provider evokes positive feelings. Hence, satisfaction occurs when customers compare their perceptions of the performance of the products and services in relation to their desires and expectations (Spreng *et al*, 1996).

Furthermore, Krishnan *et a.l* (1999) have designed a questionnaire instrument to investigate customer satisfaction in a four distinct factors relating to customer experience (perceptions) of a firm offering financial services - in terms of personal contact, usage of telephone and IT systems, product performance, and periodic financial statements. Lassar *et al.* (2000) attempt a similar exercise, but provide separate measures of customer satisfaction of the firm's technical offerings (in terms of product and systems performance) and functional offerings (in terms of the interface with front-office staff). However, both approaches' results confirm that customer satisfaction with a company's services is determined to a large degree by the quality of service the customer receives (Parasuraman *et al.*, 1985; Cronin *et al*, 1992).

In short, for the customers to have the required perceptions to identify his/her needs, wants and preferences, then it is necessary for the customers to have the right and required knowledge and awareness about the products they are dealing with. Having the right knowledge will let customers express their motivations of possessing such services and products.

5.4 CUSTOMER PATRONAGE, KNOWLEDGE AND MOTIVATION IN THE ISLAMIC FINANCIAL INSTITUTIONS.

This section highlights different research efforts that address empirical analysis findings on customer knowledge about the Islamic financial institutions' products and services. It also reflects on how customers' lack of knowledge and awareness about the basics and technicality of the products and services they are dealing with can lead to an obvious deficiency in customer-motivated reasons to possess Islamic products and services. Research into customers' behaviour including perceptions, patronage and customer service satisfaction, in the context of the Islamic banking industry is still considered scarce (Gait *et al*, 2008). The limited number of studies in the field of the Islamic financial system can be partly explained by the fact that the industry is still considered to be at the maturing stage, since the first ever Islamic bank, *Mit Ghamr*, was established only in 1963 in Egypt. In addition, data availability either primary or secondary, posed a considerable obstacle to most of the interested researchers, especially in relation to the liability side of the Islamic banks' balance sheet, namely customer deposits (Tahir, 2007).

The same statements apply for the *takaful* industry where there are scarce or no empirical studies introduced to enhance and improve participants' patronage and satisfactions. This is due to the fact that *takaful* is still in the process of evolving as evidenced by the fact that the first *takaful* company was only established in 1979 in Sudan, and hence a number of raised issues still remain open to be resolved by the various *Shari'ah* scholars (Wahab *et al*, 2007). There are also a number of challenges that prevent researchers and practitioners carrying out research on participants' satisfactions in the *takaful* industry. The challenges include (i) collation, analyzing and dissemination of credible and relevant financial and technical statistics, (ii) standardization in accounting and operational approaches by markets, regions and jurisdictions, (iii) cooperation among *takaful* bodies and other international insurance bodies to standardize the *takaful* business (Bhatty, 2010).

Other challenges might be due to (i) awareness and knowledge of the *takaful* concepts among customers is very limited (so operators have to invest considerable time and effort to educate their customers about *takaful* features) and (ii) Islamic banks and *takaful* operators find it difficult to manage and meet the demands of *Shari'ah*-compliant investments which have limited investment options available (Malaikah, 2006).

Therefore, as there is not enough information to address the participants' satisfaction status in the *takaful* industry, then it will be beneficial to refer to some of the Islamic banking literature that address customer satisfaction conditions. This is because participants in both fields have one common goal which is to have financial transactions that comply with the *Shari'ah* laws. Accordingly, this section will briefly explore participants' knowledge, awareness and preferences and the reason that led them to become involved with Islamic financial institutions. Knowledge and awareness are considered as two of the main challenges that the *takaful* industry is facing. Howcroft *et al.* (2003) stressed the importance of the level of knowledge and understanding of the financial products the customer should have, as this will determine their level of confidence in using any of the products, especially the sophisticated ones. Dar (2004) also asserted that knowledge and understanding is the utmost prerequisite for customers to engage in Islamic finance.

The importance of customer education and knowledge was realized by the British Government, as one of the Financial Services Authority (FSA) reforms to address the communication weakness in the insurance industry after the failure of the Equitable insurance company, was to launch the Financial Capability Steering Group to examine consumer education. Accordingly, it recommended that other countries follow the FSA consumer education programme.

5.4.1 Customer Knowledge about Islamic Financial Institution Products

Most of the research that has been conducted around customer knowledge and awareness about the Islamic banking service and products comes from the Malaysian market. Most of the empirical studies indicate customer low knowledge and awareness about the principles of the Islamic financial institutions products. Haron *et al.* (1994) have conducted an earlier study on Malaysian commercial bank customers. The results showed that although respondents demonstrated a high level of awareness of the existence of Islamic banking, the level of knowledge is deemed low, even though Malaysia is considered as the Islamic finance hub of the world.

Hamid *et al* (2001) have also explored the awareness and knowledge of Malaysian customers towards Islamic banks; accordingly they indicated that most of the Malaysian customers did not know the difference between Islamic banks’ products and traditional banks’ products, though the majority had enough awareness about the existence of Islamic banks in Malaysia and their services. Even though half of the respondents dealt with Islamic banks, they still had a lack of understanding of the Islamic banking products.

Other authors such as Amin (2007) and Haque *et al.* (2009) have conducted research in Malaysia to reflect customer awareness and knowledge of Islamic finance products. They have found similar results in that participants have a low level understanding of the technical aspects of *Shari’ah* contracts. Okumus (2005) conducted similar studies on the Turkish Islamic banks and he found that the majority of the customers are only aware of the basic Islamic banking products. Most of the respondents showed a lack of knowledge about advanced products and services as well as a lack of knowledge about the full range of Islamic banking products available. The survey also indicated that the majority of customers selected the banks for religious reasons.

Similar studies were conducted in other Muslim countries such as Bahrain (Metawa *et al*, 1998), the United Arab Emirates (Bley *et al*, 2004), Jordan (Naser *et al.*, 1999) and Libya (Gait *et al*, 2009a; 2009b). The results showed similar findings that most of the customers of these countries have a high level of awareness and knowledge of at least the basic Islamic banking financing schemes such as savings accounts, current accounts, and ATM services (Metawa *et al*, 1998), with some respondents adding that they are aware of the Islamic banking products which have conventional compatible products such as letters of credit and travellers cheques (Naser *et al*., 1999). However, these studies demonstrate that most of the respondents are not aware of the terminology used to describe products and services offered by the Islamic banks such as *mudarabah, musharakah,* and *murabahah* (Bley *et al*, 2004; Gait *et al*, 2009b; Metawa *et al*, 1998; Naser *et al*., 1999; Zaabi, 2007).

As mentioned earlier, there is only a limited amount of research that has been conducted on the *takaful* participants to review their awareness and knowledge of the principles of the *takaful* products and services. One recent study has been conducted by Hamid *et al* (2009) who launched a research on a sample of 232 banking customers among Muslims in Malaysia to explore their knowledge about the concept of *takaful.* Surprisingly, the results show that 67.24 % of respondents do not understand the concept of *tabarru,* and the majority of the respondents are not aware of some of the practised *takaful* models such as *wakalah,* while 68% of the respondents do not understand the elements of *gharar* and *maysir.* The researchers found that the main reason that led respondents to differentiate *takaful* from conventional insurance, is the promotion of the Islamic finance products. It is important to mention that despite the fact that the research reflected people's knowledge about *takaful,* unfortunately, the research does not reflect the knowledge of the participants who possess *takaful* contracts, since survey was conducted on banking customers only.

In conclusion, the findings above concluded that respondents have a limited knowledge and understanding, but with acceptable awareness levels, of the advanced products and services. This implies that pertinent information about the technical aspects of the products was not explained to customers in the way they should have been (Abdullah *et al*, 2007; Khan *et al.* 2007). Finally, Abdi (2007) asserts that the future of the *takaful* industry is dependent on industry players who must take a more active role in educating their customers and regulators while enhancing discipline in their activities. Therefore, it is useful to view participants' knowledge about the principles of the used *takaful* model, which will give an indication whether the TOs have exerted the required efforts to educate their participants of the different aspects of *takaful* that affect their benefits in the participants' fund.

5.4.2 Customer Motivation and Preferences in Islamic Financial Institutions

Customer motivation and preferences in selecting an Islamic financial institution is considered an important predictive factor for managers to improve their services and products. As has been described previously, customer preference is an individual realization of a need, which is a perceived lack (Blythe, 1997). Thus, negative adherence to customer preferences and motivations might carry a negative connotation concerning the image of Islamic institutions. Therefore managers and company key personnel must take all necessary action to assure their service quality measurements are set accurately to address any future malfunctions on the company products and services. Erol *et al* (1989) were the first to study the factors that enhance Jordanian customer behaviour towards, and patronage of, Islamic and conventional banks. Their studies indicated that factors such as fast and efficient service, the institutes reputation and image, and confidentiality, respectively, were the primary selected criteria for Jordanian customers. Another similar study conducted by Erol, Kayank *et al* (1990) examined patronage behaviour of Jordanian customers. Their findings were similar to the earlier study. However, they found that there was no effect at all for religious motivation in the use of Islamic banks' services by Jordanian customers.

Haron *et al* (1994) discuss in their study the bank patronage factors of Muslims and non-Muslim customers in Malaysia. Their factor analysis results indicated that high quality services presented the most significant selected factors, while religious motivations were not the primary reason for Muslims dealing with Islamic banks in Malaysia. In contrast, Metwally (1996) has used the factor analysis and correlation matrix to study the attitudes towards Islamic banks of Muslims in Kuwait, Saudi Arabia, and Egypt, and he found that religious factors were the major reason in choosing Islamic banking by Muslims in the three-mentioned countries. Similar results were found by Omer (1993) about Muslims in the UK, as well as Hegazy (1995) about Muslims in Egypt.

Metawa *et al* (1998) also investigated Islamic banks customers' attitudes towards the Islamic banking products in Bahrain and they found that the most important factor in motivating customers to participate in the Islamic banks was religion rather than profitability. They also indicated that Bahraini customers are not satisfied with the Islamic banking scheme because of the high level of costs. Naser *et al* (1999) examine Jordanian customer satisfactions and attitudes towards Islamic banking products. They found that the majority of Jordanians were satisfied with the Islamic banking products and services. In addition, religion and a bank's reputation were the most significant factors that determined their bank selection criteria.

Alsultan (1999) analyzed 385 participants in the Islamic banking sector in Kuwait, and the factor analysis also confirmed that adherence to the Islamic rules was the primary motivational reason for customers to deal with Islamic banking products. Alsultan also found that 51.7 % of respondents preferred to deal with conventional banks because of their better service. This indicates that even though the 385 participants had religious reasons for using Islamic methods of finance, more than half ranked quality of service at the top of their banking selection criteria.
Okumkus (2005) conducted a survey about the satisfaction levels of Turkish customers towards Islamic banking products in Turkey. He found that the majority of Turkish customers expressed religion as the primary motivation for them to use Islamic banking products and services; they also expressed their satisfaction with the products available from the Islamic banking sector. However, Turkish respondents like other respondents in previous studies were found to be generally aware of the basics of Islamic methods of finance, except with the more complex Islamic finance structures such as profit/loss-sharing methods of finance. Okumkus (2005) also indicated that there was a significant relationship between customer satisfaction and variables such as customer age (20–39 years).

Dusuki *et al* (2006) explored respondents' motivations to deal with Islamic banks, and they found that quality and speed of service are important factors influencing customers' banking selections. They also indicated that elderly people who are relatively well educated preferred Islamic banking products.

Another important factor that leads depositors to select the Islamic banking system is the higher rate of return (Erol *et al*, 1989; Erol *et al.*, 1990; Haron *et al.*, 1994; Rammal *et al*, 2007; Yusuf *et al*, 2006). Customers are also willing to move their money from the Islamic banks either to another Islamic bank or even to a conventional bank if the financial return is not favourable and does not meet their expected return (Erol *et al*, 1989; Erol *et al*, 1990; Gerrard *et al*, 1997; Hamdan, 2007; Yusuf *et al*, 2006). The fact that customers' willingness to move to a conventional bank as a reason of low financial return was supported by Ramlee (2000), Bacha (2004), Sukmana *et al* (2005). They found that there were significant deposit outflows from Islamic banking to conventional banking as a result of a declaration made by the Islamic banking system of a lower return than their conventional counterparts.

Accordingly, Islamic financial institutions should understand that one of the main reasons that Islamic banking depositors open accounts with Islamic banks is to use *Shari'ah*-compliant financing or loans (Wilson, 1984). And the fact is that Islam does not prohibit people to gain profit as long as it is *Shari'ah*-compliant and according to the spirit of Islamic business ethics of honesty, justice and equity (Haron *et al*, 2005a). Therefore, Islamic institutions should realize that overall perceived service quality will be elevated as a consequence of high-return payouts on the investment deposits (Zaabi, 2007).

On the other hand, other researchers have shown that respondents do not perceive cost and benefit as the main factors in selecting Islamic banks, *i.e. Shari'ah*-compliant systems were ranked as the first priority while higher financial return was ranked as the least important criteria (Kader, 1993, 1995; Hegazy, 1995; Okumus, 2005; Dusuki, 2007b, 2008). Dusuki (2007a) also suggests that customers and depositors in Malaysia believe that profit/loss- sharing principles are the only principles representing the true spirit of the Islamic banking system.

In conclusion, the above research efforts based on primary data indicate that respondents differ in their preferences and priorities in respect of choosing Islamic financial institutions' products and services. Some respondent's rank *Shari'ah* compliance as a first priority and financial return comes as secondary, while other respondents have the opposite view as they rank financial returns as first priority followed by *Shari'ah* compliance.

One of the reasons of the differences in respondents' preferences and motivations to choose Islamic institutions might be due to lack of understandings and knowledge concerning the technical aspects of the Islamic financial institutions' products and services as was clearly illustrated in the previous section. As Dar (2004) asserted, knowledge and understanding is the utmost prerequisite for customers to engage in Islamic finance, that without proper knowledge about the Islamic products they could not identify their preferences in acquiring these products or services. Howcroft *et al.* (2003) also stressed on the importance of the level of knowledge and understanding of the financial products the customer should have, as this will determine their level of confidence in using any of the products, especially the sophisticated ones. So when customers have enough knowledge and confidence about the products then they can identify their preferences and motivation reasons. Therefore, as the family *takaful* scheme has a similar *Shari'ah* and financial system as the deposits accounts in Islamic banking, then participants would expect their funds to be used in a *Shari'ah*-compliant way, and they will also seek for some investments return and underwriting surplus as a reward for their contribution in the fund. Hence, it is wise to view participants' preferences and motivations that led them to buy a *takaful* policy.

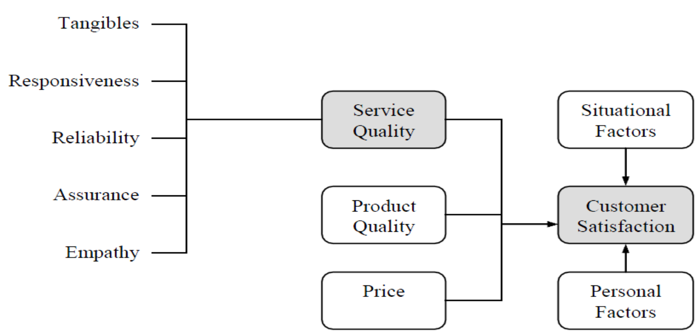
5.5 SERVICE QUALITY AND SATISFACTION

The service industry is an important sector and makes a significant contribution to both national GDP and employment figures in many countries. In the UK for instance the service sector has been on an upward trend from 1960 to 1995, increasing in terms GDP share from 57% to 70%, as well as in terms of percentage of employment which rose from 51% to 71% (OECD, 1997). Previous OECD figures supported Shephered *et al* (2000) conclusions, that there are strong relationships between service quality improvements, customer satisfaction and economic success. Services have a number of characteristics including: intangibility, inseparability, variability and perishability (Kotler, 1997; Gabbott *et al*, 1998). Unlike physical products, services are by nature intangible, they cannot be seen, tasted, felt, heard, or smelled before they are purchased. Hence a person getting counselling service, for instance, cannot know exactly what the outcome will be (Kotler, 1997; Gabbott *et al*, 1998). Similarly a person insuring in a conventional or *takaful* company cannot evaluate the company claims and indemnities services procedures, unless he/she encounters a loss. It has been said that the insurance industry services are falling behind other financial services business in satisfying the customer and must thus recognize that quality is critical (Deragon, 1997).

The link between satisfaction and quality exists because quality has a direct impact on the performance of a product and consequently upon customer satisfaction (Kotler *et al*, 2001). Brady (2001) asserts that the foundation of service quality theory lies in the product quality and customer satisfaction. Jamal *el al* (2002), Levesque *et al* (1996), Taylor *et al* (1994), Anderson *et al* (1993), Oliver (1993), Cronin *et al* (1992), Bitner (1990), Woodside *et al* (1989), and Kim *et al* (1979) assert that the service quality of any financial institution is the primary motivator in improving customer satisfaction, which reflects the organization's ability to obtain repeat business from its existing customers and to obtain referrals from these customer to potential and new customers. Accordingly, ongoing satisfaction measurement is required over time in order to keep the existing customers (Oliver, 1980). Bruhn *et al* (1998) also state that satisfaction comes as an initial stage in causal links. While Ndubisi (2006) states that overall customer satisfaction is a key determinant of relationship quality and that service quality, communication, trust, commitment, and conflict handling are considered customer satisfaction indicators that support repurchase behaviour resulting from enhancement of the relationship quality. Thus, service quality is a prerequisite for being in business and providing services; businesses who do not produce quality products will not survive in the years to come (Hasksever *et al.*, 2000). Stafford *et al.* (1998) indicate that service quality and customer satisfaction are critical aspects in many service industries. As a result, many organizations regularly measure and record the level of service quality, as perceived by their customers (Zeithaml *et al.*, 1990). Parasuraman *et al* (1988) define perceived service quality as a global judgment, or attitude, relating to the superiority of the service. Similarly, Bitner *et al* (1994) define service quality as the consumer's overall impression of the relative inferiority/superiority of the organization and its services. Cronin *et al* (1992) and Boulding *et al.* (1993) seem to support this description of service quality.

Parasuraman *et al.* (1988) have elaborated on whether customer satisfaction leads to service quality or vice versa. They pointed out that perceived service quality is a long-run overall evaluation of a service, whereas satisfaction is transaction-specific evaluation. In other words customer satisfaction leads to service quality in the sense that incidents of satisfaction over time results in customer perceptions of service quality. However, Lee *et al.* (2000) found that service quality is in fact an antecedent of customer satisfaction; satisfaction exerts a strong influence on customers purchase intention than doe's service quality. Accordingly, Parasuraman *et al.* (1988) identify the standards by which customers evaluate their satisfaction, perceived service quality and the basis of expectation that drive satisfaction is prediction of what is likely to happen during the transaction. Whereas the basis for service quality evaluations is customers' wants or desires and this is driven by the customers' perceptions of what they should receive from the service provider. Zeithaml *et al* (2000) have made a scheme to reflect the relationship between service quality and satisfaction as shown in Figure 5.1.

Figure 5.1 Service Quality and Satisfaction Perceptions



Source: Zeithaml and Bitner (2000: 75).

Although, there have been several studies on the issue of service quality and satisfaction, there is still a call and a need for greater understanding of the relationship between perceived service quality and satisfaction (Spreng *et al*, 1996). Stafford *et al* (1998) attribute the apparent confusion about the nature of the service quality/satisfaction relationship to the common link with the disconfirmation paradigm[47]. While Carman (1990), Gravin (1983), Parasuraman *et al.*

[47] Disconfirmation paradigm is a comparison between consumers' expectations and their perceptions of service actually received.

(1985, 1988) and Rathmell (1996) assert that service quality remains an abstract and elusive construct that is difficult to define and measure.

5.5.1 Service Quality in the Insurance Industry

In recent years the world has suffered from a widespread financial crisis, which has impacted the service sector. The insurance industry has also been affected by these cyclical economic consequences. The negative cycle has created a decrease in the productivity of the industry and a fall in policy purchase thereby reducing the industry income as well as its ability to compensate claims (Bollini, 2002). These factors have further compromised service quality in the industry, exposing the industry to further criticisms and thereby seriously denting the image of the industry in the eyes of the insurance public (Bollini, 2002) since the insurance public believe that the industry is bent on over-promising yet under-delivering what they have promised to their customers (French, 2002).

Accordingly, a number of policyholders have withdrawn from long-term commitments before their contract has expired, and have consequently received poor value of money. The poor persistency rates[48] associated with these long-term savings contracts provide tangible evidence of widespread customer dissatisfaction and poor service quality (Marwa, 2005). Persistency rates in long-term insurance contracts remain low in spite of the penalties that customers, intermediaries and product providers incur from early withdrawal from the contract. Policyholders who effect early withdrawal from their contracts may suffer a financial penalty because the policy proceeds received (the surrender value)[49] may be less than the premiums paid, particularly if withdrawal occurs in the early years of the contract. Similarly salesmen and intermediaries will also suffer, as low persistency means lower renewal commissions (Diacon *et al*, 2002).

The insurance industry worldwide is being penalized for the heavy legacy of poor standards, *i.e.* poor standards of selling especially selling through agencies, poor standards of product design, small print syndrome and excessive product complexity and equivalent offering with rare service

[48] Percentage of life insurance or other insurance policies remaining in force .The higher the percentage, the greater the persistency; most companies extend every effort to increase persistency (Rubin, 2000).
[49] Action by the owner of a cash value policy to relinquish it for its cash surrender value or fee charged to a policy-owner insured when a life insurance policy or annuity is surrendered for its cash value (Rubin, 2000).

quality measurement especially in the life insurance field (Francis, 2002). Therefore, a better service quality may be the only way to differentiate the insurance industry from other service sectors (Sherden, 1987; Siddiqui *et al*, 2010). Meltzer (1997) also asserts that quality in insurance means providing customers insurance products/service that they want when they want them, a requirement that demands insurers' understanding of their business, and being attentive to their customers needs by providing products and services that meet their needs.

Similar to insurance poor standardization, *takaful* companies have not adopted a single financial reporting framework, and this has resulted in a lack of transparency and comparability of financial statements (Hassan *et al*, 2009). Hence, more collaborative efforts are required from the industry players and the international regulatory bodies such as AAOIFI, IFSB, ITA[50], IAIS, *etc.* to unify the *takaful* standards.

The public criticism and outcry about the insurance industry after all is justifiable and the reasons exist, therefore, to believe that the industry (worldwide) has not left behind a quality legacy (Marwa, 2005). Accordingly, a number of authors have asserted that the poor service quality in the insurance industry can be attributed to a number of factors listed below:

I. Failure to focus services to meet customer needs

Several research efforts have confirmed widespread customer dissatisfaction in the insurance industry, stemming from poor service design and delivery (Wells *et al*, 1995; Friedman, 2001a, 2001b; Cooper *et al*, 2001). Customers are demanding a lot more than the industry has been willing to give in the past, yet the industry has not been willing to make hard decisions to meet these increased demands, leaving clients frustrated with their services (Robert, 2000). Most of the decision-makers in the insurance industry are far removed or disengaged from customers and their needs and the closer they can get is through sterile research when analyzing internal data and actuarial models (Marwa, 2005).

Customers become like statistics and data is provided based on past activities and not what would happen if customers were treated differently, which leads insurers to set up processes that

[50] International *Takaful* Association.

are not only disappointing but also alienates customers (French, 2002). Disappointing services are associated with incorrect billing; unnecessary delays in responding to issues central to customers' needs such as claims processing and indemnity; absence of creativity in providing coverage; insurers having been accused of avoiding customers for most of the policy terms, and only initiating contracts towards renewal of polices, are practices which most customers think are negative and unprofessional (Meltzer, 1997; Marwa, 2005). French (2002) also claims that most of the insurance industry players are overly concerned on getting new customer to grow their business, and considerable insurers' resources are spent on marketing and advertising at the expense of internal quality auditing of existing accounts. This causes the insurance loss ratio to go up and the industry thereby denies itself an opportunity to concentrate and invest in quality clients that would offer tangible growth. Instead insurance companies use premium rate increases as a blunt instrument to correct poor financial results and at the same time treating customers disrespectfully (French, 2002).

Insurers are being challenged to serve as communication conduits (listening channels) which hear what customers have to say about them; as a dissemination channel, which enables the insurers to communicate their feelings and observations to other members of the industry and, lastly, as a transmission channel which makes it clear to the customers that what they (customers) said is being heeded and acted upon (Witt, 1996). Accordingly, Mandel *et al.* (2002) strongly believe that insurers should focus their attention on improving and enhancing the customers' experiences by reinforcing customers' positive feelings/perceptions of the service, and insurers should formally or informally develop means of scoring satisfaction within their set-ups which will alert them to quality problems so as to respond promptly to such threats. It is crucial to identify the participants' involvement process as it is one of the most relevant influences in the buying behaviour, especially in the family *takaful* sector as they search for more information to minimize risks and maximize benefits Hanbali (2007). Bhatty (2007) asserted customer segmentation in the *takaful* industry is necessary in covering both needs and wants of customers and it should lead to an understanding of the likely behaviour and potential profitability of the business.

II. Poor Staff Training

Friedman (2002) argues that these staff are key to the quality services in the insurance industry as they play roles as part psychologists, part diplomats and part loyal employees to do their jobs which is indeed a miracle, considering that they do not easily burn out while dealing with an ever-demanding and impatient public. Pratt (2002) argues that insurance companies have not cultivated a culture of recruiting competent staff, considered key to the long-term growth, increased sales, and greater profitability of the industry. The wisdom of the traditional insurers in placing heavy reliance on actuarial skills alone at the expenses of other equally important skills in a changing global market is increasingly being challenged (Reuters, 1999b). Indeed most insurers have realized that it is imperative to develop expertise in investment, marketing, customer retention, segmentation, and product distribution (Reuters, 1999b). Insurers should also develop a positive work environment that generates high staff morale, invest in corporate training, skills development and opportunities for job transfer, as well as advancement in monitoring and retention (Voelker, 2000).

The industry has not provided a lot of serious training, particularly to customer-facing staff (Marwa, 2005). While in the *takaful* scheme as most of the senior management have gained their formal underwriting qualifications and expertise in the conventional sector before moving across to the Islamic insurance sector, then a dual training system is needed to enhance their knowledge about the principles and technicality of *takaful* products (Abdi, 2007). Abdi (2007) also asserts that *takaful*-developing staff is fundamental for long-term prosperity of the industry and investment in people is needed on two levels, at the commercial level and at *Shari'ah* level.

III. Lack of differentiation in the Insurance industry

Goch (1999) argues that one of the major factors that have contributed to the insurance industry's unfavourable rating by the insuring public is the inability of insurers to differentiate themselves from their competitors within their respective groupings. Insurers also fail to educate their customers on how they are different than others insurers, *i.e.* in their products, marketing and advertising campaigns, management styles, clients focus, traditions, beliefs and values. Insurers have not fully mastered the art of where to add value over their competitors, and it is taking long for the industry to realize that the significant strength of an insurer does not wholly lie in risks-underwriting but also in product innovation, distribution and investment management as broad business areas (Reuters, 1999a). Bhatty (2007) asserted that strategies are needed to promote *takaful* products including brandings, marketing, and advertising. He also asserted that customer education is needed to differentiate the quality of *takaful* products from other types of insurance.

In order to address the above-mentioned shortfalls and failures within the insurance industry, adaptability to change might be one of the solutions to these problems. However, the insurance business has become more complex that no one person should presume to know all. Accordingly, insurers' survival will thus primarily depend on establishing networks/teamwork. Brandon (1996) asserts that the emphasis has shifted from command and control leadership to principle-centred or value based leadership, as there is no one formula for renewing or transforming insurers as each entity is unique. Exactly how and the extent to which they need to change can best be determined and accomplished by people within their respective organizations. The *takaful* business will need an active networking and motivated scheme to reach end-users quickly, hence collaborations with the international banks can play an important role in boosting the growth of *takaful* through reaching out to the customer (Bhatty, 2007).

Insurers must identify customers' needs and create solutions to these needs using quality products and services (Drury, 2003) and by adopting a products reengineering approach (Williams *et al.*, 1995). Product development will give insurers an immediate advantage as a means to lock-in existing customers through an increased perception of quality and service (Marwa, 2005). Reuters (1999b) asserted that insurers should move away from the traditional spread contracts which has a low transparency and that the returns given to policyholders remain at the discretion of insurers, which makes it difficult for investors to realize how returns and bonuses are derived. For the *takaful* industry, Bhaty (2007) asserted that TOs should design their products to satisfy customers' needs and wants and that TOs need to follow the usual life cycles approach, matching customers needs at different stages according to the customer segmentation of the available market.

IV. Under-investment in IT

Many insurers in the industry particularly those in developing economics are yet to appreciate the full potential of IT and have committed relatively fewer resources towards IT capacity development resulting to poor customer services (Marwa, 2005). Some insurers are still stuck in paper documentation that requires considerable storage space, thereby limiting the ability to integrate information within an insurer's departments besides hampering faster communication with clients, which prevents insurers from making the most from existing customer relationships (Gow, 2000). However, in the developed economies, countries like USA have become better at exploiting technology to allow them to deliver better customer service, better risk pricing and reduction in internal costs while others continue to lag behind (Marwa, 2005).

Therefore, investing in technology around key business drivers can make the firms more attractive to investors (KPMG, 2003). IT management and company-wide implementation of generic systems, which reduces processing and administrative costs thereby, allow insurers to increase their customer base (KPMG, 2003). Insurers need to view IT systems operations not as separate support functions but they must realize that customers want 24/7 access to their information which means availability of server access 24/7; it is all about improving insurers' communication capabilities and there does not seem to be alternatives other than investing in more robust IT systems (Roy, 2002).

Insurers should not treat IT systems separately from the company operations but rather central to operations and there is a need to combine strong underwriting expertise, involving sophisticated risk modelling systems, with the ability to successfully manage a broker-based distribution network. In other words, insurers must not look at IT only as an instrument for reducing expenses and gaining revenue but also as a means of improving customer service quality through delivery and execution (Marwa, 2005). Bhatty (2007) asserted that technology is continuously changing and the way insurers do things must therefore also change. Hence, direct selling of *takaful* products through electronic means may be useful to increase business volume, greater access to customers, help to be proactive, and to gain economic of scale. Bhatty also asserts that the beauty of *takaful* products is that a great deal of cross-selling and up-selling can take place. For instance, cross-selling between a *takful* company and a bank can generate a huge amount of additional business and revenues, but which requires continues efforts to build and update customer profiling vastly aided by an active IT system to enable easy and fast access to it.

V. Poor Distribution Channels

Diacon *et al* (1995) and McCabe *et al.* (1997) suggest that there are strong relationships between insurers' service quality and the quality and professionalism of advice provided by sales staff. Furthermore, surveys of financial services consumers in the U.K. often indicate concern about the performance of the sales process (Diacon *et al*, 2001). Salespeople might practise unacceptable sales pressure on policyholders, giving an unsound or biased advice, and reflecting unobservable charges (Diacon *et al*, 2002). Thus, Mercantile & General Reinsurance (1993) concluded that the quality of life assurance sales are dependent on the quality of the people selling, the training they receive, the commission structure by which they are remunerated and the cultural environment in which they work. Gower (1984) was critical of the lack of training of life insurance salesmen and the conflicts of interest that can arise from commission payments.

Accordingly, the role of sales people will have a great effect on customer satisfaction, which was strongly obvious by the inclusion measurement suggested by Parasuraman *et al.* (1988). The first four elements of of five dimensions indentified by Parasuraman *et al.* (1988) relating to product and process (i.e., reliability, responsiveness, assurance, empathy and tangibility) has elements of human action/intervention in the service delivery; such an inclusion has been validated by numerous studies which highlight the importance of customer interface in determining service quality (Roth *et al*, 1995; Krishnan *et al.*, 1999). Cross *et al.* (2007) argued that a high level of customer orientation reflects a high level of concern for customers' needs, while a low level of customer orientation reflects a selfish concern for the achievement of short-term objectives (sales). Hence, sales orientation may not affect the job performance of salespeople, but it can negatively affect customer satisfaction (Goff *et al.,* 1997).

Accordingly, because of the vital role a salesman can play in enhancing customer knowledge, the UK government has issued the Financial Services Act 1986 which obligated salesmen to comply with a code of conduct that required them to consider the needs and circumstances of their customers and give best advice. While, as the *takaful* business concerns commercial and

Shari'ah issues, Ali *et al* (2008) assert that it will be better if the *takaful* product was sold via the operator itself, since intermediaries will be required to acquire a wide set of information about customer preferences, such as customer perspective and their view in regards to *Shari'ah* issues.

VI. Distrust of the Industry

Darcy (1996) asserts that there is a growing distrust of the industry not only by its customers and prospects but also by employees, regulators, shareholders and the public. This has been caused by bad practices and callous treatment of those involved in the insurance business, that planned productivity does not materialize early, or at all. As employees become engulfed with fear and the level of organizational stress rises by the day words such as teamwork and corporate family become meaningless to the work force, as they watch in disbelief the increase in financial compensation of top executives following downsizing of their organization.

Customers' fears have been further fuelled by industry regulators, following public disclosure of major insurers' business malpractices that have attracted record fines and class-action lawsuits estimated at millions of dollars (Marwa, 2005: 84). A better solution to improve the distrust situation is by enhancing ethical behaviour among the company employees, as the insurance business suffers from less attention towards ethics. As Smith (1996) asserted, insurers were treating ethical behaviour in organizations as a one-year-only event. While Marwa (2005) asserted that as top management in the insurance industry hardly provide any budget and staff to promote ethics, employees generally have little if any opportunities to discuss ethical dilemmas with their seniors; neither are there any procedures in place that encourage employees to report any wrongdoing without fear or repression.

Accordingly, the insurance industry must hold itself to formal ethical standards in order to improve its image in the eyes of the public, and insurance companies who did not have any ethics awareness programmes or code of ethics should urgently develop such programmes so as to demonstrate their commitment to exemplary ethical behaviour (Smith, 1996). Smith (1996) also asserted that insurance companies should designate an ethics staff member to make sure that the company and its employees behave ethically towards co-workers, customers and intermediaries. The ethics staff will be charged with prompting ethical behaviour up front, and hence the management should provide adequate budget and staff to fortify the office of the ethics officer

In term of *takaful*, Lewis (2005) asserts that TOs' should encourage and monitor correct and positive ethical behaviour, such as *ihsan* (goodness), *tawakkal* (trust in God), *amanah* (honesty), *infaq* (spending to meet social obligation), *sabr* (patience) and *istislah* (public interest). While, Bhatty (2007) asserts that TOs' must embody the ethical nature of their business, not just from the religious point of view, since the *takaful* system is a fair system for all and everyone should be able to benefit from it.

5.6 EVALUATION OF SERVICES IN THE INSURANCE INDUSTRY

In the 1990s there were calls for quality practices throughout the service sector following the success stories in the manufacturing sector in the USA, and the successful adoption of these practises in banking, hospitality and other service industries. Accordingly, the insurance industry had the impetus to adopt these quality practises and set up its own quality research and sensitization unit called the Quality Insurance Congress (QIC)[51]. The birth of QIC saw numerous research efforts directed at service quality being initiated (Deragon, 1997; Marwa, 2005).

These research efforts reflect that customer satisfaction measurement is a fundamental component of service quality, which involves the assessment of how well customers' expectations are being met or exceeded in a company's offering; in other words an organizations should, as a way of a continues improvement, determine the level of customer satisfaction with the services or goods provided. An indication of customer dissatisfaction regarding the company service quality is the percentage of customers' withdrawals. Accordingly, a consumer survey conducted by the U.K. insurance regulator reported that the policy type with the highest withdrawal rate had the highest proportion of policyholders saying they regretted taking out the product and a high rate of complaints (Collard, 2001).

[51] The Quality Insurance Congress was formed in 1993 in USA, to create a forum for the system of insurance and its customers to facilitate change that would improve customer satisfaction.

In contrast, regarding the withdrawals notion, the results of a survey of the policyholders who had withdrawn from the life insurance companies in the UK, 80% of the policyholders said they were satisfied with the overall service provided by the company, and 88% reported that the main reason for withdrawing was a change in personal circumstances (Survey Research Associates, 1992).

Wells *et al* (1995) have reflected another important study that addressed policyholders' complaints ratio. Wells *et al* (1995) undertook a study on Consumer Perceptions *vs.* Regulatory Perceptions. The research compared consumer perception of insurers' service quality with regulatory assessment of insurers' service quality in the USA. Three important findings have been reported: First, lower complaints ratios are significantly related to higher levels of perceived service quality, implying that regulators perceive service quality more accurately. Second, consumers tend to rate service quality higher if they are aware of their right to complain to the regulator. The awareness that a consumer advocate exists may reduce feelings of helplessness, dissatisfaction, or resentment that consumers might ordinarily have when dealing with a large insurance company. Third, a consumer's actual knowledge of insurance, as measured by how much specific insurance education the consumer has had, seems to be negatively related with service quality.

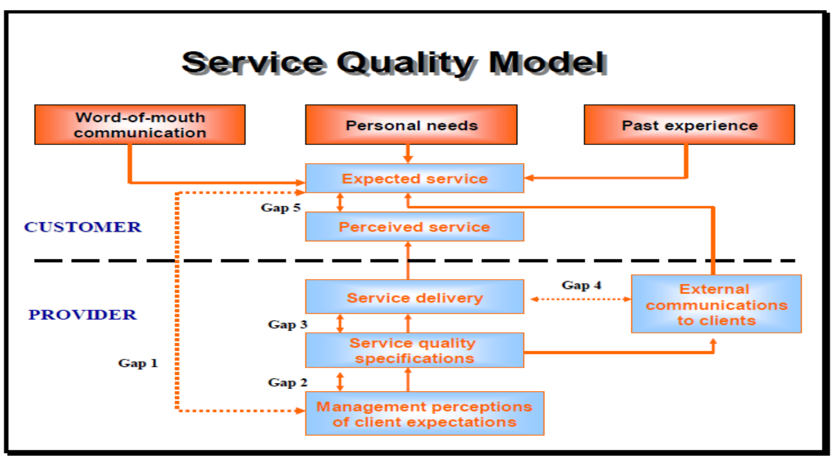
Wells *et al* (1995) viewed their research as the first step in evaluating present regulatory tools used to assess service quality and called for the development of a more rigorous model of measuring service quality in the insurance industry. The researchers are calling regulators to seek more sophisticated and accurate diagnostic models for assessing insurers' service quality in the insurance industry. Accordingly, a number of models to evaluate customer perceptions were introduced such as SERVQUAL, SERVPERF, SERVCON, Priority Search and the American Customer Satisfaction Index. Of these, the SERVQUAL model is the most widely used approach (Gorst, 2000). In the context of the Islamic financial services industry, the pioneer in using the SERVQUAL model to measure service quality is a study by Othman *et al* (2001). They modified the model by including the *compliance* element as part of the assessment; the new Islamic service quality model is termed as CARTER.

5.6.2 SERVQUAL and CARTER models

Most of the studies related to satisfaction measurements have used the Parasuraman *et al.* (1988) SERVQUAL model which is a 22-item instrument for measuring customers' expectations and perceptions along five quality dimensions: *Tangibles:* The appearance of physical facilities, equipment, personnel and communications materials. *Reliability:* The ability to perform the promised service dependably and accurately. *Responsiveness:* The willingness to help customers and to provide prompt service. *Assurance:* The knowledge and courtesy of employees and their ability to convey trust and confidence. *Empathy:* The caring and individualized attention provided to customers, including approachability and ease of contact with the service provider and the efforts made to understand the customers and their needs.

The questions on the scale were designed to assess customers' perceptions of a service on the five dimensions. The original instrument involved a gap analysis methodology, where the customers' expectations of service quality are assessed at the same time as their perception of the actual service performance. The difference between these two scores is then used as a basis for further analysis. Basically, the service quality model was derived from the magnitude and directions of five gaps as shown in Figure 5.2.

Figure 5.2: Service Quality Model



Source: Parasuraman *et al.* (1988)

The five gaps addressed the following:

GAP 1 (Understanding): the difference between consumer expectations and management perceptions of consumer expectations.

GAP 2 (Service standards): the difference between management perceptions of consumer expectations and service quality specifications.

GAP 3 (Service performance): the difference between service quality specifications and the service actually delivered.

GAP 4 (Communications): the difference between service delivery and what is communicated about the service to consumers.

GAP 5 (Service quality): the difference between customer expectations of service quality and customer perceptions of the organization's performance.

Finally, as has been mentioned earlier, Othman *et al* (2000; 2001) have modified the five dimensions (*Tangibles, Reliability, Responsiveness, Assurance, and Empathy*) of the SERVQUAL model into the 6-dimensions CARTER model, by adding one additional dimension called *Compliance.* The compliance dimension will measure the firm's ability to comply with Islamic law and principles with a total of 34 items. Both models define customer satisfaction as perceived service quality, by identifying the gap between expected service and perception of service quality received. However, for the purpose of this research the SERVQUAL model will be described in more detail, because of the availability of a number of insurance studies that have used the SERVQUAL model to analyze the service quality of a certain insurance sector by reviewing policyholders' perceptions and expectations view.

5.6.3 Criticism of the SERVQUAL Approach

Although several studies have found that the SERVQUAL model is the required and the efficient model to measure service quality, some other studies contradict this view.[52] These other studies disagree with the SERVQUAL model on two major issues: the dimensions of service quality and the lack of a clear link between satisfaction and perceived service quality.

[52] Babukus and Mangold (1992); Bebko and Grag(1995); Bowers *et al.* (1994); Carman (1990); McAlexander *et al.*(1994); Fusilier and Simpson (1995); Brown and Swartz (1989); Walbridge and Delene (1993); Teas (1993) and Cronin and Tayler (1994).

A number of marketing-oriented researchers (Babukus *et al*, 1992; Carman, 1990; Finn *et al*, 1991; Gagliano *et al*, 1994; Lam, 1995) have identified factor stability as a problem for the SERVQUAL instrument's assessment of service quality. Cronin *et al* (1994) found evidence that SERVQUAL is supported by little empirical and/or theoretical evidence; adding that SURVQUAL represents a uni-dimensional model. Other researchers (Akan, 1995; Lam, 1995, 1997; Raajpoot, 2004) asserted that the SERVQUAL model is not suitable to be used outside its marketing domain countries (USA and Europe); they also indicated the need for customization of the metric prior to its use. These findings were also supported by Dotchin and Oakland (1994) as they stated that SERVQUAL depends on the context in which it is applied and cannot be generalized in all and any service industry. According to Raajpoot (2004) the SERVQUAL dimensions fail to fully capture the construct of service quality in non-Western cultures and proposes usage of culture-specific quality dimensions. Winsted, (1997), Donthu *et al*, (1998), Mattila, (1999), Furrer *et al.* (2000), Imrie *et al*., (2000) and Imrie *et al.* (2002) found out that consumers in different cultures not only evaluate service-encountered quality along the five dimensions of SERVQUAL but also evaluate quality along dimensions not captured by the SERVQUAL model. These researchers also argued for the expansion of the existing conceptualization of the SERVQUAL metric to incorporate non-Western quality values/virtues.

Oliver (1993) added that the SERVQUAL model does not allow customers to have low quality expectations. Also the satisfaction approach to measure quality runs into difficulty when complex services are evaluated as customers may not know what to expect, and even after the service is delivered they may not know with certainly how good the services were (Lovelock, 1996). Additionally the model gives inaccurate representation of service quality in small firms (Haksever, *et al.*, 2000). Carman (1990) asserted that the SERVQUAL model five dimensions were not always generic. Carman also indicated that distribution of the SERVQUAL expectations questions should be distributed to customers *before* using the service not *after* trying the service. Carman further notes that even after this was done, expectations and perceptions showed little relationships, if any, to one another.

Teas (1993) questioned SERVQUAL's discriminate validity. He notes that service quality expectations may have serious discriminate validity short-comings which can cause the (perception-expectation) service quality measurement framework to be potentially misleading indicators of perceptions of service quality. Brown *et al.* (1993) also indicated that because the SERVQUAL scale scores are difference scores (perception-expectation) then problems of reliability, discriminate validity, and variance restrictions exist, as well as non-normal distribution of model scores. The SERVQUAL model may be appropriate for large service organizations, but it will represent inaccurate service quality measurement in small firms (Haksever *et al.*, 2000). Finally, Marwa (2005) clarifies that the case against other service quality models such as SERVPERF is really the case for SERVQUAL, since the demerits of SERVPERF are in essence the merits of the SERVQUAL metric. Accordingly, since the Islamic service quality model, CARTER, is essentially an adoption of the SERVQUAL model with the extension of one dimension (*Compliance*), then obviously the same criticisms can apply for the CARTER model, with an exemption of *Shari'ah* compliance, since there are only a very few studies that have been conducted to reflect the validity of the CARTER model; unfortunately, none of these studies have addressed the *takaful* business.

5.6.4 SERVQUAL's Application in the Insurance Industry

A few valuable studies using SERVQUAL have been undertaken in the insurance industry. Stafford *et al* (1999) have surveyed customers of four major USA insurance companies with the main goal of identifying the predictors *i.e.* perceived service quality and satisfaction in the auto casualty insurance industry. They used the confirmatory factor analysis and multiple regression analysis to validate the existence of the five SERVQUAL dimensions. The findings showed that all dimensions have not successfully predicted the perceived service quality during the auto casualty insurance claims with the exception of the 'reliability' dimension.

Graham (2004) has used the SERVQUAL model on the Greece insurance market. However, Graham has renamed the model as GIQUAL, since he added 4 more statements (Price, Product Quality, Ambiguity of insurance contracts terms, and Delays in claims settlement) to the original 22 statements of customer perceptions of the SERVQUAL model. GIQUAL was distributed to 168 customers among 3 anonymous Greek insurance companies to find out the gap between their expectations and perceptions. Graham has used the correlation matrix and factor analysis to figure the validation of the existing five SERVQUAL dimensions. The factor analysis findings showed that only the Tangibles and Reliability dimensions successfully predicted the perceived service quality, while other dimensions have merged together.

Marwa (2005) has used the SERVQUAL model on the Kenya insurance market. He filtered the 22 items through a pre-test to yield 19 items, and then added another 24 items to yield a total of 43 items. The surveys were distributed to 210 insurers among 4 insurance companies. The factor analysis approach has been used to validate the existing five SERVQUAL dimensions. Marwa has indicated that the factor analysis results were inconsistent, thus rendering it difficult to decide on the number of factors. However, the dimensions Reliability and Empathy were the most deficient.

Marwa (2005) and Graham (2004) concluded that the SERVQUAL metric requires substantial modification (customization) prior to its application and researchers ought to be cautious when applying the diagnostics; SERVQUAL is not a ready-to-use tool-kit. They also added that further research is necessary to investigate the consistency and universality of the constituent attributes of the SERVQUAL diagnostic.

Finally, the SERVQUAL five dimensions (22 items) model was used to figure out the gap between customers' expectations and perceptions on one of the biggest life insurance companies in India (Life Insurance Corporation). A total of 337 customers participated in the study. Accordingly the factor analysis results did not follow the factor structure as given by Parasuraman *et al.* (1998). The gap scores did not merge into the five dimensions of service quality; rather the perceptions scores merge into three dimensions. The findings of the study concluded that the SERVQUAL instruments are not applicable to the Indian life insurance sector. Therefore further research is imperative to improve service quality in life insurance sectors (Bala, Sandhu, Nagpal, 2011). Table 5.1 gives a summary illustration of the conducted research efforts as has been explained previously.

Table 5.1: Summary of SERVQUAL Literature Review Applications on Insurance Market

Author/s	Year	Country	Insurance production	Methods	Findings
Stafford *et a.l*	1998	USA	Auto casualty	Regression and factor analysis.	Dimensions have not successfully predicted service quality.
Graham	2004	Greek	Insurance market.	Regression, correlation and factor analysis.	The model is not ready to be used as tool-kit.
Marwa	2005	Kenya	Insurance market.	Correlation and Factor analysis.	The model is not ready to be used as tool-kit.
Bala, Sandhu, Nagpal	2011	India	Life insurance.	Factor analysis.	The model is not applicable to the Indian life insurance sector.

Source: Author's own.

In conclusion, although some of the already-mentioned studies (Marwa *et al,* 2004) have adopted a customized factor that can suit the insurance industry in their countries, they concluded that the model is not ready to be used as a tool-kit. Furthermore, most research studies do not support the five-factor structure of SERVQUAL as proposed by Parasuraman *et al.* (1988) and administering expectations items is also considered unnecessary (Kettinger *et al.,* 1994). The results can be better interpreted as being an even stronger support by using the perceptions portion only, as the expectations portion of the SERVQUAL scale adds no additional information beyond that which is obtained from performance perceptions alone (Brady *et al.*, 2002).

5.7 SUMMARY AND CONCLUSION

This chapter has provided a comprehensive literature review on the factors that affect customers' needs, preferences, perceptions, and motivations which can impact their satisfaction levels in the insurance industry. The current chapter has shown the importance of satisfying customers' preferences which are reflections of their needs and wants. It is also important to review customer perceptions about the service presented by the insurance company, as customers are the ones that are directly exposed to the company services. Their opinions represent real judgments on the services represented by the insurance company. The current chapter also reflects on the importance of customer knowledge which leads to customer motivations and satisfactions and comes to the conclusion that lack of customer knowledge can lead to a deficiency in customer confidence which will eventually affect their preferences and motivations, such results were similar to the research effort by Howcroft *et al.* (2003). Adhering to customer perceptions, knowledge and preferences can lead to customer satisfaction; in a way satisfying customer needs and wants can eventually lead to enhance their satisfaction level. This chapter also highlighted the encountered problem in the insurance industry with some recommendations which have been imposed by several insurance researchers. Hence, a reflection of the most popular service quality measurement models has been presented. However, due to several malfunctions to implement these models on the insurance industry, a customized service quality instrument has been suggested, which reflects the main purpose and rationale of conducting such a research. These instruments will be structured based on the international insurance regulatory bodies as has been presented on the previous chapters.

CHAPTER SIX
AN OVERVIEW OF SAUDI ARABIAN LEGAL/REGULATORY ENVIRONMENT & INSURANCE INDUSTRY BEHAVIOURS

6.1 INTRODUCTION

This chapter will provide an overview of the insurance industry in Saudi Arabia and the regulatory instruments it operates under the Saudi Arabian Monetary Agency (SAMA), with a brief on the situations of the licensed insurance companies in the Kingdom. The current chapter will also provide information and data on the Saudi insurance market growth rate and financial performance. By doing so, the chapter answers research question 2: What are the laws and regulations governing *takaful* companies in Saudi Arabia?

This chapter is organized to gives sufficient answer to research question 2 as follows: section 6.2 presents a background about Saudi Arabia and its economy. Section 6.3 highlights the legal system in Saudi Arabia. Section 6.4 presents a background about Saudi Arabian insurance industry and current status of insurance companies. Section 6.5 reflects Saudi insurance market behaviours. Section 6.6 reflects reforms in SAMA regulations. Section 6.7 draws conclusion.

6.2 BACKGROUND OF SAUDI ARABIA

Saudi Arabia is a developing country in Asia, and Riyadh is the capital city. The modern state of Saudi Arabia dates back to 1932 when King AbdulAziz (1880-1953) announced the foundation of the Kingdom of Saudi Arabia (Al-Angari, 2004). The country, which is the largest in the Middle East, comprises 95% desert, including the *Rub' Al Khali*, the biggest land size of sand on the planet. Saudi Arabia is situated in the South West of Asia, having an area of about 2,100,000 SKM (868,730 SM), with a population estimated at more than 25 million (Ministry of Economy and Planning, 2007; Al-Angari, 2004). The local currency is the Saudi Riyal (SAR) and SAR 6.1 is equivalent to one GBP (as of January 2012). Arabic is the official language, while English is used as the business language.

Saudi Arabia is a monarchy that is restricted to the male descendants of King Abdulaziz. The monarchy system in Saudi Arabia is centralized which gives the King wide-reaching authority, including the management of internal and external affairs. Moreover, all important positions, such as internal affairs, foreign affairs, and the defence ministry are limited to male descendants of King Abdulaziz. The Consultative Council, established in 1991, has a limited role in the legislative system of Saudi Arabia. It acts as an advisory body to the King and any decisions can only be applied once final approval has been received from him. Saudi Arabia has never been ruled by another country and it has therefore developed its own culture, language, society and economy. Before 1937, Saudi Arabia was a poor country mainly relying on agriculture. In 1937, oil was discovered and today the country is the world's largest producer and exporter of oil. The discovery of oil has brought about gradual changes to the social and economic life and the political position of the country in the Middle East. Saudi's economy is primarily based on petroleum exports which represent roughly 90-95% of the total national income and 35-40% of the gross domestic product (GDP), which brought the country's GDP to 577.9 (US$b), and GDP / Capita to 20,500 (US$) by 2008 (World Development Bank, 2009).

According to the Ministry of Economy and Planning (2007), Saudi Arabia is thought to hold approximately one quarter of the world's proven petroleum reserves and will continue to be the largest producer of petroleum for the foreseeable future (Falgi, 2009). Furthermore, it dominates a large percentage of petroleum production among OPEC members with 34% of the total output which gives it a leading role in affecting petroleum prices in the world (OPEC, 2009). Saudi Arabia has recently witnessed many reforms, including in its political system, social life and business. For example, after long negotiations, it became a member of the World Trade Organization (WTO) after adopting numerous regulations to its legal system in 2005 (Falgi, 2009). In addition, one of these reforms established the Saudi Arabian General Investment Authority (2000) which aims to enhance the investment environment and attract local and foreign investors by eliminating obstacles and tackling shortcomings (Falgi, 2009). Overall, the Saudi business environment has recently witnessed gradual development which has contributed to reinforcing Saudi's economy.

6.3 THE LEGAL SYSTEM

A country's legal system plays an important role in effecting its regulations and practices. The Saudi Arabian constitution is based on the Islamic law which is derived from Holy Quran and the guidelines laid down in the traditions of the Prophet Mohammed (*Sunnah*) and other sources associated with Islamic law (*Shari'ah*). Accordingly, Saudi Arabia is an Islamic state in terms of its legal system and in general terms, and adheres to Islamic regulations (Al-Angari, 2004). Saudi Arabia holds a special position among Arabic and Islamic countries since it is the home of the holiest Muslim sites of Mecca (the direction of prayer and pilgrimage for more than one billion Muslims) and Medina, where the Prophet Mohammed emigrated and was buried (Falgi, 2009). In terms of social behaviour, Saudi Arabia is pre-dominantly a tribal society based on Arabic traditions and this maintains a considerable degree of impact over local and national events (Falgi, 2009).

Equally, the Saudi legal framework has mainly been affected by Islam, upon which the country's constitution is based. Since Saudi Arabia has a strong historical relationship with the US and Britain, the business environment has been greatly influenced to a large extent by those countries' legislations, such as company law systems (Al-Angari, 2004). All banks and financial companies are subject to international accounting standards. However, while the aspect of the Saudi legal system that relates to the business environment is a mixture of rules and regulations from American, British and other countries' legislations, the legal system is controlled and influenced by an Islamic framework. In other words, the derived or borrowed regulations have been adapted in accordance with Islamic regulations and the character of the Saudi environment (Al-Angari, 2004).

6.3.1 Judiciary System Commercial litigation

The Saudi Arabian courts system is currently going through major reforms under a new Judiciary Regulation and a new Board of Grievances Regulation, which were both enacted under the Royal Decree No. M/78 of (1st of October 2007).[53] The Saudi Arabian courts system is divided into the *Shari'ah* (Islamic Law) courts on the one hand, and specialized statutory tribunals on the other hand. The *Shari'ah* courts are of general jurisdiction, and they are mainly concerned with matters relating to land, family disputes, personal injury claims, and criminal cases (Ghazzawi *et al.*, 2011).

[53]Legal Department, Ministry of Commerce Grievances Court at http://www.saudicommercialoffice.com/settlement_of_commercial_dispute.html.

Of the statutory tribunals, the most important by far is the Board of Grievances. Its jurisdiction includes disputes involving the Saudi Arabian government and government agencies (judicial review of administrative action and government contract disputes), most types of commercial cases, the enforcement of foreign judgments and arbitral awards (Ghazzawi *et al.*, 2011). Establishment and conduct of commercial courts is regulated by the Royal Decree No. 32 issued on the (2nd of June 1931). Under this law, all commercial disputes except for those related to insurance business are settled by the Ministry of Commerce by appointing a Committee for Commercial Disputes, comprising two *Shari'ah* judges and one legal adviser.[54]

Insurance disputes and claims to which insurers have become subrogated are adjudicated by a special committee, the Committee for the Settlement of Insurance Disputes. There is an automatic right of appeal from the Committee for the Settlement of Insurance Disputes to the Board of Grievances. Since 31st December 1987, Commercial Disputes have been adjudicated by the Grievances Court (*Diwan Al-Mazalem*), Commercial Circuit, instead of the Committee for Commercial Disputes.[55]

On the other hand, most disputes arising in Saudi Arabia can be submitted to arbitration in accordance with the Arbitration Law, promulgated by Royal Decree No. M/46 dated 25th April 1983 and the Rules for the Implementation of the Arbitration Regulation of 1985, which form a reasonably comprehensive code derived largely from Islamic law principles (Ghazzawi *et al.*, 2011). Under these statutes, the authority which has original jurisdiction to hear the dispute retains extensive control over and involvement in the conduct of arbitration. In most commercial disputes this is the Board of Grievances. Broadly, only the conduct of the hearings and the decision-making is the arbitrators' responsibility, whilst all pre-hearing and post-hearing procedures, and other ancillary matters, are the responsibilities of the Board of Grievances (Ghazzawi *et al.*, 2011). In particular, the arbitral tribunal is not properly constituted until the Board of Grievances approves an arbitration instrument which must be executed and signed by the parties and the arbitrators. Nor is an award final and enforceable until it is approved by the Board of Grievances. Hence, the losing party in arbitration has an automatic right of appeal to

[54] Ibid.
[55] Ibid.

the Board of Grievances on points of law or procedure, opening the door to yet further appeals on points of law or procedure to the Board of Grievances Review Panel (Ghazzawi *et al.*, 2011).

6.4 SAUDI ARABIAN INSURANCE INDUSTRY

The insurance industry in Saudi Arabia was unregulated prior to the passing of the Control of Cooperative Insurance Companies Law, which came into force on 20 November 2003 along with its implementing regulations published on 23 April 2004, together with the Cooperative Insurance Regulations (Hodgins *et al*, 2009). However, the implementation of regulations was delayed to April 2008, until the unlicensed entities operating in Saudi Arabia brought their operations into accordance with the requirements of the new law and regulations that have been imposed by SAMA (Wilson, 2007). Prior to the implementations of the insurance regulations, the only options for individuals or businesses operating in Saudi Arabia seeking insurance were between taking out a conventional insurance either overseas or with an unlicensed provider in the Saudi Arabia or taking out cooperative insurance with Saudi Arabia's former state monopoly provider, the National Company for Cooperative Insurance (NCCI), now known as (*Tawuniya)* (Hodgins *et al*, 2009).

Shortly after implementation of insurance laws, SAMA established an independent team of insurance supervisors to operate in its banking inspection department (SAMA, 2010a). The team has developed from a small internal department of 9 employees to an independent supervisory authority with a team of 44 employees (Hodgins *et al*, 2009). The regulatory body has four main objectives: (i) Protect the rights of policyholders and shareholders', (ii) provide better insurance services for fair and effective competition, (iii) foster stability of the insurance market, and (iv) establish a developed insurance industry by providing training and employment opportunities (SAMA, 2010a).

SAMA is mandated as the regulator for all licensed insurance companies including insurance brokers, insurance agents, insurance consultants, surveyors, loss adjusters and actuaries. In other words, SAMA is responsible for licensing and authorization, supervision, rule-making, supervision of investment of assets and monitoring compliance with capital and reserve requirements (SAMA, 2010a). Such extensive control by SAMA is due to the regulations that accompanied comprehensive laws that have been represented by a number of Articles. These Articles define different types of insurance, the conditions for licenses being granted, corporate governance and regulatory and supervisory procedures (Wilson, 2007).

The implementation of the new regulations and laws has made the kingdom to be the largest insurance market in the GCC and one that has developed substantially since insurance business was first permitted in the 1990s (E & Y, 2011). Driven by strong macroeconomic performance due to the global rise in oil prices, rising income levels and positive demographic trends, the Saudi insurance market has grown by double digits for the past 5 years (OBG, 2011).

Finally, in order to enhance the supervision and control and application of insurance international standards and practices, SAMA has become a member of the International Association of Insurance Supervisors (IAIS), and it participates in all its main committees and sub-committees. In addition, SAMA is a member of the Arab Forum of Insurance Supervision and Control Authorities (SAMA, 2010b). Accordingly, SAMA is considered one of the strongest insurance regulatory authorities in the GCC, which was obvious by their reactions to the adverse competitive trends by restricting new licenses; and players wishing to enter the market are being advised to buy existing licenses (E & Y, 2011).

6.4.1 Status of Insurance Companies in Saudi Arabia

Saudi Arabia hosts a number of prominent multinational firms in addition to several domestic players that rival them in size. By April 2009 there were 29 Saudi insurers in the country including 20 that had completed SAMA's licensing process and were publicly listed; 5 were publicly listed but awaiting a license and 4 were neither publicly listed nor licensed. By the end of the first quarter of 2010, SAMA has approved 33 insurance and reinsurance companies, of which 27 were finally licensed to practice insurance and/or reinsurance (SAMA, 2010a). In addition, one insurance company was listed on the Saudi Stock Exchange but it had not obtained a final license yet to offer insurance services. The Council of Ministers also approved the establishment of five other insurance companies, and two more insurance companies were recommended by SAMA to be approved initially, and their license procedures reached advanced stages (SAMA, 2010b). By July, 2011 SAMA has given operation licenses to seven *takaful* insurance providers to operate in Saudi Arabia (Al Ahli *Takaful,* SABB *Takaful,* Wiqaya *Takaful*

Insurance & Reinsurance, Solidarity Saudi *Takaful*, AlJazira *Takaful Ta'awuni,* Saudi *Takaful* insurance, Watani *Takaful*) (OBG, 2011). The history of AlJazira *Takaful Ta'awuni* is an example that reflects the development of the *takaful* companies in Saudi Arabia and presented in Appendix B.

6.5 SAUDI INSURANCE MARKET BEHAVIOURS

This section addresses different issues concerning the Saudi insurance industry. Among others, the performance of different insurance lines of business, insurance market penetration rate, and the market claim ratio are presented.

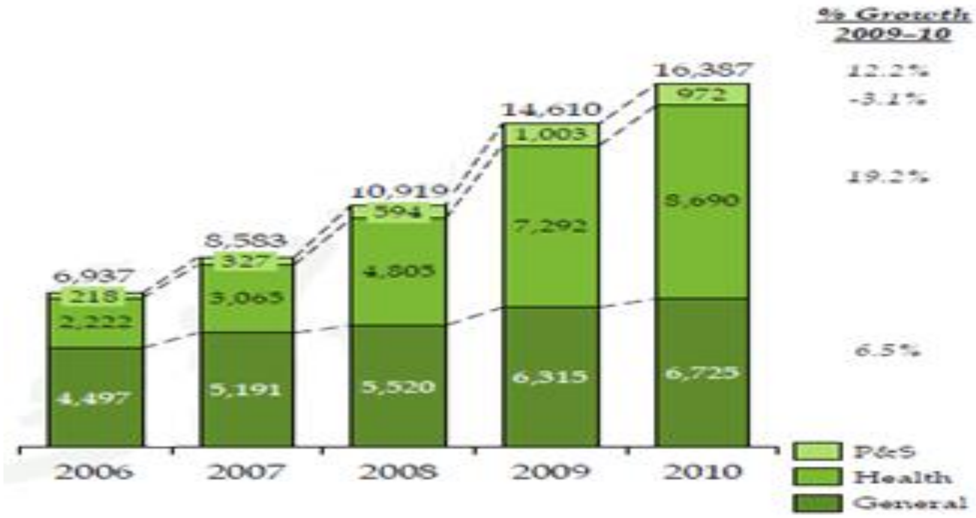
6.5.1 Performance of Saudi Arabian Insurance Market

Saudi Arabia's insurance sector has been able to weather the worldwide financial crisis well, outperforming a number of other business segments to post consistent year-on-year growth throughout the duration of the global economic downturn (OBG, 2011). The country's insurance sector is now able to play a more significant role in the national economy and enjoys a greater capital position as more local businesses and individuals become aware of and recognize the value of having adequate insurance coverage.

Figure 6.1 represents the overall insurance business performance, which has been classified by business line. In 2009, the insurance market witnessed a substantial growth rate of 33.8%, with gross written premium (GWP)[56] reaching SAR[57] 14.6 billion compared to a total of SAR 10.9 billion in 2008. In 2010, the GWP has reached SAR 16.4 billion, which represents a growth rate of 46% (SAMA, 2010b). The increases was due mainly to the growing awareness of the importance of insurance and the favourable economic conditions during the year, as well as the introduction of compulsory motor insurance and cooperative health insurance (SAMA, 2010b).

[56] Net Premium, plus operating and miscellaneous expenses and agents' commissions (Rubin, 2000).
[57] Saudi Arabian Riyal.

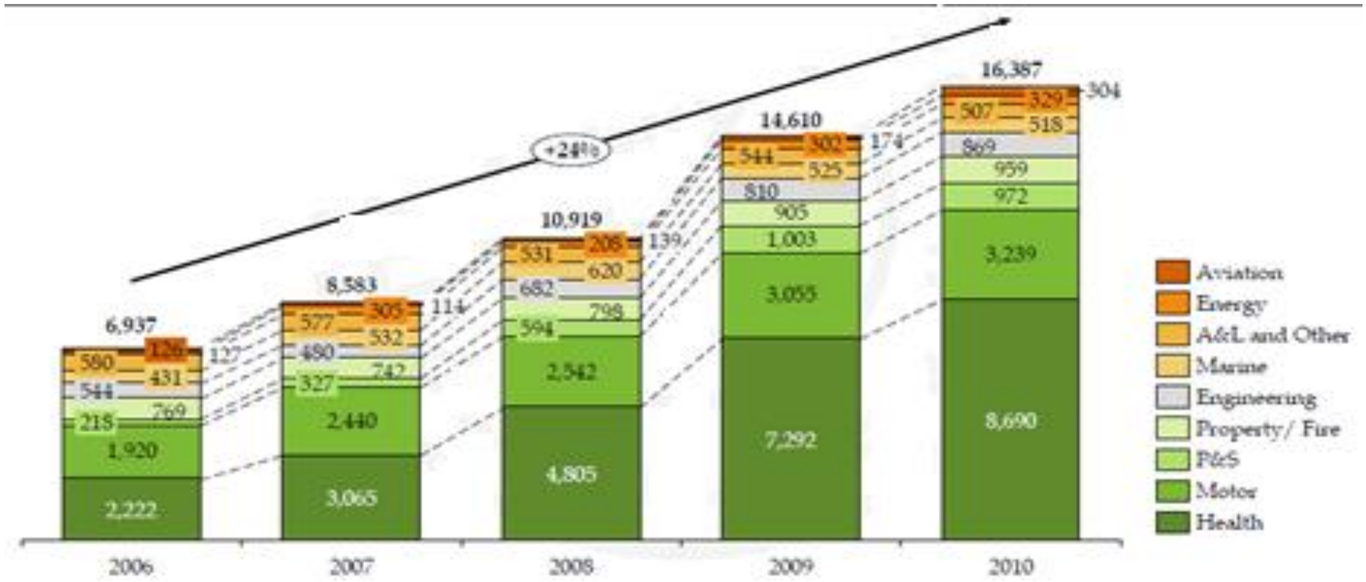
Figure 6.1: Gross Written Premiums (2006 to 2010, SAR Millions)



Source: (SAMA, 2010b)

Health insurance, reported the biggest line of business in 2010, its contribution to total GWP increased from 50% in 2009 to 53% in 2010, followed by general insurance, with a contribution to the total business volume decreasing from 43% in 2009 to 41% in 2010. Protection and Savings insurance remained the smallest line of business accounting for 6% of total GWP, with a decrease in its written premiums by 3.1% in 2010 (SAMA, 2010a). Health insurance became the most demanded line of business in Saudi Arabia, which accounted for SAR 1.39 billion of the SAR 1.77 billion increase in 2010 (SAMA, 2010a). More information on specific insurance line of business growth rates can be found in Figure 6.2.

Figure 6.2: Gross Written Premiums by Line of Business (2006 to 2010, SAR Millions)

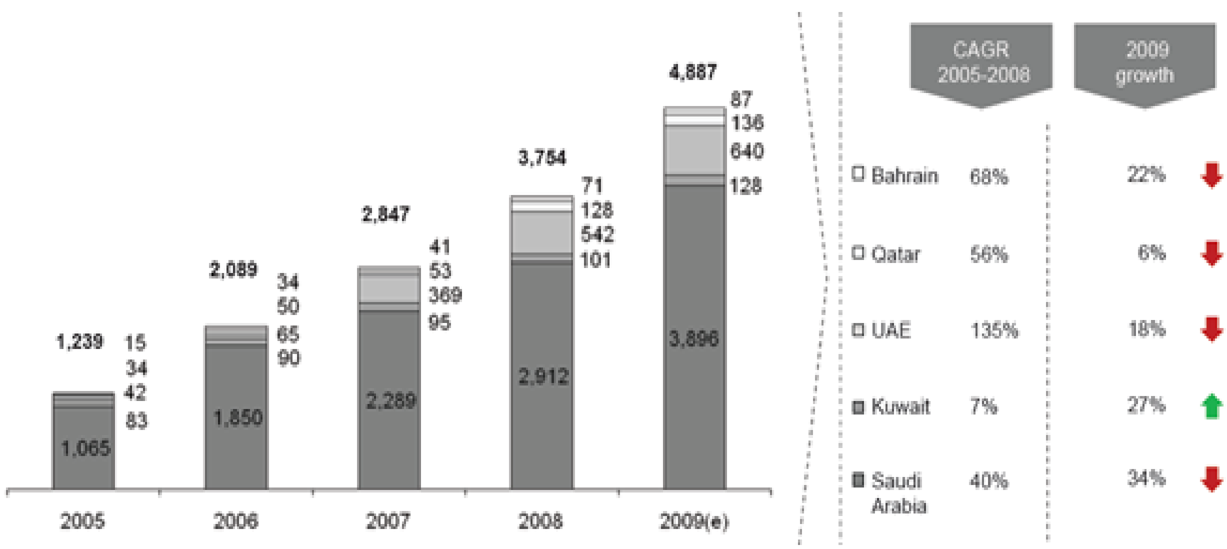


1. Source (SAMA, 2010b).
2. Motor and Health insurance accounted for around 73% of total GWP in 2010.
3. Health insurance (compulsory and non-compulsory) accounted for 53% of total GWP in 2010.
4. Motor insurance (compulsory and non-compulsory) accounted for 20% of total GWP in 2010.
5. Aviation insurance GWP increased by 75% in 2010.
6. Health insurance was the second fastest growing line of business with growth rate of 19%.
7. P&S underwritten premiums decreased by 3%.

The impressive rate of growth seen in 2010 looked poised to continue, with Saudi Arabia's insurance sector believed to be one of the regional industry's prime movers. OBG (2011) referred to the report released in late August 2010 by the Investment bank Alpen Capital, which indicated that the premium growth across the GCC region would increase by some 20% a year between 2011 and 2015, lifting total premium values from the current SAR 67.5 billion to SAR 138.75 billion. Of this total growth, 75% would be concentrated in Saudi Arabia and the United Arab Emirates.

The report also expected that the Saudi Arabian life insurance sector will have a compounded annual growth rate (CAGR) of 48%, while the non-life sector will grow at a steadier CAGR of 14%. Overall, the Saudi insurance sector is forecasted to expand by a CAGR of 18% by the middle of the decade, reaching a total value of SAR 34.62 billion. Insurance is expected to grow due to the forecasted increase in the country's construction industry. This is a result of the government's massive infrastructure investment programme over the next decade, with billions being ploughed into transport, housing, health and education developments. A raft of insurance opportunities will arise from the developments since hundreds of projects will need comprehensive coverage (OBG, 2011). As has been mentioned previously, the Saudi market is dominated by health and general insurance business lines, which currently account for around 71 % of the market's gross written premiums, However, protection and savings products, have become the fastest- growing insurance segment, posting a 68.9 % annual growth and now accounting for 7 % of gross written premiums, largely attributed to the introduction of Islamic insurance (*takaful*) products (SAMA, 2010a). Accordingly, while most of the GCC markets have witnessed a slowdown in *takaful* growth, the exception is the Saudi market which remains strong. Figure 6.3, shows the compound annual growth rate (CAGR) of GCC countries from year 2005 to 2009.

Fig 6.3: Gross *Takaful* Contributions in the GCC (US$ million)



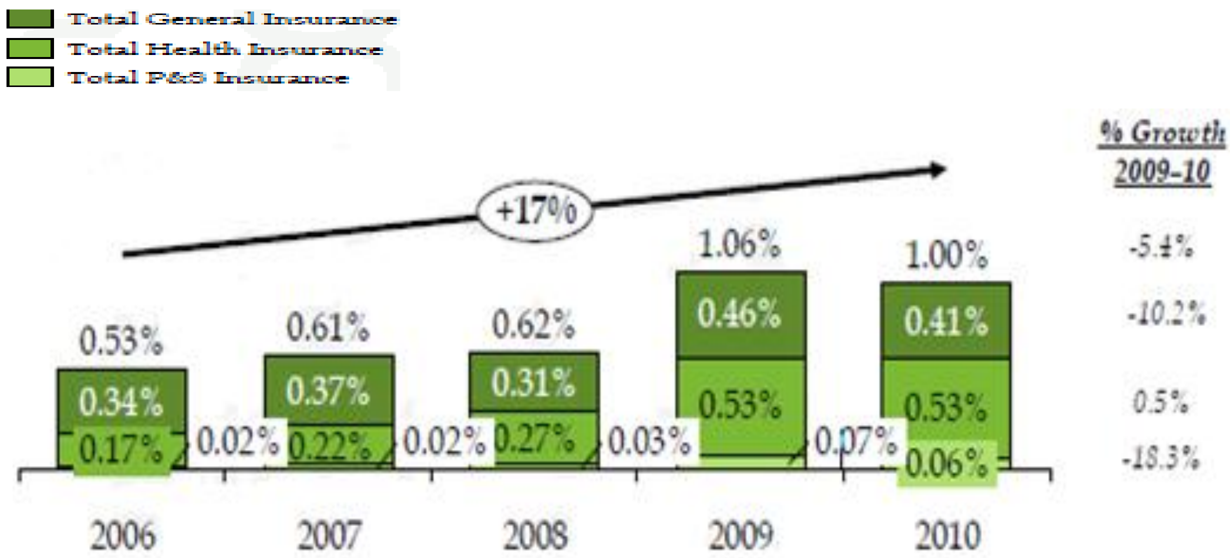
Source (E & Y, 2011).

6.5.2 Insurance Penetration in the Saudi Arabian Market

Insurance penetration (GWP/GDP) has been growing at a CAGR of 17% in Saudi Arabia. Over the past five years the increase in the insurance market penetration was attributable to the growing demand for all types of insurance (SAMA, 2010a). However, in 2010, insurance penetration decreased to 1%, down from 1.06% in 2009, mainly due to a strong growth in total

GDP (18.6% in 2010 compared to -21.2% in 2009), while the penetration rate of protection and savings insurance was low compared to general and health insurance as shown in Figure 6.4 (SAMA, 2010b).

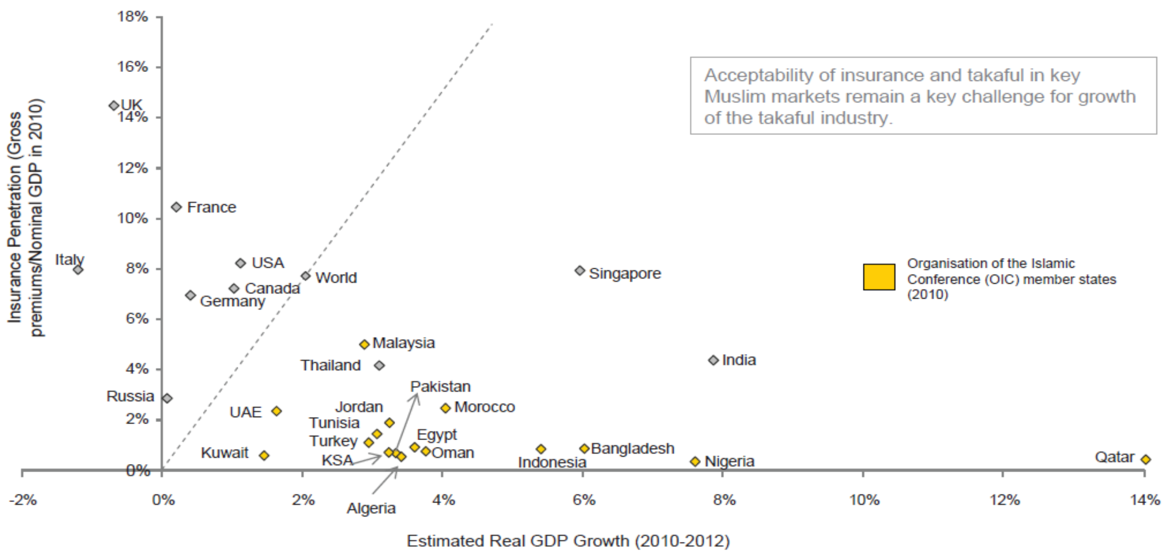
Figure 6.4: Insurance Penetration of Total GDP[2], (2006 to 2010, % of Total GDP)



1. Source (SAMA, 2010a).
2. Total GDP of SAR 1,308, SAR 1,414, SAR 1,758, SAR 1,384, and SAR 1,642 Billion in 2006, 2007, 2008, 2009, and 2010, respectively (SAMA, 2010a).

Despite these impressive penetration figures, however, Saudi Arabia remains one of the world's most underinsured countries. Penetration rates will need to improve considerably if the Kingdom is to reach the levels of more developed markets, both in the region and internationally. Saudi Arabia's insurance sector still has a long way to go before matching levels in many Western countries. Whereas the Kingdom's insurance sector is now valued at 1% of GDP, the ratio of premiums to domestic product is well over 10% in France and around 13% in the UK, as shown in Figure 6.5 (E & Y, 2011).

Fig 6.5: Insurance Penetration and Real GDP Growth for Select Countries



Source (E & Y, 2011).

Saudi Arabia, however, remains the largest *takaful* market in the GCC with contributions of US$ 1.7 billion in 2007 and US$ 2.9 billion in 2008 (E & Y, 2009; 2010). *Takaful* penetration in Saudi Arabia is very low compared to commercial insurance as shown in the table below.

Table 6.1: Saudi Arabian Insurance and *Takaful* Fact Book

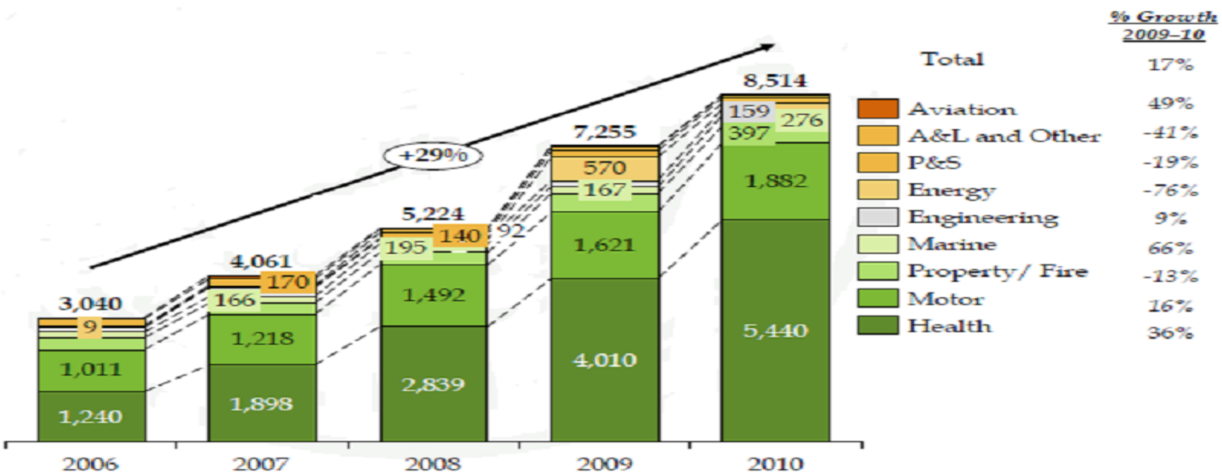
Category	2007	2008
GDP (US$b)	553.5	577.9
Population (M)	27,537,313	28,190,243
GDP / Capita ($)	20,100	20,500
Insurance Premiums ($b)	8.6	10.9
Takaful Premiums ($b)	1.7	2.9
Insurance Premiums / Capita ($)	312	386
Takaful Premiums / Capita ($)	61	102
Insurance Penetration Rate (%)	0.01554	0.0188
Takaful Penetration Rate (%)	0.003072	0.005018

Source: Economic Figures have been taken from Ernst & Young, 2008, 2009; World Development Bank, 2009; insurance and *takaful* penetration figures calculated by the researcher.

6.5.3 Claim Ratio[58]

Total claims paid by line of business in the Saudi Arabian insurance market has reported a straight increase from SAR 5.2 billion to SAR 7.3 billion with a growth rate of 38.9 % between 2008 and 2009, and a recent increase of SAR 8.51billion and 17 % growth rate between 2009 and 2010, as shown in Figure 6.6 (SAMA, 2010b).

Figure 6.6 Gross Claims[59] Paid by Line of Business (2006 to 2010, SAR Millions)



Source (SAMA, 2010a).

Health and motor insurance together, accounted for 82.9 % and 77.6 % of all gross claims paid between 2008 and 2009 respectively, with an increase in gross claims paid that grew by 36 % and 16 %, respectively in 2010. However, in 2009 the highest growth rate in gross claims paid was recorded by energy insurance, rising to SAR 570 million compared to SAR 27 million in 2008 (SAMA, 2010a: 78). In 2010, marine insurance recorded the highest growth rate in gross claims paid, after increasing by 66 % from SAR 167 million to SAR 276 million. These high-growth percentages in gross claims reflected the relatively high ratios of these lines of business of the total market premiums (SAMA, 2010a; 2010b).

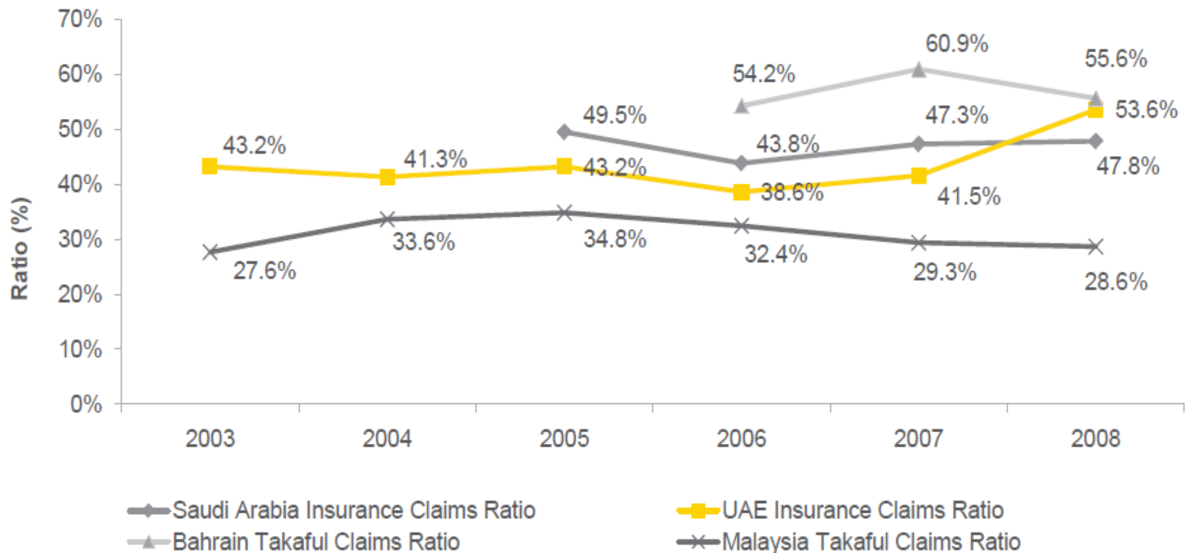
Furthermore, Protection and Savings, which includes *takaful* insurance, has reported a decrease in the claim ratio from 2009, by 19 %, due to compulsory rules that cannot force people to buy a

58 Claim Ratio = Claims Incurred / Earned Contribution (E & Y, 2010).

59 Claims paid during the policy year plus the claim reserves as of the end of the policy year, minus the corresponding reserves as of the beginning of the policy year.

family *takaful* (life insurance) policy. However, *takaful* claims ratios in Saudi Arabia remains high compared to other countries as shown in Figure 6.7, due to structured underwriting practice (E & Y, 2010).

Figure 6.7: Claims Ratios for Different Jurisdictions



Source (E & Y, 2010)

6.6 SAMA Regulations

SAMA has issued a number of laws and regulations that aimed to regulate and standardized the Saudi insurance industry. In August 2005, SAMA issued the Cooperative Insurance Companies Control Law, which contains 25 articles. The main headings for insurance companies operating laws include licensing procedures and conditions, the required capital, key personnel responsibilities, auditing and annual reports, the role of the Ministry of Commerce and the role of SAMA in dealing with insurance companies, *etc.* In the same year SAMA has issued the controlling law that contains 84 articles, which gives an extensive illustration of the previous control laws.

SAMA has also issued a number of specific regulations that address certain issues in the Saudi insurance industry, with the aim of strengthening transparency and accountability and to enable SAMA to enforce better business practices in the Saudi insurance market, some of these regulations are:

- Insurance Market Code of conduct Regulations.
- Risk Management Regulation.
- The Regulation of Reinsurance Activities.
- Insurance Intermediaries Regulation.
- Investment Regulation for Insurance & Reinsurance Companies.
- Actuarial Work Regulation for Insurance & Re-Insurance Companies.
- Audit Committee Regulation in Insurance and/or Reinsurance Companies.
- Outsourcing Regulation for Insurance, Reinsurance & Insurance Service Providers.

Complying with these regulations is mandatory, as the beginning of each regulation document states that non-compliance with the requirements set forth in these codes will be deemed a breach of the Law on Supervision of Cooperative Insurance Companies and its Implementing Regulations and licensing conditions and may subject companies to enforcement action.

SAMA also stipulates at the beginning of every regulation that it is the responsibility of the insurance companies to follow internationally accepted best practices, if it is found that SAMA's regulations have not been fully codified,. SAMA also asserts in each regulation document that insurance companies must establish appropriate internal controls and procedures to ensure and monitor compliance with this code. SAMA has also continued to work on the link project with insurance companies through an electronic system which enables SAMA to monitor the solvency of insurance companies, the volume of written premiums, the quality of assets and obligations and other financial and non-financial data. SAMA has conducted a supervision and control process over insurance companies which include off-site supervision and on-site examinations. These examinations will ensure the companies' prudential procedures, by conducting regular visits to insurance companies that are expected to be granted licenses and those that have already been licensed (SAMA, 2010b, SAMA, 2005a).

The main objectives of SAMA's directives, laws and regulations, and their restricted approach to comply with their regulations and the international regulations is to provide a protection to policyholders and shareholders, encouraging fair and effective competition, and enhancing the stability of the insurance market in Saudi Arabia (SAMA, 2005b). In line with the discussion of the previous chapters the following sections will highlight SAMA's efforts in regulating the

Saudi insurance industry in setting standards in areas of corporate governance and market conduct and disclosures.

6.6.1 SAMA Corporate Governance Regulations

The Saudi Arabian insurance industry is following the neo-corporatism philosophy, which is based on the stakeholder theory. This approach requires the government to play a central role in regulating and organizing the social and economic interests of society and to protect the policyholders' rights which was one of the main objectives announced by SAMA.

To resolve the issue of agency problems and asymmetry of information, SAMA has issued several regulations: the audit committee regulation, the actuarial work regulation, insurance intermediary's regulation, insurance investment regulation, *etc*. SAMA has also defined the responsibilities of the key governance personnel, and requires proper insurance information transparency among all the company staff. SAMA also stresses on the importance of education of the employees to bring qualified knowledgeable personnel to bring the service level of the Saudi insurance market in line with a similar level of the more developed international insurance industry.

6.6.1.1 SAMA Educational Efforts

Given the importance of education among insurance employees, SAMA identifies minimum educational requirements related to the licensing and examination of a person providing insurance and reinsurance services in Saudi Arabia. SAMA also states that it is the duty of each company to keep their employees' skills and knowledge of the insurance business up-to-date and be informed of the products and services offered by the company, or companies, they represent and the intended use of these products and services (SAMA, 2008).

In an effort to educate the financial and insurance sectors, SAMA has launched the Institute of Banking (IOB), which was established in 1965 as the Institute of Banking Training. At that time, the institute provided conventional academic education to banking sector employees, who achieved a diploma in banking and financial studies after they had successfully passed the courses. However, with the development of the banking business and the introduction of advanced technologies in the banking sector, the IOB has continued its march by offering cognitive solutions to the financial services sector, including banks, insurance and investment companies.

Within the framework of SAMA's efforts to regulate the insurance sector and motivate companies and their employees to adhere to professionalism and practice insurance activity on a scientific and methodological basis pursuant to rules, regulations and instructions in force, SAMA has prescribed the Insurance Fundamentals Certificate Exam (IFCE) as a mandatory certificate for employees at insurance and insurance-related companies. It has to be completed over three years in accordance with a timetable which determines the period during which each category of employees must pass the exam. The exams cover rules and regulations of insurance, code of conduct and the basics of insurance operations. These ensure that any employee handling and making decisions affecting customers business has a minimum level of knowledge and competence in the area of insurance.

6.6.1.2 Power and Activities of Key Stakeholders

To overcome the asymmetric information problem, SAMA has implemented several regulations and introduced article laws that can control the discretionary powers of the companies' key personnel. SAMA has implemented the fit and proper programme which requires the insurance and reinsurance services provider's chairman, board members, directors, and senior managers to go through certain procedures to be accepted in the nominated positions. Accordingly, SAMA may object to the appointment of some specific insurance companies Board Members and executive managers. SAMA is putting more restrictions conditions on the nomination of Board of Directors (BoDs).SAMA's permission is required when the insurance company is about to nominate a new member onto the BoDs who previously held a similar position in a company that had been liquidated, or if he was dismissed from a similar position in another company (SAMA, 2005b).

SAMA also restricts BoDs and/or executive officers to hold other sensitive position in the company. For example, SAMA prohibits insurance companies BoDs and/or executive officers from being members of the insurance company audit committee; they are also prohibited to act as responsible actuary, independent actuary, work for any actuarial service company. BoDs are also not allowed to hold similar position in other insurance companies (SAMA, 2005b).

SAMA (2005a: 4) states that, the “chairman, managing director, board member and the general manager of insurance and re-insurance companies shall be each in his respective capacity, responsible for any violation of the provisions of this Law or it’s Implementing Regulations”.

These rules put the burden on the key personnel of the company to act in an honest manner to protect and respect the policyholders’ financial benefits. Violating these rules and regulations can result in the suspension or dismissal of any board member or employee held responsible for such violations (SAMA, 2005b). Accordingly, SAMA requires insurance companies to give a report within 45 days from the end of each year and provide the Agency with the names of members of the BoDs, managing directors, general managers, senior managers in all branches and affiliates and foreign representative offices, including the names and current positions and dates of appointment and the number of years of service in the company. The report also includes their compensation rates in the company (SAMA, 2005b). In terms of shareholders’ power and activities, SAMA has limited the concentration of ownership in the insurance companies. SAMA requested companies to notify them of the ownership of any shareholder who owns 5% or more of the company shares through a quarterly report (SAMA, 2005b).

6.6.1.3 The Audit Committee regulation

SAMA has issued a draft of its audit committee regulations for insurance and reinsurance companies. Among key reforms in the new regulation is the creation of audit committees by all insurers and reinsurers operating in Saudi Arabia. The newly established audit committees will be required to submit reports and recommendations directly to SAMA and to the company BoDs. Companies must maintain adequate records to demonstrate regulation compliance (SAMA, 2011a). On the other hand, the audit committee must have a degree of independence and should consist of at least 3 and no more than 5 members. However, there are certain conditions applicable to being member of the committee (SAMA, 2011a):

I. The committee member should not be an executive director or manager of the company, with a majority of non-board members.

II. The committee member should not be a member of the BoDs or Audit Committee of any other company operating in the insurance sector and he is not entitled to be a founder of any similar companies.
III. The committee member should be familiar with financial issues, accounting, financial reporting and insurance companies' audits.
IV. The company chairman of the BoDs should not be a member or president of the Audit Committee.

The term of the committee is for three years, and the BoDs is entitled to renew the term of the committee or one of its members, after obtaining SAMA's permission in writing for another three-year term and for one time. However, SAMA is entitled to dismiss a member or members of the Audit Committee in case of any violation of this Regulation or violation in the law on supervision and its Implementing Regulation (SAMA, 2011a).

The Audit Committee has certain tasks which include monitoring the performance and implementation of the internal control systems of the company. It should also ensure the effectiveness and efficiency of those systems, verify the implementation of internal control decisions and actions, and verify compliance with SAMA's regulations and its implementations, other applicable laws, regulations, and instructions in addition to the requirements set forth in this regulation. The committee has the task of reviewing the actuary and the external auditor's reports and suggestions and then submitting a recommendations report to the BoDs and to follow up with the BoDs recommendations. The committee has been given an authority to directly contact all employees, committees, legal consultants, internal and external auditors in the company's head office and/or branches, in addition to the other stakeholders. It also has the right without the BoD's approval to check all registers and documents (private and confidential) and regulations to perform its activities (SAMA, 2011a: 8).

To have an effective Audit Committee, SAMA requires insurance companies to structure two departments with one main purpose, which is to provide the committee with the required information they need. The first department is the Compliance Department and is considered as an independent department that reports to the Audit Committee on technical matters and to the Chairman of the BoDs administratively. Its mandate is to report any violations of the laws, by verifying the company's compliance with the laws, regulations, and instructions imposed by

SAMA (SAMA, 2011a). The Internal Audit Department is the second independent department that reports to the Audit Committee on technical matters and to the Chairman of the BoDs administratively. Its mandate is to set the audit action plan for the company, to monitor the company's performance through evaluating and verifying the operations to ensure that there are no financial or non-financial violations of the company's internal systems, particularly to the policies and procedures related to the company's different activities (SAMA, 2011a). Appointment of the managers of the two above-mentioned departments is conducted by the company BoDs after referring to the recommendations raised by the committee after obtaining SAMA's approval. The committee is also responsible for recommending a proper actuary and external auditor to the BoDs after obtaining SAMA's approval.

6.6.1.4 The Actuarial Work Regulation

SAMA has issued the Actuarial Working Regulation to establish procedures for appointing two important kinds of actuaries, the Responsible and the Independent actuaries, and define their roles and responsibilities. The regulation will promote high standards of actuarial practices within the Saudi insurance market, since the insurance company shall ensure compliance with the required actuarial duties and reports. Otherwise, SAMA will appoint an actuary at the company's expense to undertake the actuarial duties (SAMA, 2005b, and 2011b).

To give more accuracy to the actuarial works in the Saudi insurance market, SAMA has assigned a role to the Independent Actuary to review the work of the Responsible Actuary to ensure it complies with the statutory requirements and the professional standards (SAMA, 2011b). The external auditor, the company Audit Committee, and the BoDs shall review the independent actuary report to identify any future risks that the company might face. SAMA has to be provided with copies of these reports in a timely manner (SAMA, 2005b). The Responsible and Independent actuaries should hold a designation of a Fellow, have a prior experience to act as an actuary, have no disciplinary action, suspension or cancellation of membership at any time by the Actuarial Organization of which he/she is a member and should not have been convicted of a felony. Thus, the company shall provide full details of the responsible actuary experience and educational certificates along with the proper and fit form to SAMA. Accordingly, SAMA will notify the company to either keep or replace the Responsible and Independent actuary in case he/she is unqualified to perform the required job (SAMA, 2011b).

Furthermore, the company shall notify SAMA in case of the actuary's termination from the post and the company shall employ or contract another actuary within a period not exceeding 45 days from the date of termination (SAMA, 2011b). Accordingly, SAMA has stated that no one can exercise the duties of actuaries in the Saudi insurance market without obtaining SAMA's prior written approval, in accordance with the requirements of laws and regulations, since the actuary shall be professionally liable for his/her advice and technical services provided to the company (SAMA, 2011b). The Responsible and Independent actuaries have the right of access at all times to the accounting books, other records and documents of the company and be entitled to require from the BoDs and senior management of the company the information and explanations deemed necessary for the carrying out of their duties and the company should provide it to them (SAMA, 2011b). The Responsible and Independent actuaries shall, in the presence of immediate or future risks facing the company, and/or if the company breached the provisions and laws of SAMA or other international insurance laws and regulations and/or if the company has not allowed them to perform their duties, submit a report on an urgent basis directly to the company's BoDs. The BoDs shall examine the report and recommend corrective actions, and forward all related information to SAMA within ten working days after receiving the actuary report (SAMA, 2011b).

6.6.1.5 SAMA Claims and Indemnities Handling Procedures

As an effort to satisfy policyholders' losses, SAMA identifies certain procedures for proper claims and indemnities. Insurance companies in Saudi Arabia should set up a claims department with procedures for accepting policyholders' claims, claims evaluation and processing (SAMA, 2005b; SAMA, 2008). The claims department must respond to the policyholders' claims in a prompt manner. Thus, the insurance company should provide adequate guidance to the insured customer by filling in an information form which will include the claims of the beneficiary under a protection and savings policy. Upon filling the right form the company shall notify the policyholder of the receipt of the claim, and informing the policyholder of any missing information and documents within 7 days from receiving the claimant's application form. The insurance company shall also update the policyholder about the progress of the claim request at least every 15 days (SAMA, 2008). When necessary the insurance company shall appoint a loss adjuster to conduct a reasonable investigation of the claim within a time period not exceeding 10 days, and the insurance company shall notify the customer of such an appointment within 3 working days. Accordingly, the insurance company shall notify the policyholder in writing of the claim acceptance or refusal promptly after completing the investigation with the reasons for that (SAMA, 2008).

In case of disputes about the claim, the insurance company shall explain to the policyholder how to fill a dispute form; by filling the dispute form the complaint will be escalated to the claims committee (SAMA, 2008). The requirement for a claims committee was established by the Edict of the Council of Ministers on a recommendation of the Minister of Commerce, with an objective to resolve disputes arising between insurance companies and their customers or between the company and other companies when they subrogate[60] the policyholders and settle violations of supervisory instructions issued to insurance companies. The committee consists of three specialized members, one of whom, at least, must be a legal consultant (SAMA, 2005a).

6.6.2 SAMA's Market Conduct and Disclosure Reforms

As has been explained in Chapter 4 market conduct as a term refers primarily to the way insurers deal with policyholders whether directly or through intermediaries; it also covers other market players such as investments managers (Casey, 2009). SAMA pays a lot of attention to market conduct as is apparent in its regulations which state the following at the beginning of each issued regulation:

> Insurance companies operating in Saudi Arabia shall act in an honest, transparent and fair manner, and fulfil all of their obligations to customers, which they have under the laws, regulations, and SAMA guidelines. Insurance companies should not unfairly discriminate between customers; treatment should not differ based on customer race or gender and insurance companies shall take a reasonable measure to identify and address conflicts of interest to ensure fair treatment to all customers.

[60] Insurance policy giving an insurer the right to take legal action against a third party responsible for a loss to an insured for which a claim has been paid (Rubin, 2000).

An example of good market conducted by SAMA is fair pricing of an insurance policy, which states that insurance companies shall provide SAMA with the justifications and the basis used in setting the insurance policies prices. The insurance policy prices shall be fair and reasonable in accordance with the company's underwriting guidelines and appropriateness to the risks undertaken by the company (SAMA, 2005b).

6.6.2.1 Disclosure of Information to Customers

As has been explained in Chapter 4 one of the IAIS (2011), core principles is ICP 20 that deals with Information, Public Disclosure and Transparency towards the market. In line with ICP 20 principles of IAIS, SAMA has affirmed that the insurance company shall communicate all relevant information to customers in a timely manner to enable them to make informed decisions, hence, companies must take reasonable measures to ensure the accuracy and clarity of the information provided to customers and make such information available in writing (SAMA, 2008).

The wording of the document shall use simple language and sentences, and printed in clear, readable text, with no fine print. The policy shall include a disclosure statement indicating that the policy contract is the entire contract. The policy should reflect the coverage period, and coverage descriptions and limits, deductibles and retentions, insurance rates and premium amounts, basis of premium calculation and the amount of commission paid under the policy (SAMA, 2008). The policy shall also give a description of the insured's duties after a loss has been incurred, and description of the claims and dispute handling procedures (SAMA, 2008). Furthermore, the insurance company shall also notify customers promptly of any changes in the disclosures or conditions made to the customers at the time of entering into the insurance contract. This includes changes in the company's' contact details and changes in the claims filing procedure (SAMA, 2008).

The annual statements are considered vital pieces of information to policyholders. Accordingly, the insurance company should provide an annual statement to their policyholders to include the projected amount received at the policy period, with the current sum insured, total premiums paid in the previous year, while the insurance investments policy should show the value of the units in each fund (SAMA, 2008).

Another important disclosure issue is policyholders' rights whenever an insurance company is planning to cease their operation in Saudi Arabia. Accordingly, SAMA has requested insurance companies to provide evidence that they have fully discharged their obligation to the policyholders, and they shall provide evidence that they kept aside an adequate reserve to meet their obligations toward the policyholders. The insurance company shall also transfer all policyholders' policies in force to another company. Insurance companies shall also announce their intention to cease their insurance services in two local newspapers, and policyholders shall file their objections to SAMA within a period not exceeding three months from the publishing date of the notice (SAMA, 2005b).

6.6.2.2 Policy Cancellation

An important issue that can create difficulty to policyholders is the lack of proper ways to cancel an insurance contract or not having proper channels to leave the company whenever policyholders no longer like the service or the products presented by the insurance company. To tackle this problem SAMA indicates that the insurance company should include cancellation terms that are fair and reasonable to customers and are appropriate with regard to the product. The cancellation conditions must be clearly stated in the policy contract, with a description of the premium refund due to the policyholder's cancellation of the policy and when it would be payable (SAMA, 2008). The insurance companies shall not cancel a valid insurance policy except for conditions stated in the policy cancellation clauses, and the company shall provide credible reasons for denying, cancelling, and not renewing the policyholder's insurance policy (SAMA, 2005b). However, when a cancellation occurs the company shall refund the premium on a pro-rata[61] basis (SAMA, 2005b: 17). The insurance company shall notify the policyholder in writing with cancellation notice requirements and period, where the period shall be afforded to the policyholders with a minimum of 30 days (SAMA, 2008). However, the policyholder may

[61] Revocation of a policy by an insurance company, return to the policyholders of the *unearned premium* (the portion of the premium for the remaining time period that the policy will not be in force) (Rubin 2000).

cancel the insurance policy and recover part of the paid premium, provided there are no unpaid or outstanding claims (SAMA, 2005b).

On the other hand, SAMA has identified a certain timing period for policyholders to test the suitability of the insurance contract to suit his needs. The insurance company shall provide at least 21 days from the date of delivery of the insurance contract for the policyholder to review the contract to assess its suitability and whether it provides the benefits described (SAMA, 2008).

6.6.2.3 Brokerages and Intermediaries

SAMA has issued the Insurance Intermediaries Regulations in (2011c) which states that non-compliance with this regulation may subject intermediaries to enforcement actions (SAMA, 2011c: 5). SAMA stresses that the intermediaries shall act in an honest, transparent and fair manner to fulfill their obligations towards policyholders and the insurance company, and where these obligations have not been fully codified intermediaries should abide by internationally accepted best practice. SAMA also stresses that the intermediaries shall have proper knowledge, training and enough experience (SAMA, 2011c).

SAMA also identifies the duties of intermediaries which are to communicate all relevant information including coverage details, conditions, exceptions and restrictions of the insurance policy to the customers in a timely manner, and to ensure that customers are aware of the commitment they are about to make to enable them to make a suitable decision. Hence, intermediaries will have the burden to take all the necessary measures to ensure that the customer fully understands the type of service being offered and to ensure that the policy proposed is suitable for the customer's needs. Intermediaries shall advise on the matters within their field of expertise and seek or recommend specialists if necessary, to identify and address conflict of interest to ensure fair treatment to all clients (SAMA, 2011c). In another regulatory document, SAMA (2005b) identified the duties of intermediaries to provide customers with comparisons in terms of price among several products, premiums paying mechanism, services fees charged and additional fees that might be encountered, guidance of the claim and proper handling process.

6.6.2.4 Investment and Surplus Distribution Disclosure

In an effort to regulate the investment technicalities and administrations of the Saudi insurance industry and to protect stakeholders' financial benefits, SAMA (2011d) has issued the investments regulation. In this regulation SAMA has stressed the importance of the insurance company to adopt an investment policy that complies with the SAMA regulations. All insurance companies operating in Saudi Arabia shall establish an investment policy and submit the policy to SAMA on a quarterly and yearly basis for approval. The investment policy shall include the company's investment strategy, rationale for asset allocation and values, investment management and governance structure, segregation of investment assets with described details of assets classes, policyholders' and shareholders' funds segregation, asset portfolio testing and valuation analysis, investment performance measurements, audit and internal procedures to control investments procedures and encountered investments risk. SAMA stresses the importance of communicating the investment policy to all company departments and staff members for transparency and easiness of information transference among the whole of the employees. SAMA also requires that the insurance company assign a qualified and expert employee who will be responsible for implementing, conducting, monitoring, controlling and reporting investment activities.

SAMA regulation maintains that the insurance company shall have an effective disclosure system to reflect investment qualitative information to the public in general and to policyholders in specific. The company disclosure system shall reflect investment performance management, assets historical cost, methods used to monitor performance, investments assets classes' criteria, expected future return and cash flow, and expected expenses. Insurance companies are also required to disclose specific information about each assets class, for example if the investments portfolio includes *sukuk* or bond security assets, properties assets, equities/securities assets, *etc*. The company shall also break these assets down into small classes. In the case of bond security assets, the company shall break it down by government, semi-government and corporate securities with its rating percentage and maturity date. SAMA has also classified the percentage of the investments portfolio assets class, in accordance to the type of insurance activities, general, protection and savings (which includes family *takaful*) as per Table 6.2:

Table 6.2 Assets classes' percentages in the investments portfolio: General Insurance and Protection and Savings Insurance.

Investment Type	Percentage for General Insurance	Percentage for Protection and Savings Insuranc
Saudi Authorized Banks	20% minimum	10% minimum
Saudi Government Bonds	20% minimum	10% minimum
Saudi Riyals Denominated Investment Funds	10% maximum	15% maximum
Foreign Currency Denominated Investment Funds	10% maximum	10% maximum
Foreign Government's Bonds (Zone A)	5% maximum	5% maximum
Bonds Issued By Domestic Companies	5% maximum	5% maximum
Bonds Issued By Foreign Companies	5% maximum	5% maximum
Equities	15% maximum	15% maximum
Real Estate in Saudi Arabia	0%	5% maximum
Loans Secured by Real estate Mortgages	0%	5% maximum
Loans Secured by Policies Issued by the Insurer	0%	5% maximum
Other Investments	15% maximum	15% maximum

Source: SAMA (2005b)

SAMA prohibits investments activities in certain assets classes without its permission *i.e.* in derivatives, structured products, hedge funds, deposits with foreign banks, private equity investments and any off-balance-sheet instrument. Furthermore, SAMA enforces the role of specialists involved in running the company investments activities. A number of key investments personnel are identified by SAMA that have a direct and/or indirect relationship with the company investments activities, such as BoDs, investments managers, investments committee, actuary, audit committee, the role of BoDs, investment committee and senior management in overseeing, and being accountable for, investment activities. The financial statements that are presented to SAMA include a determination of the earned premiums and other insurance operations revenues with the determination of the incurred indemnification. The company presents the obtained surplus distribution by making a difference between the total incurred premiums and indemnification, less the marketing, administrative, technical provisions, and other general operational expenses (SAMA, 2005b).

The insurance company shall also indicate the net surplus figures, by adding the investment return of the policyholder's invested funds, and subtracting the general expenses related to the policyholder's portion of the investment activities, where 10% of the net surplus shall be distributed to the policyholders directly, or in the form of reduction in premiums for the next year, the remaining 90% of the net surplus shall be transferred to the shareholders' income statement (SAMA, 2005b). Furthermore, 20% out of the 90 % of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts reaches 100% of the paid capital. Hence, SAMA is stressing the importance of documenting and disclosing the mentioned surplus distribution mechanism to the public, and SAMA's written approval of the company surplus distribution mechanism will be based on the accuracy of the insurance company in achieving the required percentage for policyholders' net surplus distribution and timing (SAMA, 2005b).

6.7 SUMMARY AND CONCLUSION

This chapter has complemented the previous chapter's effort to reflect the ideal policies and regulations and aims to ascertain a proper benchmark that should be used by the TOs in Saudi Arabia to provide the required protection to policyholders. By doing so, the chapter has addressed esearch question 2 which requires reflection of the current regulations, laws and reforms polices that have been imposed by the main financial regulatory body, SAMA. This chapter has shown the development process of the insurance industry in Saudi Arabia and how it has been recently (end of 2003) shifted from an unregulated insurance market that issued no licenses to insurance companies, to an organized and well- controlled insurance market that oversees and licenses all insurance-related business, with certain objectives to protect stakeholders and bring stability to the insurance industry in Saudi Arabia. This chapter also presents the recent status of the number of insurance companies operating in Saudi Arabia,. A reflection on the Saudi insurance market's current behaviours, in terms of market performance, gross written premium and compounded annual growth rate, claim ratio and the Saudi TOs claims ratio among international *takaful* markets, has also been provided in this chapter.

To consolidate SAMA's role in the controlling and supervising process, the agency has become a member of the International Association of Insurance Supervisors (IAIS). SAMA has also established a project to be electronically linked with the insurance companies operating in Saudi Arabia to enable SAMA to monitor insurance solvency situations. It has also been stressed that a certain qualification level or exam, the Insurance Fundamentals Certificate Exam (IFCE) should be obtained by most of the employees who are working in the Saudi insurance industry, for better market conduct approach. SAMA has also issued a number of reforms regulation and polices that simulate the international insurance organizations standards. Adherence to these regulations is considered mandatory and any breach found may cause SAMA to seize the operation of that company. Regulations are such as Market Conduct Regulations, Intermediaries Regulation, Investment Regulation, Actuarial Regulation, and Audit Committee Regulation. SAMA has made it mandatory for any insurance company operating in Saudi Arabia to establish an internal audit department and to establish an audit committee, to ensure the effectiveness and efficiency of the company performance and verify compliance with SAMA's regulations and its implementations. Insurance companies shall also establish an investments policy to be submitted to SAMA on a quarterly and yearly basis. The policy shall include statements of investments performance, assets segregation of policyholders and shareholders, measurement methods to assess investment performance, measurement of investments risk, *etc*.

A mechanism of filtering or reviewing the operations of the insurance companies has been established by SAMA by requiring them to have audit committees. The audit committee will be responsible for reviewing the internal audit department decisions, reviewing the work of the actuary and the external auditor's reports and suggestions and then submitting a recommendation report to the BoDs, while the independent actuary is in charge of reviewing the reliability of the responsible actuary reporting and decision. Another important subject that has been addressed by SAMA is clarifying the rules and activities of the company's governing personnel, with the form of relationships between them For instance the company BoDs and/or executive officer cannot hold a position of Responsible actuary, Independent actuary or even cannot be a part of the audit and/or investments committee. SAMA also stressed the vital roles of intermediaries in that intermediaries shall communicate all relevant information in an honest and timely manner with the policyholders.

CHAPTER SEVEN
RESEARCH METHODOLOGY AND FRAMEWORK

7.1 INTRODUCTION

This chapter has the purpose of presenting the framework of the research methodology used to conduct the empirical work to address the remaining research questions. In doing so, it connects the preceding informative literature review chapters with the coming empirical and analysis chapters. Based on the previous literature, polices and standards from national and international insurance bodies, a questionnaire was constructed to collect data to carry out statistical analyses so that the research objectives are met.

This chapter is organized as follows: section 7.2 outlines the meaning of research methodology and proper framework to conduct a research. Section 7.3 presents proper research design and strategies. Section 7.4 highlights several techniques used in the research methods. Section 7.5 focuses on the research objectives and questions and relates these to the questionnaire contents, research instruments and variables. Section 7.6 deals with sampling process, data collection, data analysis, data quality and reliability. Section 7.7 presents the pilot testing process. Section 7.8 highlights the operationalizing data collection and participants' response rates. While Section 7.9 represents different techniques used to analyze the collected data, Section 7.10 reflects data quality and reliability approach. Section 7.11 reflects on limitations and difficulties faced in empirical work. Section 7.12 draws conclusion.

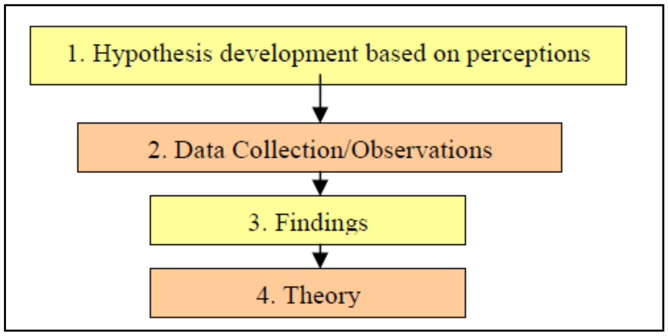
7.2 RESEARCH METHODOLOGY AND APPROACH

A research methodology can be defined as a framework which may be inclusive of research design, theoretical frameworks, the selection and analysis of relevant literature, and justified preferences for particular types of data gathering activities (Saunders *et al.* 2007). It is the wider research framework which includes, among others, the research design and research methods *i.e.* data collection and analysis techniques (Saunders *et al.*, 2007). Kumar (2008) also defines research methodology as a way of systematically solving the research problems. Hence, appropriate research methodology and procedures would assist the researcher in developing clear research framework to resolve research problems to meet research objectives and goals.

There are two types of research methodology, namely quantitative and qualitative. While quantitative research methodology is a process which involves observations that are quantifiable or data that can be converted into numbers, qualitative research methodology is used to observe or investigate matters that relate and affect human behaviour, which covers the study of people's culture, value systems, attitudes, behaviours, concerns, motivations, and aspirations (Kumar, 2008). In order to achieve the main aim of studying how to protect participants rights in the *takaful* fund, the current study investigates the following two aspects, (i) search a particular aspect of human behaviour, namely *takaful* participant satisfactions by exploring their perceptions, knowledge and preferences about the services and products offered by the TOs in Saudi Arabia, (ii) comparing the Saudi Insurance Regulatory Authority directives and laws with the international *takaful* regulations to provide the protection for the participants which will eventually lead to their satisfaction. Hence, the current analysis would qualify as a qualitative study because the study explores participants' behavioural towards the *takaful* services and products and will also provide an interpretive and comparative study of the current Saudi insurance regulations and the international insurance standards with respect to providing proper protection mechanism to the *takaful* participants in Saudi Arabia.

Furthermore the research methodology and research approach cannot be looked at in isolation, as they are interrelated (Saunders *et al,* 2007). Bryman *et al* (2003) state that social research which studies behavioural aspects can be conducted by using either an inductive or a deductive research approach. The deductive approach aims at testing theories by deducing them into hypotheses and then testing these hypotheses to confirm or modify a theory in the light of the findings. Such an approach is associated with quantitative research and positivism (Bryman, 2008). The main idea of the inductive approach begins with an idea or expectation which may develop into a research hypothesis. The research hypothesis is then tested. Accordingly, data need to be gathered through various data collection methods such as interviews, observations, surveys, or a combination of them. The results of the observations are used to form a general preposition or a theory. This approach will be associated with qualitative research and interpretivism (Bryman *et al*, 2003; Bryman, 2004; Easterby-Smith, Thorpe *et al.*, 2008). Figure 7.1, shows the process of the inductive approach.

Figure 7.1: The Process of Induction



Source: Bryman *et al* (2003:12)

This research primarily uses the inductive research approach which is considered the most appropriate method, since data collected from observations will be used to form conclusions concerning participants' behavioural aspects towards the *takaful* insurance services and products in Saudi Arabia. The results from participants' perceptions along with reviewing and comparing the Saudi Insurance Regulatory Authority directives and laws with the international *takaful* regulations will provide suggested recommendations for both *takaful* operators (TOs) and for the Saudi Insurance regulators. This will be done with one objective *i.e.* to provide the protection to participants that will eventually lead to their satisfaction. Such an approach is expected to produce useful results for developing theoretical bases to find a better service for *takaful* participants not only in Saudi Arabia but worldwide.

7.3 RESEARCH DESIGN AND STRATEGIES

Research design or strategies, as very crucial factors in any particular area of research, is the vehicle through which all the research questions will be properly put into perspective and a proper general plan can be formulated in order to achieve the research objectives (Bryman *et al*, 2007; Saunders *et al.*, 2007). It constitutes the blueprint for the collection, measurement and analysis of data. The research design provides answers for questions such as, what techniques will be used to gather data, what kind of sampling will be used, how time and cost constraints will be dealt with (Cooper *et al*, 2003). In other words, it is a master plan specifying the methods and procedures for collecting and analyzing the needed information (Zikmund, 1991). Thus, when undertaking a research project a proper research design must be formulated by using the most appropriate tools. Since, each method and tool has its own advantages and disadvantages.

The researcher can achieve the research aims and objectives, as well as accurate results and conclusions by selecting the right research process and by putting all research questions into perspective and formulating a general plan in which research objectives can be met (Saunders *et al.,* 2007). However, before proceeding with the research design, the researchers must decide and identify the purpose of their study. Accordingly, there will be three main designs of study classifications: "exploratory, descriptive and explanatory" studies (Sekaran *et al*, 2009; Saunders *et al*., 2007; Kothari, 2004; Kumar *et al.,* 2002; Sekaran, 2000).

An exploratory study is undertaken when not much is known about the situation at hand, or when the researcher is looking for answers to unknown situations or in a situation when there is not much information available to solve such a problem (Sekaran *et al*, 2009; Saunders *et al.,* 2007; Sekaran, 2000; Zikmund, 2003; Churchill, 1983). While, the hypothesis testing study or explanatory study is conducted to explain the interaction or causal relationships between variables or differences among groups in a situation that contribute to, or result in, a particular observed phenomenon or outcomes (Saunders *et al.,* 2007; Sekaran, 2000). Meanwhile, the descriptive study is used when the purpose of the study is to give an accurate description of the profile or characteristics of variables of interest in a situation, *i.e.* the descriptive research study will describe the characteristics of the variables of interest in a situation (Sekaran *et al*, 2009). Hence, the main difference between the descriptive study and exploratory study is on the depth of the research. Exploratory study is useful if there is a limited knowledge or research available on the subject matter, or phenomenon of interest. Therefore, an exploratory study involves extensive preliminary works in order to build a comprehensive understanding on the research topic, followed by data analysis.

Furthermore as some of the authors have described research strategy as research design, six research designs comprise experimental design or research strategies: experimental design, cross-sectional or survey design; longitudinal design; case study design; and comparative design, as described and shown in Table 7.1:

Table 7.1: Types of Research Design Strategy

Research design	Description
Experimental	A design employed to determine whether any changes in one or more independent variables affect one or more dependent variables.
Cross-sectional	A design where the collection of data is based on more than one case at a single point in time in connection with two or more variables to detect patterns of association.
Longitudinal	A process where the collection of data is made at several points in time.
Case study	An in-depth, intensive and contextual analysis of similar situations of a single case such as a single community and a single school.
Comparative	A design strategy where the researcher is using identical methods for two or more contrasting cases, for example in a study of cross-cultural and cross-national research.
Survey	A strategy that adopts a standard format which would allow the researcher to collect a huge amount of data and analyze it using descriptive and inferential statistics.

Source: (Bryman *et al*, 2007; Saunders *et al.,* 2007)

Based on the nature of the topic being investigated and for better achievement of research objectives, this research uses a combination of strategies. Accordingly, survey techniques using a cross-sectional data have been used, as well as case studies of the TOs in Saudi Arabia. Furthermore, this study also combines the research purpose through exploratory, descriptive and explanatory means. The combination of design strategies will enhance achieving the objectives of the research as suggested by Saunders *et al.,* (2007). Therefore, the study is exploratory since the research attempts to explore *takaful* participants' satisfaction levels, through an exploration of their perceptions, knowledge and preferences. The research is also explanatory since the research will study the relationship of three independent variables (participants perceptions about the TOs disclosure system, participants knowledge and participants preferences) on participants' satisfaction as a dependant variable. The study is descriptive, because it contributes to understanding the behaviour of participants towards the *takaful* products, *i.e.* their perceptions, knowledge, preferences and their satisfaction level about the *takaful* products and services. The research also makes descriptive contributions by comparing the international insurance and *takaful* corporate governance and market conduct standards (that have been adopted by the international insurance and *takaful* organizations and bodies) with the current Saudi insurance regulations and directives to come up with better protection for the *takaful* participants.

7.4 RESEARCH METHODS

Another important element under the research methodology framework is the research method, which is quite important since it is related to how the data is collected and analyzed (Creswell 2003; Saunders *et al.*, 2007). Hence, research methods are quite vital since they will define the suitable processes and techniques adopted by researchers in gathering their data for analysis. There are two types of research approaches that could lead to a data-gathering process namely, ‘qualitative’ approach and ‘quantitative’ approach. The qualitative research method is defined as “research involving analysis of data/information that is descriptive in nature and non-quantified” (Sekaran, 1992: 424). The quantitative approach will involve the collection of mass data which predominantly with quantity (Creswell, 1998; Grix, 2001). The quantifiable data has a few variables and many cases which can be analyzed using statistical tools, which can be interpreted by subjective experiences (Grix, 2001).

As a result, the researchers must be able to identify the most suitable approachable methods for better achievable results which can bring the ultimate way to answer the research objectives by bearing in mind the advantages and disadvantages of each method (Easterby-Smith, 2008; Thorpe *et al.*, 2008; Bryman *et al*, 2007; Bryman, 2004; Bryman *et al*, 2003). In the context of this research, as has been mentioned earlier, the main objective of the current research is to find a proper way to protect participants by, (i) exploring participants behaviour towards the *takaful* products (perceptions, knowledge, preferences, and satisfaction level), and (ii) analyzing and comparing the Saudi insurance directives with the international ones. To achieve both objectives a survey technique to gather cross-sectional data has been used, as well as case studies of the TOs in Saudi Arabia, leading to a combination of research purpose *i.e.* exploratory, descriptive and explanatory. Accordingly, a quantitative technique will be used to cover the first part of the main objective, since it will include a collection of mass data which can be analysed later using statistical tools. A qualitative method will be used to cover the second part of the main objective, since it will include an analysis of information that are descriptive in nature and non-quantified such as reviewing the international and local insurance directives to come up with the required recommendations to serve the interest of the *takaful* participants. Thus, the current data-gathering technique will follow the triangulation method, in which two or more research methods can be used to achieve the research objectives and to answer the research questions. The triangulation technique frequently results in superior research results (Johnson and Onwuegbuzie, 2004). Implementing the triangulation method will serve to expand the understanding of one method to another and to confirm findings from different data sources (Creswell, 2003).

7.5 RESEARCH INSTRUMENTS

Several research instruments are available when collecting data which range from questionnaires to different interview structures. However, the researcher should consider and plan to have good response rates and good data analysis tools; such considerations must be given great importance when deciding and formulating research instruments (Vaus, 2002).

7.5.1 Data Collection Tools

Primary data and secondary data are the two main categories in any research project; the primary data refer to information obtained firsthand by the researcher on the variables of interest for the specific purpose of the study, while the secondary data represent information gathered from sources already existing (Sekaran, 2003). The primary data is mainly conducted because data is subjective and not readily available. The primary data sources can be individuals, focus groups, and panels of respondents *etc*. However, data collected by other researchers for a specific purpose is not necessarily suitable for other research efforts. Churchill (1983) also explained that the primary approach is suitable for the following types of data: demographic/socioeconomic characteristics, attitudes/opinions, awareness/knowledge, intentions, motivation, and behaviour. While, secondary data can be obtained from other sources, either published or raw format (Saunders *et al*., 2007). The sources include government statistical reports and publications, industry analysis, economic indicators, companies' financial reports and shares prices, and other similar information which are available from reliable sources. Therefore, due to unavailability of suitable data about the *takaful* industry in Saudi Arabia, and also due to the nature and objectives of this research which is to aspect participants' perceptions, knowledge, preferences and satisfaction level, the most appropriate way of obtaining data is through a primary data collection process. In fact, this method has been widely used by other similar studies, for example in the research conducted by Erol *et al* (1989), Erol *et al.* (1990), Kader (1993), Haron *et al*. (1994), Okumus (2005), and Dusuki (2007).

Churchill (1983) divided primary data choices into two broad categories, namely communication and observation. Communication is a method where the researcher needs to ask the respondents questions in order to secure the desired data. By contrast, for the observation method, the researcher needs to observe the subject matter or area of interest, and subsequently the relevant facts, actions, or behaviours are recorded. The communication choice can be further broken down into two main methods, namely interview and survey method. Saunders *et al.* (2007) have listed three main interview techniques, each of which has its own advantages and disadvantages, according to its suitability for the area of research.

Meanwhile, Wilson (2006) and Burns *et al* (2003) have explained the survey methods quite extensively through various interviewer-administered and also self-administered techniques. A self-administered survey means that the prospective respondents will complete the given survey questionnaire by him or herself without any interference from the researcher (Burns *et al*, 2003; Wilson, 2006). On the other hand, the interviewer-administered survey is a technique where the questions of the survey are being read out and recorded by the researcher or enumerators either face-to-face or by telephone (Burns *et al*, 2003; Wilson, 2006). The researcher should make sure that respondents will answer the questionnaire without interference. Burns *et al* (2003) asserted that answering the questionnaires without any interference by the researcher make the respondents more comfortable and honest in answering them.

Furthermore, the telephone interviewer-administered surveys have many advantages over face-to-face interviews for various reasons. Colombotos (1969) illustrated telephone costs are lower than the expenses the interviewer would have incurred in travelling from one candidate to another, especially if the respondents were not at home, busy, or unavailable. Uhl *et al.*, (1969) illustrated that, when comparing the cost per return between personal, postal, and telephone interviews, the latter is much the cheapest option. Also, in impersonal situations, some evidence indicates that a participant is more likely to be candid (Buzzell *et al.*, 1969), and a significant level of anonymity is secured by telephone usage (Falthzik, 1972). Meanwhile, Larsen (1952) argued that face-to-face interviews may increase the likelihood of prestige-motivated overstatements by participants as compared with phone interviews. However, many authors confirmed the failure of telephone interviews to obtain in-depth information about complex topics or to allow for reflection compared to face-to-face interviews, especially if the phone interviews are short. This notion is contradicted by Payne (1956) who claimed that the length of telephone interview and the range of subject matter are not as limited as believed. Also, Hochstim (1963) made a wide comparison of data collected by different methods - telephone interview, personal interview, and mail questionnaire - from randomly selected subsamples of his study target. In general, similar results were obtained from all three data collection methods.

For more diversifications in receiving participants' responses on the research survey questionnaires, two channels have been used to get participants responses: drop-off method and telephone call method. The survey questionnaire is designed as the self-administered type which consists of mainly close-ended type questions. The closed-ended or forced-choice type of question is preferable in this research because it will increase the response rate, since it is easier and faster to be answered by the prospective respondents (Vaus, 2002). In addition, the closed-ended type of question also has the advantages of being easier administered, coded and analyzed (Vaus, 2002). Drop-off survey is one of the methods in a self-administered survey method where prospective respondents are approached and the objective of the survey is explained, and then the questionnaire handed for the participants for completion on their own. The completed questionnaire can either be returned on the spot or later through collection in person. The other technique used here was telephone calls where participants were approached by calling them to answer the questionnaire by phone. Accordingly, some participants were asking to be called back later when they would have enough time to listen to the survey questions, while other participants were quite happy to answer on spot.

7.5.2 Level of Measurement

Scaling measurement is considered an important approach to ensure that research objectives are fulfilled, since it will affect the data analysis and interpretation (Malhotra *et al*, 2007; Proctor, 2005). The researcher undertook various standard measurement and scaling methods when formulating the questionnaires, namely nominal, ordinal, interval and ratio (Malhotra *et al*, 2007; Kumar *et al.*, 2002; Burns *et al*, 2003; Proctor, 2005). There are four main scales of measurement as follows:

Nominal Scale is the simplest scale, where numbers or letters are assigned to objects, which serve as labels for identification or classification (Zikmund, 2003). Examples of nominal scale are gender, geographical location, and marital status.

Ordinal Scale is a scale that arranges the object by order with regards to some common variable (Kumar *et al*., 2002). Examples of ordinal scale are class ranking and companies rating. Ordinal scales are also normally used in many studies related to perception, attitudes, opinions and preference.

Interval Scale is "a scale in which the numbers are used to rank objects such that numerically equal distances on the scale represent equal distances in characteristic being measured" (Malhotra *et al*, 2007: 340). Example of interval scale is rating a specific product from 1- 5, with number 1 being the lowest rating and 5 as the highest rating.

Likert Scale it is the most widely used approach to scaling responses in survey research, When responding to a likert questionnaire item, respondents specify their level of agreement or disagreement on a symmetric agree-disagree scale for a series of statements. In other word, a likert item is simply a statement which the respondent is asked to evaluate according to any kind of subjective or objective criteria; it is considered symmetric because there are equal amounts of positive and negative positions (Sekaran, 2000).

Ratio Scale is the highest scale level among scales of measurement. The scale allows the researcher to identify or classify objects, rank order of the objects and compare intervals or differences and also add another advantage of computing ratios of the scale (Sekaran, 2000).

The current research uses nominal, ordinal and likert scales as they were found to be the most suitable for this study. However, few questions are using an interval scale. Questionnaire scaling is a mix of various rating types that was adopted in designing the questionnaire according to the nature and objectives of the questions; these include dichotomous, category, likert and itemized rating scales. Most of the scales used in the current research were easy to understand by the respondents, which yield a better response rate and more reliable results for the research effort.

7.5.3 Identification of Variables

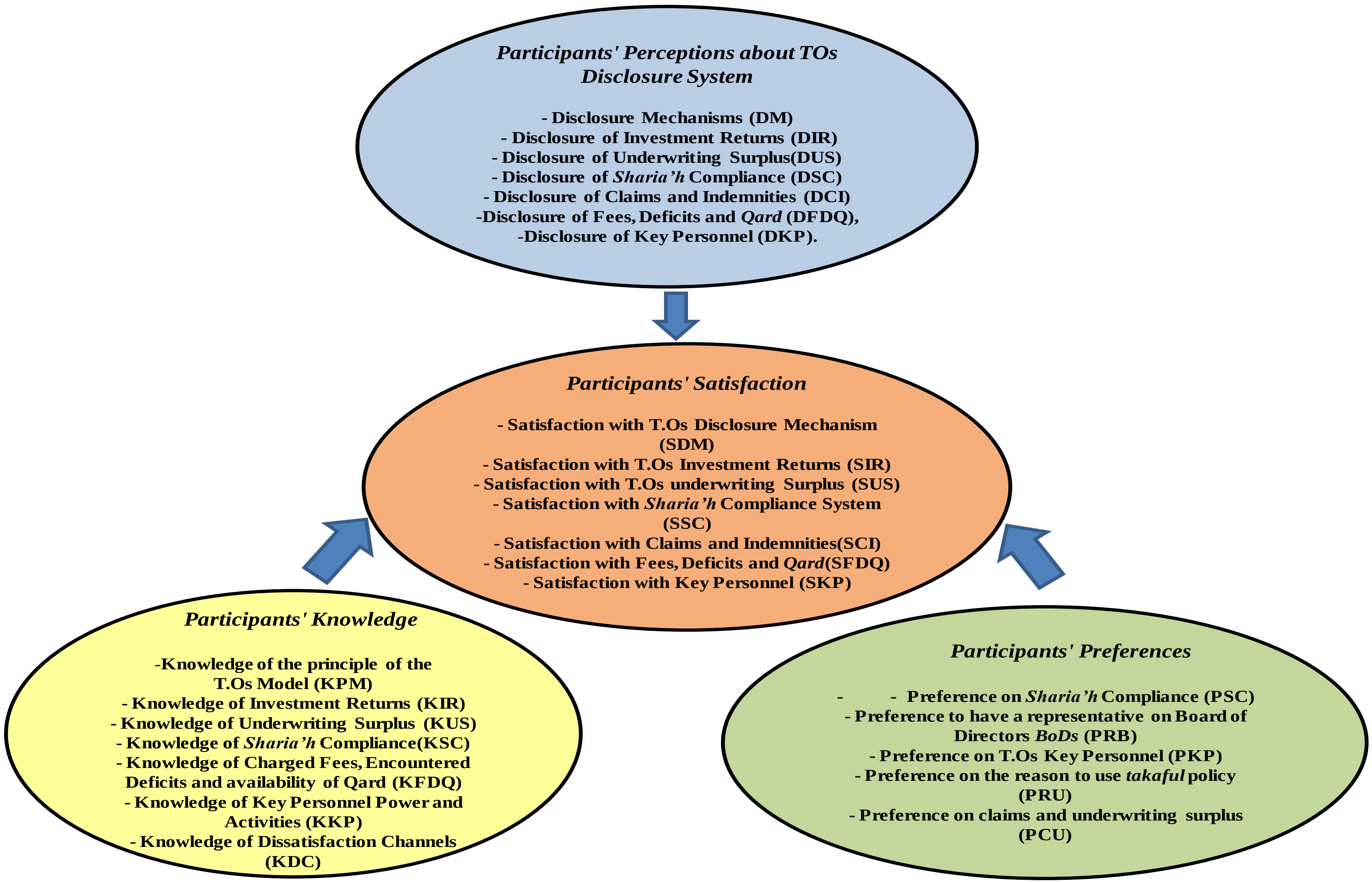
This study was undertaken with the main objective of providing the required protection to participants in the *takaful* industry. To achieve the main objective, the study will follow two parallel paths similar to Wells *et al* (1995) research effort; they compared consumer perception of insurer service quality with regulatory assessment of insurer's service quality. Accordingly, the current research will be conducted as follows:

(i) Explore participants' satisfaction levels by examining their perceptions, knowledge and preferences about the *takaful* operators (TOs) services and products.
(ii) Compare the Saudi insurance regulatory directives with the international laws and standards. This is conducted to identify and overcome any shortfalls that may exist in the Saudi directives towards providing the required protections for *takaful* participants.

I. Achieving the First Part of the Main Aim

To achieve the first part of the main aim, three models have been constructed with a 26- item instrument with 4 dimensions to explore participants' satisfactions as a dependant variable, with three independent variables (perceptions, knowledge and preferences) as shown in Figure 7.2.

Figure 7.2 Research Main Variables: Participants' Satisfactions, Perceptions, Knowledge and Preferences.



The three models instrument has been constructed on a well-formulated questionnaire based on the comprehensive topics covered in the literature review chapters, which address several researchers suggestions and findings and are based on the imposed polices and standards by the international *takaful* and insurance regulators. The covered literature reviews were mostly focused on the importance of satisfying customer perceptions, needs, wants and preferences which in a way enhance customer satisfaction levels. In terms of policies and regulations, a great emphasis was noticed towards satisfying participants' desires to gain financial return and to strictly comply with the *Shari'ah* rules. The regulators also insisted on educating participants of their rights and obligations by having a proper disclosure system in place. The regulations were also focused on the importance of listening to participants' opinions and preferences by emphasising the recruitment of knowledgeable sales personnel and intermediaries who can listen to the participants.

II. Achieving the Second Part of the Main Aim

The service quality assessments implemented by the local insurance regulatory body, represented by their regulations, directives and laws, are important factors in bringing better market stability as well as better customer protection since consumers tend to rate service quality higher if they are aware of their right to complain to the regulator (Wells *et al*, 1995). The second reason that led the current research to study the Saudi Insurance Regulatory environment is the new regulations implemented by the Saudi Arabian Monetary Agency (SAMA) which requires TOs to stop taking new customers and retain the existing ones, which makes it very difficult to question the TOs senior management, since they are in a transition period. Accordingly, reviewing the current Saudi insurance laws and directives will be the best available choice for recommending a better approach to protect the participants in the *takaful* industry. Comparing the Saudi insurance laws and directives with the international *takaful* and insurance policies and standards, which have been established by a well-known international organizations and bodies such as IAIS, IFSB, OECD, and AAOIFI[62], will be the best way to fairly make a judgment on the validity of the Saudi insurance directives to ascertain whether or not there has been success in

[62] International Association of Insurance Supervisors (IAIS), Islamic Financial Services Board (IFSB), Organisation for Economic Co-operation and Development (OECD), Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

providing proper protections for the *takaful* participants. Accordingly, to obtain better results in achieving the main research aim, a set of research objectives and questions are presented in chapter 1.

7.5.4 Questionnaire Content

The survey questionnaire is divided into 4 main dimensions (Disclosure, Knowledge, Preference and Satisfaction) with a total of 26 variables to cover the research objectives and themes. Participants' perceptions of TOs' disclosure systems consist of 34 questions, participants' knowledge consists of 14 questions, participants' preferences consist of 8 questions and participants' satisfactions consist of 18 questions. Other sections in the questionnaire included in the survey are put in place to measure participants' personnel and demographics information, as well as type of participated fund. A description of the research questionnaire section is as follows:

Section 1: This section consists of 7 questions which are intended to obtain participants' personal and demographic characteristics. It is used as supported variables for the research.

Section 2: This section consists of 2 questions which are intended to view participants' distributions among TOs and to view type of *takaful* fund that participants are participating in.

Section 3: This section consists of 34 questions that deal with participants' perceptions about TOs' disclosure systems. These questions are used to formulate 7 variables DM (11 questions), DIR (6 questions), DUS (4 questions), DSC (5 questions), DCI (1 question), DFDQ (4 questions), and DKP (3 questions).

Section 4: This section consists of 14 questions that deal with participants' knowledge about TOs' services and products. These questions are used to formulate 7 variables KPM (3 questions), KIR (1 question), KUS (2 questions), KSC (1 question), KFDQ (3 questions), KKP (2 questions), and KDC (2 questions).

Section 5: This section consists of 8 questions that deal with participants' preferences about TOs' services and products. These questions are used to formulate 5 variables PSC (2 questions), PRB (1 question), PKP (1 question), PRU (2 questions), and PCU (2 questions).

Section 6: This section consists of 18 questions that deal with participants' satisfaction about TOs' services and products. These questions are used to formulate 7 variables SDM (4 questions), SIR (2 questions), SUS (2 questions), SSC (2 questions), SCI (4 questions), SFDQ (2 questions), and SKP (2 questions).

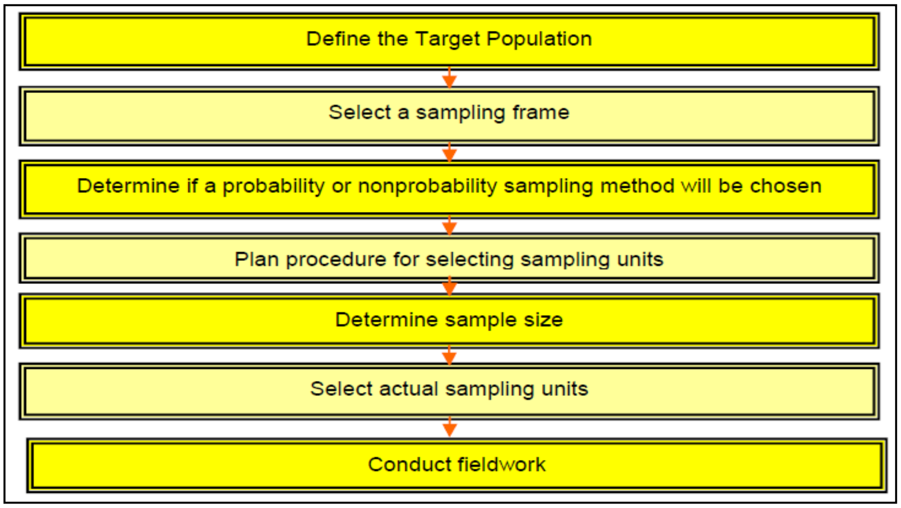
The final questionnaire was prepared with two versions: English and Arabic. The back-translation[63] technique was used to translate the survey from English to Arabic language; the English version (source questionnaire) was first translated to Arabic (target questionnaire) by one person, and then translated back to English by another independent translator[64]. This technique was selected because it minimizes the probability of errors and discrepancies that might occur during the process, and at the same time it is still not costly (Saunders *et al*., 2007). Accordingly, minor inconsistencies between the primary source questionnaire and the translated questionnaire were found, which were rectified immediately.

7.6 SAMPLING PROCESS

If a proper process of selecting samples is followed, the outcome of the research may be used to draw conclusions about the population (Zikmund, 2003). Meanwhile, sampling procedures is another vital subject to ensure that the research findings are at least representative, albeit not conclusive about the population. To get a representative sample, it is essential to make a proper sample selection, which can be made by following proper sampling procedures. Zikmund (2003), reflected proper guidance for sampling procedures as per Fig. 7.3

[63] According, to Saunders *et al.* (2007), there are four translation techniques (direct translation, back-translation, parallel translation and mixed techniques); each technique has its own advantages and disadvantages.
[64] Refer to Appendix F, for English and Arabic form of questionnaires.

Figure 7.3: Stages in the Selection of Sample



Source: Zikmund (2003: 292)

7.6.1 Research Population

Studying the supply side of the *takaful* industry was one of the essential objectives of this research. Accordingly, a well organized questionnaire based on the literature chapters mainly corporate governance and market conduct, has been structured to address the TOs mangers. The main purpose of structuring the TOs survey is to identify any shortfalls in the Saudi *takaful* industry which might hinders participants from exerting their rights and obligations in the fund. However, due to SAMA recent mandatory instructions, which requires the TOs to have a separate shareholders and separate reserve capital from the mother company (*ex*, affiliated banks). Almost all the TOs refuse to participate on the questionnaire.

Accordingly, *Takaful* participants in Saudi Arabia were identified to be the main research population for this study. The targeted populations were clients of all TOs in Jeddah, Saudi Arabia, since a number of large TOs have their headquarters in Jeddah. The targeted participants are those with a family *takaful* policy. Thus policyholders are expected to have a long-term contract with the TOs and expected to have a periodic financial returns (Underwriting Surplus & Investment Return). The participants should not possess *takaful* contracts that belong to corporations, *i.e.* the *takaful* contracts are between the TOs and the participants directly. The main justification behind these conditions is that participants with personal family *takaful* policies should have a usual communication with the TOs to discuss their rights and obligations in the fund. Hence, exploring those participants' perceptions, knowledge, preferences and satisfaction levels, will cover the study objectives.

The reasons for choosing participants with personal *takaful* policies not through corporations are because if corporations are involved, then participants will not be exposed to any communication with the TOs and they will not be entitled to gain any financial benefits since all financial benefits will be transferred to the corporate bank account. Also those participants who have funds with corporations will not experience the turmoil and feelings of anguish when the fund encounters a deficit which might cause their regular contributions to increase, or they might be prohibited to receive the expected financial benefits due to the need of having to pay back shareholders loans. Furthermore, TOs' employees are not allowed to participate in the survey as they might possess more information than regular participants because of their working experience in the *takaful* business, and they might give misleading replies to the survey as they are part of the TOs' management team.

7.6.2 Sampling Frame

Sampling frame is a process where the researcher will need to list all the elements from which the actual sample may be drawn (Churchill, 1983). The sampling frame is also called the working population because it provides the list for operational work (Zikmund, 2003). However, it will be hard to get a complete list of the population elements especially in populations of unknown size, very large populations, and in situations where there are legal restrictions that make the complete list of population elements unavailable. Hence, other acceptable alternatives might reflect the population elements. An example given by Zikmund (2003) is that in the absence of a complete list of population elements, other materials such as maps or aerial photographs may be acceptable as the sampling frame.

In this study, the ideal situation is having a list of participants with their contact details for all TOs in Saudi Arabia. However, there are limitations that hinder researchers from obtaining a complete list of the participants as per SAMA regulations (2008: 6) which restrict the public from accessing participants' profiles. Therefore, it is impossible to get access to the complete list of the *takaful* participants in Saudi Arabia. Accordingly, an alternative sampling frame has been constructed based on three techniques, (i) Handing the survey to the walk-in participants of the *takaful* company based on the geographical location of TOs' branches. The prospective participants will take the survey home as a self-administered survey to answer it in his/her own pace and return it to the researcher or his distribution team by calling them to pick up answered surveys (drop-off approach). (ii) Approaching other participants by implementing the snowball technique. The snowball sampling frame is a technique to identify additional respondents, by using the information gathered from the initial respondents (Zikmund, 2003: 384). (iii) Approaching participants via *takaful* sales-personnel at selected TO branches, who are given surveys to distribute among their participants whenever the participants visit these branches. This method of using survey representatives was one of the methods suggested by Burns *et al* (2003, 244 - 257).

7.6.3 Sampling Methods

Sampling methods can fall under two broad categories, probability sampling and non-probability sampling. Probability[65] sampling can be used when a member or element of the population is known and has an equal chance of being selected as the sample. Non-probability sampling is more suitable for situations where the selection of samples is carried out on the basis of personal judgment or convenience; in most cases the population members are unknown (Zikmund, 2003; Saunders *et al.,* 2007; Sekaran, 2000). Since the current study population size is unknown and is deemed impossible to identify, hence the appropriate sampling technique is the non-probability sampling approach. The most common non-probability methods are convenience sampling, purposive (judgement) sampling, referral (snowball) sampling, and quota sampling (Burns *et al*, 2003; Zikmund, 2003).

Furthermore, it was necessary to follow the Zikmund (2003) recommendations to select the appropriate, realistic and manageable non-probability sampling techniques, as Zikmund (2003) has identified critical factors that need to be given due consideration such as cost, time, and also the availability of resources, and cooperation. Accordingly, considering these limitations, gives a

[65] There are few sampling methods suggested under the probability sampling method (simple random sampling, systematic sampling, stratified sampling, cluster sampling and multistage area sampling); for more details see Zikmund (2003), Sekaran (2000), Saunders *et al.*, (2007); Burns and Bush (2003).

better sampling methods which will be a combination of purposive, convenience and referral sampling methods.

The purposive sampling method is a process where the researcher uses his or her personal judgement based on certain knowledge in deciding who will be part of the sample for the research (Burns *et al*, 2003). The convenience sampling method is the easiest way to get the desired sample size, for example when a person is interviewed at random in a shopping mall (Saunders *et al*., 2007). For this research the purposive sampling methods will be used as the first stage to narrow down the geographical area of the sampled TOs' branches, and then the convenience sampling method was applied in selecting participants, while snowball used to identify additional by using the information gathered from the initial respondents. Accordingly, due to cost, timing constraints and shortage in manpower, three TOs were selected with nine different branches located in Jeddah. In the second stage, participants' samples were selected from walk-in participants over a particular time frame.

7.6.4 Sample Size

As this research is based on a non-probability sampling method, the process of sample size determination is not as rigorous as in probability sampling methods. Burns *et al* (2003: 392) stated that "when using a non-probability sampling, sample size is unrelated to accuracy, so cost-benefit considerations must be used". Nevertheless, adequate sampling size is still needed in order to get better interpretation of the research outcomes.

But the question still remains as to how a researcher would know the proper sample size to conduct a research. Scholfield (1996) explained that the relation between the sample size and the population size is misunderstood. Therefore, determining the sample size is considered one of the more controversial elements in research design and sampling procedures for the majority of studies. This is because drawing a large sample may waste time, resources and money, while a small sample may not give accurate results, which will affect the research reliability and validity. Noorzai (2005) enquired into the optimal sample size that could represent a population and provide a level of confidence. Many authors have proposed different ideas to determine sample size. Comfrey *et al* (1992) suggested rough guidelines for determining adequate sample size: 50 -

very poor, 100 - poor, 200 - fair, 300 - good, 500 - very good, 1000 or more - excellent. Therefore, for this research the minimum targeted completed questionnaires has been decided to be 400, in other words between 300 and 500 completed questionnaires. Questionnaire distributions can be conducted either by a walk-in participant in the *takaful* company, or by making phone calls to participants by following the snowball techniques. Due to time and manpower constraints it was strongly suggested that each walk-in participant in the *takaful* company kindly make a referral to other participants.

7.7 PILOT TESTING

A pilot study is a trial run-through to test the research design with a small sample of respondents who have similar characteristics to those identified in the main study sample (Gill and Johnson, 1991). A pilot study is described as a small study aimed to test research protocols, data collection instruments, sample recruitment strategies, and other research techniques in preparation for a larger study (Polit *et al*, 2004: 196). Pilot studies are used in different ways in social science research to serve many aims including the preparation for the main study and to pre-test a particular study instrument (Baker, 1994; Polit *et al.*, 2001; Teijlingen and Hundley, 2001). De Vaus (1993: 54) asserts "do not take the risk, pilot test first". Additionally, a pilot study is used to check the full study analysis and results, assess the suitability of the study scale, define the sample design and frame properly, and collect some initial data about the study field and customers (Teijlingen and Hundley, 2001).

According to Malhotra *et al* (2007) and Saunders *et al.* (2007) there are critical areas that must be given due attention by the researcher during the pilot testing process, (i) it is recommended that the questionnaire will not take much of the respondent's time, (ii) the instruction given in the questionnaire should be clear enough to guide the respondent to answer the questionnaire easily, (iii) the unclear question should be amended to make it clearer or drop less important questions, (iv) identify questions that are deemed to be difficult to answer. It is suggested that the questions should be restructured to make them easier to understand or drop them, (v) any omission of a major topic, (vi) clear, attractive, sequence of layout presentation.

Zikmund (2003) suggests that there are two major groups of respondents that are recommended for participation in the pilot-testing questionnaire. The first group is expert professionals, and the other group is a sample from the actual population. Following Zikmund's (2003) suggestions, two separate pilot tests were conducted. The first pilot testing comprised 20 members of the actual population (PhD students, colleagues, family and friends); the second pilot testing compromised 16 *takaful* expert professionals (CEOs, senior management, sales personnel, intermediaries, brokers, and university lecturers). Almost all the *takaful* experts who participated on the pilot testing were from the professionals who participated on the London *takaful* summit 2009 and 2010. On the other hand, there were some issues with regard to the content and also question structures that were identified, coupled with some issues concerning the layout of the survey form. All the necessary modifications were carried out. The modified questionnaires were presented again to some of the professionals and the result was encouraging with another few comments, which required minor modifications to the questionnaire.

7.8 OPERATIONALIZING DATA COLLECTION & PARTICIPANTS RESPONSE RATE

The data collection processes were carried over 3 months starting in early January and ending early April 2011. Burns *et al* (2003: 244 - 257) mention that "the researcher or the survey representative approaches a prospective respondent, introduces the general purpose of the survey to the prospect, and leaves it with the respondent to fill out on his or her own". Accordingly, as has been mentioned earlier, three techniques have been used in this research to distribute the surveys among participants: the first two techniques were handing the surveys to the walk-in participants, and the third technique was approaching participants by the snowball method where the walk-in participant was asked to make a referral to other participants to enable conduct of the research effort. To make it possible to achieve the targeted survey distribution plan (500 surveys in a 3-months timeframe), an assistance distribution team, which consisted of 8 survey representatives,[66] was recruited by the researcher to assist in distributing the surveys. Conducting a training session to the research assistance team was highly recommended by Vaus, (2002) who stated that the competence of research assistants is one of the critical success factors for the data

[66] The researcher approached a marketing company that has experienced personnel with the required talent and ability to convince respondents to answer the survey; the team was distributed among 9 branches of 3 TOs in Jeddah. They started their work from 9 am to 2 pm, and then they worked from their homes from 6pm to 9 pm to call the referral participants. For confidentiality reasons, as was requested by the TOs, the identity of the 3 TOs were kept anonymous; however, the 3 TOs were coded as A, B and C.

collection process, since it will affect the accuracy and reliability of data gathered during the fieldwork. Accordingly, the researcher trained the assistance team on the principles of *takaful* insurance, the purpose of conducting the research, ethics of distributing the questionnaires, ethics of making a phone calls to participants, participants matching conditions as per the research population section of this chapter, the layout structure and the content of the survey questions and lastly the administrative matters such as recording and indexing the completed questionnaires. In addition to the training session, the researcher was on daily contact with the assistance research team to identify weaknesses and implement appropriate remedial action strategies.

The overall response rate was considered encouraging. A total of 500 questionnaires were distributed, of which 420 completed questionnaires were received, of which 120 questionnaires were rejected for bias reasons, leaving 300 completed and usable questionnaires for the research, yielding a usable response rate of 60%. Accordingly, the drop-off approach was proven to be the best choice for getting a high response rate, as suggested by Burns *et al* (2003). The phone calls method was also proven to be among the best methods to approach participants, as the research assistance teams were approaching participants during their free time when they were more relaxed to answer the survey questions. Consideration was also given to some of the participants to rearrange phone call interviews at a time to suit their availability to answer the survey more comfortably; such a conclusion was supported by Buzzell *et al.*, (1969) who indicated that impersonal situations indicate that a participant is more likely to be candid. The success of both methods was in parallel with Hochstim's (1963) indications who suggested similar response results of implementing different methods, - telephone interview, personal interview, and mail questionnaire. Based on Comfrey *et al* (1992) suggestion the response rate and number of respondents were sufficient for statistical analysis, there was no attempt to increase the number of respondents. Finally, the adopted survey technique for this research was also among the high response rate from the other previous research that related to the financial customer behaviour, and perception studies, which were also using a similar technique. For example, Jamal *et al* (2002) yielded 85%, Dusuki (2005) yielded 84%, Metawa *et al* (1998) yielded 75%, Gerrard *et al* (1997) yielded 55%; Naser *et al.* (1999) yielded 69% response rate. The current survey indicates that the closed-ended self-administered and phone-call questionnaires are suitable for research into this type of customer behaviour.

7.9 RESEARCH METHOD FOR DATA ANALYSIS: TECHNIQUES OF ANALYSIS

Appropriate data analysis techniques would facilitate the researcher to get valuable interpretative results which enable the researcher to achieve a meaningful conclusion that meets the research objectives (Kumar *et al*., 2002). Inappropriate or misused data analysis would result in unclear, incomplete, and in the worst case, erroneous conclusions (Kumar *et al*., 2002). Hair *et al.* (1998) also claimed violation of the measurements conditions and obligations will lead to biased outcomes or non-significant relationships among the study factors.

Researchers have suggested certain steps to be followed to conduct successful data analysis. Sekaran (2000: 302) suggested the following essential steps for data analysis: (i) getting the data ready for analysis, (ii) getting a feel for the data, (iii) testing the quality of data and, finally (iv) testing the hypothesis. Following Sekaran's (2000) suggested steps, the current research data analysis presentations will be:

Step 1 - Getting the data ready for the analysis: SPSS statistical software version 17 was used for the analysis. Prior to running the SPSS analysis the data should be carefully prepared as specified by Miles *et al* (1994), Sekaran (2000), Kumar *et al*. (2002), and Proctor (2005). To arrive at the variables used in the study, the following steps were taken:

I. The data were checked and the necessary steps (such as handling incomplete or missing data) were taken to ensure the data was entered correctly.
II. The data were coded and keyed-in into the system. Note that each variable had a set of questions with different answers, with some having yes/no option and others with 5-likert scale option. For consistency purposes all 5-likert scale responses were converted to 2-likert scale as specified by Lambert (1992), Cunningham *et al.* (1996), Demetrio *et al.* (1998), and Francis *et al*. (2007).
III. For each variable, the recoded values of all the questions within the group were added to come up with a unified figure.

IV. The unified figure was standardized by dividing it by the number of questions that represents each variable. The resulting variable had values ranging from 0 to 1.

Step 2 - Getting a feel for the data: The complete version of data was tabulated in order to get a preliminary idea of the survey outcome. For better feelings about the data, the frequency distributions analysis, the mean, the standard deviation has been used in order to see the preliminary perceptions of the participants towards the key variables that were asked in the questionnaires. In addition, the Chi-square test was also used to get an extra insight as to how significant the survey questionnaires were (Pallant, 2010).

Step 3 - Quality of the data: Data were tested to ensure the reliability and validity. For this research, Cronbach's Alpha reliability test has been used (as reported in Section 7.10.1 below).

Step 4 - Hypotheses testing: At this stage the data are ready for further analysis. However, given the nature of the current research, the hypotheses testing is substituted by addressing the main research questions exploring *takaful* participants' behavioural aspects which is rare especially in the GCC area. Meanwhile, researchers have to identify appropriate statistical tests that would turn out results that meet the research objectives. In this research, a set of statistical approaches have been used for the descriptive and empirical as discussed next.

7.9.1 Analytical Methods

7.9.1.1 Descriptive analysis: The purpose of descriptive analysis is to describe the characteristics of the data or in other words, it is used to summarize, organize and describe the data (Pallant, 2010). In this analysis, frequency distributions were used together with the measurement of mean, standard deviations. In addition, Chi-square test was used to identify whether the discrepancy between categories (possible responses) is small, and the discrepancy is statistically significant or not (Pallant, 2010).

7.9.1.2 Empirical analysis: Various empirical statistical analyses were used. In determining the appropriate inferential analysis to be used, the researcher needs to identify the best approach for statistical testing suitable for the data, parametric or non-parametric. Pallant

(2010) has laid down several assumptions that need to be fulfilled in order for data to qualify for using parametric testing statistical tools. These are (i) the level of measurement should be measured at the interval or ratio level that uses a continuous scale rather than discrete categories, (ii) the sampling must be based on probability sampling or random sampling, (iii) the data distribution is assumed to be a normal distribution. Meanwhile, non-parametric testing is more lenient, as it does not make assumptions about the underlying populations' distributions. It is therefore also known as distributions-free test (Field, 2005). For the current research the non-parametric tests are more appropriate for the type of data gathered, since the data were collected using a non-probability sampling technique (non-random sampling). In addition, non-parametric techniques are ideal for use when questionnaires are structured on categorical scales (Pallant, 2010). Furthermore, the Kolmogorov-Smirnov statistics test for normality test reflect that the Sig. value of the dependant variable is more than 0.05 (Tabachnick *et al*, 2007: 87; Pallant, 2010:63). Accordingly; non-parametric statistical techniques will be use as the data didn't adhere to the normality distributions conditions, as shown in Appendix C (Table C.1) of the Normality Test. Therefore, the most appropriate inferential statistical testing is using non-parametric testing. The statistical tools used for the empirical analysis are as follows:

I. Non-Parametric Tests

Mann-Whitney U-test: It is a test that is equivalent to the independent *t*-test for the parametric statistics. It is used to tests difference between two independent groups on continues measure (Field, 2005; Pallant, 2010). The test is also able to indicate which group has better scores, for example, do males and females differ in terms of their self-esteem (Pallant, 2010). In this research the Mann-Whitney U-test was used to determine whether there was any statistically significant difference in terms of the level of satisfactions among male and females with the TOs services and products.

Kruskal Wallis test: The function of Kruskal-Wallis test is similar to Mann-Whitney U-test but it measures the differences of independents samples for three or more groups (Field, 2005; Pallant, 2010). In this research, the Kruskal-Wallis test was used to determine whether there are any statistically significant differences in the level of participants' satisfactions in relation to their personal and demographic characteristics (age, education, premium paid, members in the *takaful* contracts, contract durations, and job categories). Similar to the Mann-Whitney U-test, Kruskal Wallis test results are also able to determine which group has a better score.

Chi-Square test: the Chi-Square test is used with non-parametric data analysis, which involves a categorical data and a specific proportion against which the observed frequencies are tested (Pallant, 2010; Agresti, 1996). The purpose of the Chi-Square test is to identify whether there is difference in proportion in each category (50% / 50%), *i.e.* it will find out if the discrepancy between categories (possible responses) is small, and whether that discrepancy is statistically significant or not. In short, the larger the Chi-Square test statistic, the greater the discrepancy, and the significant between categories (for example; “yes” and “no” responses).

II. Exploring Relationships Among Variables

Spearman’s Correlations: Spearman’s correlation is used to describe the strength and direction of the linear relationship between two variables. However, unlike Pearson’s correlation which is designed for interval level (continuous) variables, Spearman’s correlation is designed to be used with ordinal level or ranked data (Pallant, 2010). The correlation can take values from -1 to +1; the positive sign indicates a positive relation whereby increase in one variable leads to a rise in the other and vice-versa with the negative sign (Pallant, 2010). In this research, the Spearman’s correlation was used to determine the strength and direction between participants’ perceptions about TOs disclosure mechanism, participants’ knowledge, and participants’ preferences with the participants’ satisfaction. Spearman’s correlation was also used to determine the strength and direction between participants’ perceptions about the TOs disclosure system with participants’ knowledge, and the strength relationship between participants knowledge with participants preferences.

Multinomial Logistic Regression Analysis: It is a branch of multiple regression models, and the only difference is that the dependent variable is dichotomous (Field, 2005; Pallant, 2010). In other words, the dependent variable used in the logistic regression model should be categorical, *i.e.* ‘yes/no’, or ‘pass/fail’, instead of continuous (Field, 2005; Pallant, 2010). In addition, logistic regression also allows the independent variables to be categorical, continuous or a combination of both (Pallant, 2010). The purpose of the multinomial logistic regression is to predict the independent variables that may predict the outcome of the categorical dependent variable significantly. The difference between the multinomial logistic regression and the binary logistic regression is that the binary uses dichotomous variables when the researcher uses only two output categories, while the multinomial logistic should be used if the number of output categories is more than two (Pallant, 2010). In this research, multinomial logistic regression was used to determine the significant form of relationships between the three independent variables (participants' perceptions about TOs disclosure mechanism, participants' knowledge, and participants' preferences) and the participants' satisfaction levels as a dependant variable. Multinomial logistic regression was also used again to determine the significant relationships between participants' perceptions about the TOs' disclosure system (independent variable) with participants' knowledge (dependant variable), and between participants' knowledge (independent variable) with participants' preferences (dependant variable).

It is necessary to highlight the difference between correlation and regression. Correlation can provide an indication that there is a relationship between two variables; it does not, however, indicate that one variable causes the other which is considered a function of the regression analysis (Pallant, 2010). In short, regression is interested in the form of the relationship, whereas correlation is more focused simply on the strength of a relationship. Accordingly, it is not required to have similar directions of association between variables when implementing the multinomial regression analysis as in the Spearman correlations, as the multinomial logistic regression does not make any assumptions of normality, linearity, and homogeneity of variance for the independent variables (Agresti, 1996).

7.9.1.3 Qualitative Data Analysis: Textual Analysis

Textual analysis probably is the most prevalent approach to the qualitative analysis. It comprises a searching out of underlying themes in the materials being analysed. Qualitative researchers study spoken and written records of human experience, including transcribed talk, films, novels, and photographs. The process through which the themes are extracted is often not specified in detail. The extracted themes are usually illustrated, for example with brief quotations from newspaper article or magazine (Bryman *et al*, 2003). As part of the textual analysis, document analysis helps to uncover the issues related to the research question. As it helps to deconstruct the documents to reveal the implications of the written material. For the current research a textual analysis has been conducted by comparing SAMA regulations and directives with the policies and standards imposed by the international Islamic and conventional insurance organizations such as AAOIFI, IFSB, IAIS and OECD.

7.10 DATA QUALITY AND RELIABILITY

Validity and reliability of data for any particular research are crucial for avoiding errors which could lead to a misrepresentation of the research concepts. Thus, the researcher should ensure that the content and measurement of the variables in the questionnaires are reliable and valid (Vaus, 2002). "Reliability refers to the consistency in reaching the same results when the measurement is made over and over again" (Proctor, 2005: 208). Hence, Vaus (2002: 53), has suggested various ways of improving the reliability of any survey, such as careful wording of the question, and proper interviewer/research assistant training. Vaus (2002: 53) also suggests that it is sensible to avoid asking questions that the respondents are unlikely to have an opinion or knowledge of, or, in other words, questions which they are likely to avoid answering.

Validity refers to "the degree to which the question measures what it is supposed to be measuring" (Proctor, 2005: 208). In other words, the measurement used in the survey must be appropriate and tally to the concept that the research intends to measure. An example is when a researcher wants to measure social status then it is appropriate to use education level as a measurement variable (Vaus, 2002). Vaus (2002) also asserted that there are three basic ways in which to access validity, content validity, construct validity, and criterion validity.

For the current research, the pilot testing process which has been discussed earlier could be the best tool to minimize or overcome any problems with regards to validity and reliability issues, as the pilot testing provides a careful design of the research questionnaires by obtaining *takaful* experts' and colleagues' feedback. In addition, the training session that was provided to the assistance research team increases the competency among the team which enhances the accuracy, validity and reliability of data gathered during the fieldwork. Finally, the variety in giving participants the choice to either answer the survey through the drop-off approach, or to answer the survey over the phone in their free time will add another validity and reliability approach, since participants will choose whatever approach that suits their timing availability.

7.10.1 Cronbach's Alpha Test

One of the most commonly used indicators of internal consistency is Cronbach's Alpha coefficient, which refers to the "degree to which the items that make up the scale 'hang together'" (Pallant, 2010: 97). The test is carried out to determine the consistency of a respondent's answer for one item compared to other scaled items (Vaus, 2002). Ideally, the higher the score of the test, the more reliable is the scale (Pallant, 2010; Vaus, 2002). Pallant (2010) suggested that the outcome of the test should be at least 0.7 which is considered acceptable. However, values above 0.8 are preferable. In other words data scaling is considered to be reliable (the scale has good internal consistency). For the current study, the Cronbach Alpha coefficient indicator for all question sections was 0.822 after considering 89 items that used the scale, as per Table 7.2 below. The value of 0.822 is above the recommended 0.7, signifying that the scale has a good level of internal consistency. Therefore, it would be acceptable to say that the scale used in this research sample was reliable.

Table 7.2: Reliability Statistics (Cronbach's Alpha Coefficient)

Cronbach's Alpha	N of items
0.822	89

7.11 LIMITATIONS AND DIFFICULTIES

As mentioned earlier, one of the main challenges faced in the current research is the inability to reach a full list the *takaful* participants due to legal restrictions which hindered the researcher to use the probability sampling methods. In terms of cost, the data collection process was self funding which limited the researcher from extending the scope of geographical data collection to other cities in Saudi Arabia; also it was quite hard to continue with the research assistance team to conduct more than 420 surveys. As mentioned previously, a private marketer with experience to market different commercial products was used for the survey. The researcher paid SAR 15 per completed survey, as well as paying for all combined fees such as phone calls, *etc.*

Another vital limitation was the time taken to collect the data since the participants' names were not listed or readily available. The research team was racing against time to accomplish the job within the targeted duration of three months. The lack of full cooperation of the TOs' sales-personnel is considered another difficulty that had been faced, in that only 20 surveys were collected from the *takaful* sales-personnel for the whole three months. Add to that, it was very difficult to explain the importance of conducting the research to them, since they were very busy and they rarely listened to the researcher's needs for conducting the study. Another challenge faced is that some of the participants interviewed insisted on knowing full information about the researcher such as his full name, his specialized area of study, his identity, *etc.* at the beginning of the interview either by phone or face-to-face. The researcher was committed to give simple information about the study's main objective and simple information about the researcher's identity.

7.12 SUMMARY AND CONCLUSION

This chapter presented the research framework and methodology used in this study. The chapter began with a discussion of the questions and objectives development revolving around participants' different behavioural aspects (perceptions, knowledge, preferences and satisfaction) with regards to TOs' services and products. Accordingly, this chapter has discussed the research design and the research strategy. This research is based on the triangulation method since primary data gathered by means of survey questionnaires as a research method and a comparative analysis between the Saudi insurance regulations and the international insurance and *takaful* regulations will be made to come up with the required recommendations for participants. The chapter further discussed various matters and issues related to the research methods and fieldwork, including sampling population and identification, questionnaire instrument development, data collection mode, data analysis techniques, and data validity and reliability. The current chapter also highlights the limitations and difficulties faced throughout the data-collection process.

CHAPTER EIGHT
CHARACTERISTICS AND PERCEPTIONS OF PARTICIPANTS: A DESCRIPTIVE ANALYSIS

8.1 INTRODUCTION

The current chapter will describe and analyze the findings of participants' responses to the collected survey questionnaires. The survey questionnaires were structured in accordance with the literature reviews of corporate governance and market conduct in the previous chapters. Accordingly, this chapter will provide a descriptive and an introductory analysis to provide an overall insight of participants' data characteristics. It will describe the data in the form of univariate analysis, considered to be the simplest form of quantitative (statistical) analysis and will be carried out with the description of a single variable and its attributes of the applicable unit of analysis (Babbie, 2007). In other words, the descriptive analysis will describe the characteristics of the data or will summarize, organize and describe the data (Pallant, 2010).

Descriptive analysis utilizes "descriptive statistics which are normally associated with a frequency distribution that helps summarize the information presented in the frequency table" (Kumar et *al.*, 2002: 362). Basic statistical tools such as the mean, median and mode are used for measuring central tendency, while standard deviation is used for measuring range of dispersion. However, for categorical variables such as sex or marital status, or "yes/ no" questions, using the mean or standard deviations, *etc.* are not useful (Pallant, 2010). Instead the researcher has used the Chi-Square to test for more useful details that can be obtained from the data collected. Since the Chi-Square test is usually used when the researcher wishes to explore the relationship between two categorical variables, it is used as an additional tool to give extra insight as to how significant the survey questionnaires are (Pallant, 2010). This chapter provides an answer to research question 3 of the main research questions indicated at the start of this thesis. To recap:

Research Question 3: What are Participants' satisfaction levels, and their perceptions, knowledge, and preferences of TOs services and products?

The data was analyzed by utilizing SPSS software version 17, a popular software package among social science researchers who adopt questionnaire-based surveys as tools for their data collection process. This chapter is organized as follows: section 8.2 gives a description and explanation of the main demographic characteristics of participants. Section 8.3 reflects participants' distribution figures among TOs with their selected fund. Section 8.4 represents an overview of participants' perceptions, knowledge and preferences about TOs' products and services, along with their participants' satisfaction levels. Section 8.5 reflects overall combining figures that represent participant perceptions of TOs' disclosure mechanisms, and participants' knowledge and preferences related to TOs' products and services. Section 8.6 draws a conclusion.

8.2 PARTICIPANTS' PERSONAL AND DEMOGRAPHIC CHARACTERISTICS

This section provides an overview of the most important demographic characteristics of participants (gender, age, education level, premiums paid, number of members included in the contract policy, contract durations, and job status). These demographic characteristics are believed to have noticeable impacts when determining attitudes towards the Islamic methods of finance (Okumkus, 2005; Zainuddin *et al.,* 2004; Metwally, 2002; Alsultan, 1999; Jalalulddin, 1999). Demographic and socioeconomic characteristics will be used in the next chapter linked to participants' satisfaction levels, in order to compare the results across groups within the respective demographic profile.

Gender

Table 8.1: Gender Classifications

	Gender	Frequency	Percent	Valid Percent	Cumulative Percentage
Valid	Male	289	96.3	96.3	96.3
	Female	11	3.7	3.7	100.0
	Total	300	100.0	100.0	

Table 8.1, shows participants' gender of which the majority of participants were male with 289 participants (96.3 %), while only 11 participants (3.7 %) were female. The reason for this is due to the fact that heads of households in Saudi Arabia are generally male. Such results are parallel to Al-Nouri's, (1995) and Gaits' (2009) findings, that males are repeatedly reminded of the responsibilities(as husband and father) awaiting them when they reach the adulthood stage, while

girls anticipate marriage, motherhood and housekeeping. Such a socio-cultural behaviour may account for women's vast dependency (Al-Nouri, 1993).

Participants' Age Groups

Table 8.2: Age Grouping Classifications

	Age Grouping	Frequency	Percent	Mean Value	Standard Deviation
Valid	Age from 21to 30	28	9.3	41.09	7.837
	Age from 31 to 40	128	42.7		
	Age from 41to 50	107	35.7		
	Age > 51	36	12.0		
	Total	299	99.7		
Missing System		1	0.3		
Total		300	100.0		

Table 8.2, shows that the majority of participants were from the 31 to 40 years old age group, with 128 (42.7 %) of participants, followed by the second-ranked age group of 41 to 50 years old with 107 (35.7 %) of participants. The results reflected expectations as people at these stages are trying to build up their financial positions to support their responsibilities as a spouse/parent, especially in Saudi Arabia, were people get married at an early age. The third-ranked age group is the 51 years old and above with 36 (12 %) participants; people of this age-group are at a settled stage of life, insofar as they will be released from some of their responsibilities when they reach 50. This is because they have already reached a stage where they have found a stable constant income to support their financial needs. Finally, the last-ranked age group is of 21 to 30 years olds with 28 (9.3 %) participants; people of this age group are still searching for better careers that can support their needs. As a result, they are not yet in a position to be burdened with regular monthly payments such as a contribution to the *takaful* fund.

Education Level

Table 8.3: Education Level Classifications

	Education Level	Frequency	Percent	Mean Value	Standard Deviation
Valid	Doctorate	5	1.7	3.39	0.946
	Masters	24	8.0		
	Bachelor's	178	59.3		
	Diploma	34	11.3		
	High school or lower	59	19.7		
	Total	300	100.0		

Table 8.3, describes the education level of participants, the majority of which *i.e.*178 (59.3 %) are bachelor's degree holders, while 93 (31 %) participants hold high-school level education or diploma which represents the second largest group of participants. Finally, those with masters and doctoral degrees number the fewest with 29 (9.7 %) participants. The mean value of participants' education is 3.39, as participants' education levels were coded from 1 to 5, where 5 represents doctoral degree and 1 represents high school or lower.

Premium Grouping

Table 8.4: Premium Grouping Classifications

	Saudi Arabian Riyals SAR	Frequency	Percent	Mean Value	Standard Deviation
Valid	1 - 500	98	32.7	1.5142	0.78791
	501 -1000	84	28		
	1001 - 2000	62	20.7		
	2001 - 3000	31	10.3		
	3001 - 4000	4	1.3		
	4001 - 5000	2	.7		
	SAR > 5001	1	.3		
	Total	282	94.0		
Missing System		18	6.0		
Total		300	100.0		

Table 8.4, shows that most of the participants, 98 (32.7 %) pay monthly contribution premiums up to SAR 500, followed by 84 (28 %) of participants who pay between SAR 501 - 1000; both groups represent a majority of premiums paid with 182 (60.7 %) participants who pay up to SAR

1000. The third group of participants, 62 (20.7 %) pay a monthly premium of between SAR 1001 – 2000, whereas the last and smallest group of participants 7 (2.3 %) pay above SAR 3000. The mean value is 1.5142, as participants' premium groupings were coded from 1 to 7, where 7 represents the highest paid premiums SAR > 5001, and 1 represents the lowest paid premiums SAR 1 – 500.

Members Included in the *Takaful* Policy

Table 8.5: Members' Classifications

	Number of participants in a policy	Frequency	Percent	Mean Value	Standard Deviation
Valid	1	84	28.0	3.2847	1.93261
	2	33	11.0		
	3	43	14.3		
	4	51	17.0		
	5	36	12.0		
	> 5	48	16.0		
	Total	295	98.3		
Missing System		5	1.7		
Total		300	100.0		

Table 8.5, shows that the majority of participants 84 (28 %) buy an individual policy, followed by 51(17 %) participants who have four members included in the policy, while the third, fourth and fifth groups have participants of more than 5 (16 %) members, then 3 (14.3 %) members and 2 (12 %) members included in the policy, respectively. The above figures conclude that participants are more interested in buying individual policies, rather than multimember policy.

Contract Duration

Table 8.6: Duration Grouping Classifications

	Duration Years	Frequency	Percent	Mean Value	Standard Deviation
Valid	0 - 5	138	46.0	8.78	7.467
	6 - 10	86	28.7		
	11 - 15	16	5.3		
	16 - 20	17	5.7		
	Duration > 20	30	10.0		
	Total	287	95.7		
Missing System		13	4.3		
Total		300	100.0		

Table 8.6 shows that 138 (46%) participants buy a *takaful* policy with a duration of up to 5 years, followed by 86 (28.7%) who buy *takaful* policies of 6 to 10 year durations. Surprisingly, the third largest group are 30 participants (10%) with policies of more than 20 years duration. The smallest group of participants were those who buy a *takaful* policy with an11-15 year duration, 16 (5.3%) participants.

Job Status

Table 8.7: Job Category Grouping Classifications

	Job Category	Frequency	Percent	Mean Value	Standard Deviation
Valid	Academicians / Education[1]	53	17.6	1.34	0.473
	Security[2]	47	15.6		
	Managerial[3]	44	14.6		
	Merchants / Business	38	12.6		
	Technical's[4]	36	12		
	Secretaries and Clerks	36	12		
	Retired	23	7.6		
	Professionals[5]	19	6.3		
	Students	4	1.3		
	Total	300	100.0		

1. University, Primary and Secondary School.
2. Police, Army, Marine, *etc*,
3. Section Managers, General Managers, Operational Managers, VPs, *etc.*
4. Lab Technicians, Electricians, Maintenance Workers., *etc.*
5. Lawyers, Engineers, Accountants, Doctors, *etc.*

Table 8.7 demonstrates that academicians constitute the group with the highest rate of purchasing a *takaful* policy, with 53 (17.6 %) participants, followed by people who work in security, with 47 (15.6 %) participants. Managers, merchants, technical and secretary jobs come in with similar percentages of 14.6%, 12.6%, 12% and 12%, respectively. Retirees and professionals follow with 7.6% and 6.3%, respectively, and lastly students with only 1.3 %. This is to be expected as students do not have large enough incomes to pay for *takaful* policies. The mean value comes in at 1.34, since participants' job categories were coded from 1 to 9, where 9 represents student participants and 1 represents academicians.

In short, participants' most dominant demographic characteristics are:

- Gender: Male (96.3 %),
- Age: 31 - 40 Years (42.7 %),
- Education level: Bachelor Degree (59.3 %),
- Premium Paid: SAR 0 - 1000 (60.7 %),
- Members included in policy: One Member (28 %),
- Contract Duration: 0 - 5 Years (46 %),
- Occupation: Academicians (17.6 %).

8.3 PARTICIPANT DISTRIBUTION ACROSS THE TOS AND PARTICIPANTS' SELECTED FUNDS

This section shows the distribution of participants among the three cooperating TOs and also provides an overview of the particular funds selected by participants, which will be either a savings fund or a risk fund. It should be noted, however, that all the TOs visited during this research project were reluctant to fully cooperate with respect to revealing participants' identities on account of concerns regarding competition and participant confidentiality. Therefore, due to company requests participant identities are kept anonymous. As a result, this section only provides a brief analysis of the findings.

Participant Distribution Among the Three TOs

Table 8.8: Participant Distribution Among TOs

Q1	*Takaful* Operator	Frequency	Percent	Mean Value	Standard Deviation
Valid	A	246	82.0	1.2100	0.47608
	B	45	15.0		
	C	9	3.0		
	Total	300	100.0		

Table 8.8 shows that the chosen participants were selected from the biggest three TOs operating in Saudi Arabia. The majority of surveys collected were from company A with 246 collected surveys, as they represent the largest and oldest *takaful* company operating in Saudi Arabia; while 45 and 9 completed questionaires were collected from company B and C, respectively. The mean value comes at 1.21, since TOs were coded from 1 to 3, where 1 represents TO A, and 3 represents TO C.

Participants' Selected Funds

Table 8.9: Participants' Selected Funds.

Participate in Risk Fund					
	Options	**Frequency**	**Percent**	**Mean Value**	**Standard Deviation**
Valid	No	225	75.0		
	Yes	75	25.0		
	Total	300	100.0		
Participate in Investment Fund					
Valid	No	70	23.3		
	Yes	230	76.7		
	Total	300	100.0		

Table 8.9 shows that the majority of participants, 230 (76.7 %), buy their *takaful* policy in order to generate investment profits and/or to make future plans for themselves and/or their families. Almost 70 (24%) of participants buy their *takaful* policy to cover future risks with a suitable indemnity that guarantees a decent life for themselves and their spouses should an event occur unexpectedly. In short, TO A is the most dominant company with 82 % of the total number of respondents who participated in the survey, while 76.6% respondents buy *takaful* savings policies rather than a risk policy.

8.4 PARTICIPANTS' PERCEPTIONS DISCLOSURE, KNOWLEDGE AND PREFERENCES

This section explores participants' perceptions about TOs' disclosure system', participants' knowledge, and participants' preferences which could have an impact on their level of satisfaction. Accordingly, this section is divided into three sub-sections reflective of the three variables mentioned. Each variable will be described in terms of frequency, percentage and significance of the questions by using the Chi-Square test to discover whether there is an existing discrepancy between participants' replies. As mentioned in Chapter 7, the questions that represent each variable were selected on the basis of the standards and regulations imposed by the international standards and policies presented by related organizations, such as AAOIFI, IFSB, IAIS, OECD, *etc*. These policies and standards have one main goal which is to provide proper protections to insurance policyholders whether the insurance contract is Islamic or conventional. Such standards and policies are based on the market conduct and corporate governance literatures of the insurance industry.

8.4.1 - Participants' Perceptions of TOs' Disclosure Variables

As has been explained in chapter 5, customer satisfaction has a strong relationship with their perceptions. Thus, the main goal of this section is to explore participants' perceptions about TO disclosure determinants variables, as the disclosure variable embodies two important dimensions of proper service quality *i.e.* empathy and reliability. Accordingly, a statistical description is given to all seven disclosure variables, some of which are illustrated by more than one question[67].

1. Disclosure Mechanism (DM)

The disclosure mechanism (DM) of the TO is considered an important interfacing technique to convey participants' benefits in an acceptable timeframe. Hence, this important variable is divided into four important sub-variables:

I. Disclosure Mechanism Availability

Table 8.10: Disclosure Mechanism Availability

Q1- The company discloses ways to let me review my benefits at the participants' fund					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	No	276	92.0	211.680	0.000
	Yes	24	8.0		
	Total	300	100.0		
Q2- The company discloses the used approach to distribute investment return among participants					
Valid	No	191	63.7	22.413	0.000
	Yes	109	36.3		
	Total	300	100.0		

[67] Based on the researcher's readings of the literature review, some factors can be explained by more than one question which reflects the importance of those factors for participants.

Q3-The company often notifies me on different *Fatwas* issued regarding PF, specifically "Investment & surplus distribution"					
Valid	Strongly Disagree	5	1.7	189.967	0.000
	Disagree	122	40.7		
	Neutral	58	19.3		
	Agree	105	35.0		
	Strongly Agree	10	3.3		
	Total	300	100.0		

Table 8.10, reflects participants' replies to clarify whether the company has disclosed fund benefits, such as investment return and underwriting surplus. Participants would be eager to monitor their fund's financial performance because their expected profit will be directly or indirectly influenced by the company's investment activities which rely on company effort towards managing their assets. Surprisingly, 276 (92%) participants answered 'No' which means that *takaful* operators are not making them aware of a framework which would enable them to monitor their fund performance. Furthermore, 191 (63.7 %) participants, answered with 'No' when they were asked to clarify whether *takaful* operators disclose an approach to distribute investment returns among them. One of the vital duties of the SSB is to demonstrate truthful assessments and disclosure regarding the *Shari'ah* compliance of all required information by stakeholders including *fatwas*, *Shari`ah*-compliance channels, *etc*. Accordingly, participants were asked to clarify whether the company updates them on different *fatwas* that have been made by the SSB. The participants responses were quite similar, such that 35.0 % and 10 %, respectively of the total participants stated that they 'agree' and 'strongly agree' with the notion, while 40.7 % and 1.7 % stated that they 'disagree' and 'strongly disagree' respectively with it. The Chi-square test revealed that the variations of responses in three questions are statistically significant (Asymp. Sig. < 0.05).

II. Disclosure Mechanism Tools

Table 8.11 Disclosure Mechanism Tools

Q4-Which approach does the company use to communicate with me:					
4-1) The Internet					
				Chi-square test	
Valid	**Options**	**Frequency**	**Percent**	**Chi-square**	**Sig.**
	No	287	95.7	250.253	0.000
	Yes	13	4.3		
	Total	300	100.0		

4-2) Letters					
Valid	No	94	31.3	41.813	0.000
	Yes	206	68.7		
	Total	300	100.0		
4-3) Meeting					
Valid	No	294	98.0	276.480	0.000
	Yes	6	2.0		
	Total	300	100.0		
4-4) Seminars					
Valid	No	299	99.7	296.013	0.000
	Yes	1	.3		
	Total	300	100.0		
4-5) SMS					
Valid	No	274	91.3	205.013	0.000
	Yes	26	8.7		
	Total	300	100.0		
4-6) Phone					
Valid	No	217	72.3	59.853	0.000
	Yes	83	27.7		
	Total	300	100.0		
4-7) Brochures					
Valid	No	300	100.0	298.003	0.000
	Yes	0	0		
	Total	300	100.0		
4-8) The company often communicates with me					
Valid	No	287	95.7	250.253	0.000
	Yes	13	4.3		
	Total	300	100.0		

Table 8.11 shows the communication channels that TOs use to contact participants, as TOs are supposed to properly disseminate information to participants in accordance with international standards. Such information should be designed in light of adequate methods and assumptions to bring the relevant information to the attention of participants. Surprisingly, 287 (95.7%) of participants answered ‘No’ to the use of the internet as a communication channel between them and the company. Letters are the most used communication channel between them and the company as 206 (68.7%) participants answered ‘Yes’. On the other hand, the Chi-square test revealed the variations of responses in all sub-questions to be statistically significant (Asymp. Sig. < 0.05).

III. Disclosure Mechanism *via* Intermediaries

Table 8.12: Disclosure Mechanism *via* Intermediaries

				Chi-square test	
Q5-Did you buy your policy from intermediaries? If yes, go to question 6, otherwise go to question 8.					
	Options	**Frequency**	**Percent**	**Chi-square**	**Sig.**
Valid	No	171	57.0	5.88	0.015
	Yes	129	43.0		
	Total	300	100.0		
Q6- Does the intermediary have sufficient knowledge of *Sharia'h?*					
	Options	**Frequency**	**Percent**	**Chi-square**	**Sig.**
Valid	No	96	74.0	69.120	0.000
	Yes	33	26.0		
	Total	129	100.0		
Q7-Does the intermediary have sufficient knowledge of *takaful* business?					
	Options	**Frequency**	**Percent**	**Chi-square**	**Sig.**
Valid	No	96	74	65.333	0.000
	Yes	33	26		
	Total	129	100.0		

Table 8.12 reflects the importance of insurance intermediaries to convey the right information to participants, which requires that intermediaries have sufficient knowledge of different *takaful* issues. This is in addition to being aware of *Shari'ah* issues and their implications for *takaful.* The role of intermediaries/brokers in the Saudi insurance market seems to compete fairly with the role of the salesperson for the *takaful* companies; 129 (43%) participants bought their *takaful* policies from brokers. Surprisingly, when participants were asked to clarify whether these intermediates have sufficient knowledge of different *takaful* and *Shari'ah* issues relating to *takaful*, 96 (74%) out of 129 participants replied with 'No', indicating that the intermediary that sold them the *takaful* policy had insufficient knowledge of these issues. This finding strongly requires the attention of Saudi insurance regulations to take the qualifications of those intermediaries/brokers more seriously and try to improve their *takaful* principles and *Shari'ah* knowledge. On the other hand, the Chi-square test revealed that the variations of responses in all three questions are statistically significant (Asymp. Sig. < 0.05).

IV. Communications, Social Involvements and Expectations

Table 8.13: Communications, Social Involvements and Expectations.

Q8-The company discusses the Underwriting Surplus I deserved in the participants fund with me					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	Strongly Disagree	2	.7	190.100	0.000
	Disagree	89	29.7		
	Neutral	81	27.0		
	Agree	122	40.7		
	Strongly Agree	6	2.0		
	Total	300	100.0		
Q9-The company discusses the investment return on PF with me					
	Strongly Disagree	3	1.0	192.867	0.000
	Disagree	89	29.7		
	Neutral	79	26.3		
	Agree	124	41.3		
	Strongly Agree	5	1.7		
	Total	300	100.0		
Q10-The company discusses my targeted expectations with me					
	Strongly Disagree	0	0	122.987	0.000
	Disagree	111	37.0		
	Neutral	57	19.0		
	Agree	127	42.3		
	Strongly Agree	5	1.7		
	Total	300	100.0		
Q11-The company communicate the issues relevant to my *takaful* policy with me					
	Strongly Disagree	0	0	126.267	0.000
	Disagree	111	37.0		
	Neutral	57	19.0		
	Agree	128	42.7		
	Strongly Agree	4	1.3		
	Total	300	100.0		

Table 8.13, reflects participants' clarifications as to whether the company communicates with them to discuss their rights in receiving an underwriting surplus and investment return. Their answers were broadly optimistic, 40.7 % and 2.0 % of participants, respectively stated that they 'agree' and 'strongly agree' with the notion that TOs discussed their rights to receive underwriting surplus with them. Also 41.3% and 1.7% respectively stated that they 'agree' and 'strongly agree' with the notion that TOs discussed their rights in receiving investment return with them. Such a result complements participants' answers in Table 8.30 that 256 (85.3 %) participants are buying their *takaful* policy for the expected financial benefit. Therefore, it is obvious that participants are more interested in the financial benefits of buying the *takaful* policy

rather than for any other reasons. Also, TOs were successful at reflecting the benefits behind buying a *takaful* policy. Furthermore, participants were asked to clarify, whether the *takaful* company had communicated with them regarding their targeted expectations. Hence, their answers were similar: 42.3 % and 1.7 %, respectively of total participants stated that they 'agree' and 'strongly agree' with the notion, while 37.0 % stated that they 'disagree'. Furthermore, when participants were asked to clarify whether the *takaful* company communicates with them regarding their policy in the *takaful* fund, regarding such issues as their expected benefits in the fund, duration of the contract, *etc.*, their answers were quite similar. 42.7% and 1.3 %, of the total participants, respectively stated that they 'agree' and 'strongly agree' with the notion, while 37.0 % stated that they 'disagree' with it. On the other hand, the Chi-square test revealed that the variation of responses to all four questions to be statistically significant (Asymp. Sig. < 0.05).

2. Disclosure of Investment Returns (DIR)

Table 8.14: Disclosure of Investment Returns

Q12 - The company disclosed their policy and procedures for handling participants' investment returns.					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	No	213	71.0	52.92	0.015
	Yes	87	29.0		
	Total	300	100.0		
Q13 - The company disclosed a statement of profit and loss in the participants' fund					
Valid	No	252	84.0	138.72	0.000
	Yes	48	16.0		
	Total	300	100.0		
Q14 - The company disclosed a performance statement for participants' investment fund					
Valid	No	291	97.0	265.08	0.000
	Yes	9	3.0		
	Total	300	100.0		
Q15 - The company disclosed the expected period for distribution of investment returns					
Valid	No	37	12.3	170.253	0.000
	Yes	263	87.7		
	Total	300	100.0		
Q16 - The company disclosed the previous investment returns					
Valid	No	69	23.0	87.48	0.000
	Yes	231	77.0		
	Total	300	100.0		
Q17 - The company disclosed the composition of participants' fund assets					
Valid	No	205	68.3	40.333	0.000
	Yes	95	31.7		
	Total	300	100.0		

Table 8.14 reflects the importance of TO disclosure regarding investment returns, because in order for participants to have information regarding certain TO, participants need to rely on past and current financial positions of the company, so they can predict future financial performance (IAIS, 2002).Surprisingly, participants' responses to the six main questions dealing with their rights to receive information about the investment returns from their fund were as the following:

- 213 (71 %) of participants answered 'no' to whether the company discloses their policy and procedures for handling participants' investment returns.
- 252 (84 %) of participants answered 'no' to whether the company discloses a statement of profit and loss.
- 291 (97 %) of participants answered 'no' to whether the company discloses investment performance.
- 205 (68.3 %) of participants answered 'no' to whether the company discloses the composition of participants' fund assets.

However, participants were quite happy with the disclosure regarding the timing of investment returns distribution as 263 (87.7 %) of participants answered 'yes'; they were also happy with the disclosure of previous investment returns in that 231 (77 %) of participants answered 'yes' to this statement. The Chi-square test revealed the variation of responses to all six questions to be statistically significant (Asymp. Sig. < 0.05).

3. **Disclosure of Underwriting Surplus (DUS)**

Table 8.15: Disclosure of Underwriting Surplus

Q18-The company disclosed their policy and procedures for handling participants' surplus from underwriting activities.					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	No	204	68.0	38.880	0.000
	Yes	96	32.0		
	Total	300	100.0		
Q19-The company disclosed the methods used to calculate Underwriting Surplus					
Valid	No	269	89.7	188.813	0.000
	Yes	31	10.3		
	Total	300	100.0		
Q20-The company disclosed the conditions that allow them to receive Underwriting Surplus					
Valid	No	290	96.7	261.333	0.000
	Yes	10	3.3		
	Total	300	100.0		

Q21-The company disclosed the uncollected Underwriting Surplus to me.					
Valid	No	290	96.7	261.333	0.000
	Yes	10	3.3		
	Total	300	100.0		

Table 8.15 clarifies participants' responses to the four questions which require them to clarify whether the company disclosed different information regarding underwriting surplus. The first question participants were asked was whether the company disclosed their policy and procedures for handling participants' surplus from underwriting activities. Surprisingly, 204 (68 %) participants answered 'no' to the question. The second question participants were asked was whether the company discloses the methods used to calculate underwriting surplus; accordingly 269 (89.7 %) participants answered 'no'. The third question participants were asked was whether the company discloses the conditions that allow them to receive underwriting surplus to which 290 (96.7 %) of participants responded 'no'. Finally, the participants were asked whether the company disclosed the uncollected underwriting surplus and again 290 (96.7 %) of participants answered with 'no'. The Chi-square test revealed the variation of responses in all four questions to be statistically significant (Asymp. Sig. < 0.05).

4. Disclosure of *Shari'ah* Compliance (DSC)

Table 8.16: Disclosure of *Shari'ah* Compliance

Q22-The company disclosed policy and procedures to reflect the obligations of complying with *Shari'ah* laws in the participants' fund					
Valid	**Options**	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
	No	43	14.3	152.653	0.000
	Yes	257	85.7		
	Total	300	100.0		
Q23-The company disclosed the *Shari'ah* compliance annual report to participants					
Valid	No	246	82.0	122.880	0.000
	Yes	54	18.0		
	Total	300	100.0		
Q24-The company disclosed the method and basis of *Shari'ah* methods used to allocate Underwriting Surplus to participants					
Valid	No	290	96.7	261.333	0.000
	Yes	10	3.3		
	Total	300	100.0		
Q25-The company disclosed the criteria used to scrutinize investment portfolio to participants					
Valid	No	278	92.7	218.453	0.000
	Yes	22	7.3		
	Total	300	100.0		

Q26-The company disclosed the purifications technique used on the participants fund investment assets					
Valid	No	239	79.7	105.613	0.000
	Yes	61	20.3		
	Total	300	100.0		

Table 8.16 clarifies TO adherence to *Shari'ah* laws to satisfy participants' desires to invest their money according to Islamic laws. Therefore, participants were asked to clarify whether TOs had fulfilled their desires for *Shari'ah* compliance in all transactions. In the first question participants were asked whether the company had presented an annual *Shari'ah* compliance report to them and 246 (82 %) of participants answered 'no'. Secondly, participants were asked if the company disclosed the method and basis of the *Shari'ah* method used to allocate underwriting surplus to which 290 (96.7 %) of participants answered 'no'. The third question participants were asked was whether the company disclosed the criteria used to scrutinize investment portfolio and 278 (92.7 %) of participants answered 'no'. Finally, participants were asked if the company disclosed the purifications technique used on the participants fund investment assets and 239 (79.7 %) of participants answered in negative. However, participants answered this question differently to the others. When asked to clarify if the company had disclosed their commitment to *Shari'ah* compliance when dealing with the participants fund, 257 (85.7 %) of participants answered 'yes' which is not considered surprising given that every financial institution that offers Islamic financial products is supposed to clearly announce their *Shari'ah* compliance commitments to the public. Subsequently, the Chi-square test revealed the variation of responses to all five questions to be statistically significant (Asymp. Sig. < 0.05).

5. Disclosure of Claims and Indemnities (DCI)

Table 8.17: Disclosure of Claims and Indemnities

Q27-The company discloses their policy and procedures for handling participants' claims and indemnities.					
Valid	**Options**	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
	No	234	78.0	94.08	0.015
	Yes	66	22.0		
	Total	300	100.0		

Table 8.17 reflects TOs' claims and indemnities procedures, because indemnifying participants' claims in *takaful* business might cause future problems. This is particularly the case when a TO

treats participants' indemnity as an issue of *ex gratia* payments, ignoring the fact that the PRF from which the payments would be made belongs to policyholders not the shareholders. Accordingly, participants were asked to clarify if the TO had disclosed their policy and procedures for handling participants claims and indemnities and 234 (78 %) of the participants answered 'no'. The Chi-square test revealed the variation of responses to be statistically significant (Asymp. Sig. < 0.05).

6. Disclosure of Fees, Deficits and *Qard Hasan* (DFDQ)

Table 8.18: Disclosure of Expenses, Fees, Deficits and *Qard Hasan*

Q28 - The company disclosed the incentives percentage taken by the company for good performance					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	No	278	92.7	161.333	0.000
	Yes	22	7.3		
	Total	300	100.0		
Q29 - The company disclosed the direct and indirect expenses against the participants' fund					
Valid	No	284	94.7	221.880	0.000
	Yes	16	5.3		
	Total	300	100.0		
Q30-The company disclosed the eligibility of participants' fund to receive *Qard Hasan*					
Valid	No	260	86.7	161.333	0.000
	Yes	40	13.3		
	Total	300	100.0		
Q31-The company disclosed whether PIF covers the deficit of PRF					
Valid	No	279	93.0	221.880	0.000
	Yes	21	7.0		
	Total	300	100.0		

Table 8.18 reflects TOs' disclosures regarding encountered expenses, charged fees and availability of *qard* (loan), because there is a strong relationship between charged expenses, fees and encountered deficits. As *Shari'ah* standards of AAOIFI (2010) state that insurance accounts shall bear all the expenses[68] and fees[69] that relate to insurance activities. Therefore, the higher the expenses paid out from the *takaful* fund, the lower the surplus will be (Archer *et al*, 2009). This will cause close deficits in the future. As a result of deficits[70] encountered in the participants' fund, the *takaful* operator will be required as a manager of the risk pool to provide *qard hasan*

[68] Such as direct claims expenses, re-*takaful* arrangement and indirect (salaries, rents) expenses.
[69] Such as (*Wakalah* Fee, Investment Management Fee, incentive fees *etc*).
[70] *i.e.,* claims and expenses exceed *takaful* contributions.

(interest-free loan) in most jurisdictions and countries (Ali *et al*, 2008). Accordingly, participants were asked to clarify whether TOs disclosed the incentives structure and different expenses excluded from the fund. The first question asked about disclosure of incentive structure, to which 278 (92.7 %) of participants answered ‘no’. The second question asked participants to clarify, whether TOs had disclosed direct and indirect expenses against the participants’ fund and 284 (94.7 %) of participants answered ‘no’ to the question. Subsequently, participants were asked to clarify whether TOs had disclosed enough information that guaranteed their rights to receiving *qard hasan*. The first question asked whether the company disclosed their eligibility to provide *qard hasan* to the participants’ fund to which 260 (86.7 %) of participants replied ‘no’. The second question asked whether the company disclosed if the family *takaful* savings policy (PIF) covered the deficit of the risk protection from death (PRF). Accordingly, 279 (93 %) of participants answered ‘no’. On the other hand, the Chi-square test revealed the variation of responses to all four questions to be statistically significant (Asymp. Sig. < 0.05).

7. Disclosure of Key Personnel (DKP)

Table 8.19: Disclosure of Key Personnel

Q32-Disclosure of investing participant fund into shareholders’ equities					
Valid	**Options**	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
	No	178	59.3	10.453	0.001
	Yes	122	40.7		
	Total	300	100.0		
Q33-Disclosure of shareholders activities on participant underwriting surplus					
Valid	No	289	96.3	257.613	0.000
	Yes	11	3.7		
	Total	300	100.0		
Q34-Disclosure of BoDs decisions regarding PF					
Valid	No	266	88.7	179.413	0.000
	Yes	34	11.3		
	Total	300	100.0		

In Table 8.19 participants were asked to clarify if the company had disclosed the percentage amount of investing some of the participants fund into the shareholders equities; accordingly, 178 (59.3 %) of participants, responded in negative. Participants were also asked to identify whether the *takaful* company had disclosed shareholders’ activities on participants’ underwriting surplus and a large number of 289 (96.3 %) participants responded ‘no’. Participants were also required to clarify if the TOs had disclosed the BoDs decisions regarding the participants' fund and 266 (88.7 %) participants replied 'no'. On the other hand, the Chi-square test revealed that the variations of responses in all three questions to be statistically significant (Asymp. Sig. < 0.05).

8.4.2 Participant's Knowledge of Participants' Fund

As one of the main challenges facing TOs is participants' awareness and knowledge of the *takaful* concepts (Malaikah, 2006) as participants' lack of knowledge can cause confusion on customer motivations and preferences.[71] Accordingly, this section explores participants' knowledge and awareness regarding the service provided by the TOs. The knowledge questionnaires were structured according to the polices and standards on market conduct that have been imposed on corporate governance to determine whether the Saudi TOs adopted the required polices to provide the protection and satisfy the *takaful* participants. A statistical description of the seven knowledge variables are given with some variables exemplified by more than one question.

1. Knowledge of the *Takaful* Model Principles (KPM)

Table 8.20: Knowledge and Awareness of the *Takaful* Model Principles Used

	Options	Frequency	Percent	Chi-square test: Chi-square	Chi-square test: Sig.
Q1-Does the company brief you on the principles of *takaful* models					
Valid	No	19	6.3	228.813	0.000
	Yes	281	93.7		
	Total	300	100.0		
Q2- What are the *takaful* models you are participating in					
Valid	*Wakalah*	11	3.7	345.167	0.000
	Mudarabah	130	43.3		
	Waqf	4	1.3		
	Don't Know	147	49.0		
	Other	8	2.7		
	Total	300	100.0		
Q3-Is there a minimum duration period to cancel the contract					
Valid	No	297	99.0	228.813	0.000
	Yes	3	1.0		
	Total	300	100.0		

[71] Refer to chapter 5, Section 5.4.2.

Table 8.20 clarifies whether participants have enough knowledge of the used model principles. The results show that 281 (93.7 %) of participants replied ‘yes’, which indicates that *takaful* company were conveying the necessary information to participants in regards to their products, policies and principles. In this section, participant’s knowledge with regards to the principles and models of the *takaful* fund has been explored by forwarding two main questions which reflect their knowledge about the fund they are participating in. The first question aims at exploring participants’ awareness of the model[72] they are participating in and only 11(3.7 %) participants knew that *wakalah* is the used operating model, while the majority of 147 (49 %) participants chose to pick ‘don’t know’ to answer the question. Participants were also challenged to identify if they are aware of any minimum durations or initial stages, required by the TOs to cancel the contract and surprisingly 297 (99 %) participants answered ‘no’, *i.e.* there is no minimum duration to cancel the contract. However, *takaful* companies will usually indicate a minimum cancellation or surrender period before the maturity of the contract, disobeying this period will expose participants to bear a charge.[73] The chi-square tests reveal that the variations of responses in all three questions are statistically significant (Asymp. Sig. < 0.05).

2. Knowledge of Investment Return (KIR)

Table 8.21: Knowledge and Awareness of Investment Return

Q4- Do you know the difference between PIF & PRF					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	No	136	45.3	2.613	0.106
	Yes	164	54.7		
	Total	300	100.0		

Table 8.21 reflects participants’ replies to distinguish between the available types of fund in the family *takaful* policy. As explained previously a family *takaful* policy can have two types of fund, either PRF and/or PIF. Surprisingly, only 164 (54.7 %) of participants are aware of the difference between risks and saving accounts, however the percentage of the knowledgeable participants is supposed to be much more, because participants’ choice of policy either PIF or

[72] *Wakalah* is the used practised model in Saudi Arabia; please refer to Chapter 3, Section 3.7.
[73] http://www.sabbtakaful.com/FAQs/Family%20FAQ/family_faq_en.shtml

PRF will depend on their needs and wants behind buying the *takaful* policy. The chi-square test reveals that this question is not statistically significant (Asymp. Sig. = 0.106) with a small discrepancy between participants' replies.

3. Knowledge of Underwriting Surplus (KUS)

Table 8.22: Knowledge and Awareness of Underwriting Surplus

Q5 - Do you know the difference between net underwriting surplus and gross underwriting surplus ?					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	No	226	75.3	77.013	0.000
	Yes	74	24.7		
	Total	300	100.0		
Q6 - What options of underwriting surplus distribution were given by the TOs in association with participants claim situation?					
Valid	Without Differentiation	16	5.3	748.880	0.000
	To Non-claimable Participants	3	1.0		
	Amount of claims < contributions	1	.3		
	I don't know	280	93.3		
	Total	300	100.0		

Table 8.22 shows participants' responsesto distinction between different types of surplus from the underwriting activities as some companies distribute surplus to participants in the form of net underwriting surplus, while others distribute it as gross underwriting surplus.[74] The used method to distribute underwriting surplus should be disclosed to participants. However, 226 (75.3%) participants replied with 'no' when asked if they can distinguish between types of underwriting surplus which reflects participants' low level of awareness of the technicality of the distribution benefits. Participants' awareness in this matter can make a great difference on their purchasing decisions. If the TOs distribute the net underwriting surplus then participants' expected benefits can be reduced as they will be charged extra percentage as incentive for the good performance of the *takaful* operators. Furthermore, participants were challenged to reveal the conditions that allowed them to share with other participants in the underwriting surplus. Some companies will not allow participants who claimed to share the underwriting surplus, while allowing others.

[74]Refer to Chapter 2, for further discussion.

Thus the company should reflect these policies to the participants. The results indicate that 280 (93.3 %) of participants are unaware of the company surplus distribution policies for those who made claims. The Chi -square tests reveal that the variations of responses in both questions are statistically significant (Asymp. Sig. = 0.000). This was more clearly shown in question 6 as the Chi -square value was relatively large.

4. Knowledge of *Shari'ah* Compliance (KSC)

Table 8.23: Knowledge and Awareness of *Shari'ah* Compliance

Q7-Do you the know difference between Re-Insurance and *Re-Takaful?*					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	No	262	87.3	167.253	0.000
	Yes	38	12.7		
	Total	300	100.0		

Table 8.23 reflects participants' knowledge of *Shari'ah* compliance, as one of the main reasons for participants buying Islamic insurance is to comply with the *Shari'ah.* As a result, TOs should explain the type of risk mitigation they are using (either re-*takaful* or re-insurance) so participants can be fully aware of whether the company follows *Shari'ah* in all transactions. However, 262 (87.3 %) of participants replied 'no' reflecting their weak awareness of the difference between re-*takaful* and re-insurance, which indicates a gap between the *takaful* company and participants in transmitting an important fact that deals with *Shari'ah* compliance. The Chi square test reveals that the variation of responses to this question is statistically significant (Asymp. Sig. < 0.05).

5. Knowledge of Expenses, Fees, Deficits and *Qard Hasan* (KFDQ)

Table 8.24: Knowledge and Awareness of Expenses, Fees, Deficits and *Qard Hasan*

Q8- Which of the following fees does the company charge the participants' fund account.					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	*Wakalah* Fee	1	.3	588.06	0.000
	Investment Management Fee	1	.3		
	I don't Know	298	99.3		
	Total	300	100.0		

Q9- Under which of the following conditions would you be required by the *takaful* company to pay additional contributions:					
	Recovering Underwriting Deficits	3	1.0	755.600	0.000
	Building-up Reserves	14	4.7		
	Paying back Shareholders' *Qard*	2	.7		
	I don't know	281	93.7		
	Total	300	100.0		
Q10-Does the Operator call before to recover participant's fund deficits					
Valid	No	272	90.7	198.453	0.000
	Yes	28	9.3		
	Total	300	100.0		

Table 8.24 reflects participants' knowledge of expenses, fees, and *qard hasan* since TOs should advise participants on the types of fees that they are going to charge the participant's fund, such as *wakalah* upfront fees, investment management fees, *etc*. However, the survey indicates that 298 (99.3 %) of participants are not aware of the charged fees. While, 281 (93.7 %) of participants have no idea in what circumstances they will be legally required by the company to pay additional contributions to the participants' fund, which indicates an information gap between participants and TOs. Furthermore, participants were also asked to clarify if the TOs had called them before recovering a deficit encountered in the participants' fund and 272 (90.7 %) of participants replied 'no'. This can imply three possible scenarios: (i) The financial position of the Saudi TOs are strong enough that they do not encounter a deficit in the fund. (ii) The TOs do not put the burden on participants in case of shortage encountered in the fund and they might compensate this shortage from shareholders' funds by providing *qard* loan. However, they will forward any future underwriting surplus and/or future investment return from the participants' fund to the shareholders' accounts. (iii) TOs might gradually increase participants' regular contributions, to recover the fund deficit. This fact might not be mentioned to the participants to keep the good reputation of the company among participants. On the other hand, the Chi -square tests reveal that the variations of responses in all three questions to be statistically significant (Asymp. Sig. < 0.05).

6. Knowledge of the Company's Key Personnel Power and Activities (KKP)

Table 8.25: Knowledge and Awareness of the Company's Key Personnel and Activities

11- Are you aware of the following key governance personnel of the *takaful* company you participate in:					
	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
Valid	BoDs	0	0	N/A	N/A
	Shareholders	0	0		
	Sen. Manag.	0	0		
	SSB	0	0		
	Appt. Act.	0	0		
	Inv. Team	0	0		
	OutSourc Inv. Team	0	0		
	Don't Know	300	100.0		
	Total	300	100.0		
Q12-Do Shareholders Share the following things with participants:					
	Underwriting Surplus	0	0	N/A	N/A
	Investment Return	0	0		
	Don't Know	300	100.0		
	Total	300	100.0		

Table 8.25 reflects participants' knowledge of TOs key personnel, such as BoDs, shareholders, and others. Surprisingly, all 300 participants were unable to identify any organs of the company, which indicated two possible scenarios: (i) participants are not interested to know the company organs or (ii) *takaful* operators did not disclose the company organs to the public. Furthermore, participants were asked to reflect as to whether they understand the kind of financial discretion activities shareholders can exert on the participants' fund. Surprisingly, all 300 participants responded 'don't know' to this question. On the other hand, as participants' replies for both questions were the same (*i.e.* all 300 participants picked 'don't know' to both questions) the Chi -square test became inapplicable.

7. Knowledge of Dissatisfaction Channels (KDC)

Table 8.26: Knowledge and Awareness of Dissatisfaction & Quitting Options

Q13 - What options were given by the company in case you are dissatisfied with the company services:					
	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
Valid	Complaints to the Company	35	11.7	44.507	0.000
	Quit the Company	90	30.0		
	I don't know	112	37.3		
	The company didn't inform me of any quitting options	63	21.0		
	Total	300	100.0		

Q14 - Which of the following can you refer to in case of dispute between you and the company:					
Valid	Arbitration	8	2.7	374.053	0.000
	Court	64	21.3		
	Ombudsman	13	4.3		
	I don't know	215	71.7		
	Total	300	100.0		

Table 8.26 reflects participants' knowledge on the proper way to quit the company in case of dissatisfaction. This is important for the participants as it would save them losing the paid contributions. However, 112 (37.3 %) participants replied 'don't know' where to go when they are dissatisfied with the TOs, while 90 (30%) participants replied 'quit the company', without knowing that quitting the company before contract maturity could incur a penalty charge for them. Furthermore, 63 (21%) participants replied the company didn't inform me of any quitting options'. They were also asked to clarify which party they were supposed to refer to in case of dissatisfaction and 215 (71.7 %) participants' replied that they didn't know. Thus, the participants' responses to the two questions indicate a lack of disclosure of participants' rights to quit the company when they are dissatisfied. The Chi -square tests reveal that the variations of responses in both questions are statistically significant (Asymp. Sig. < 0.05), which was clear by a large discrepancy in the questions.

8.4.3 Participants' Preferences

Blythe (1997) described need as a perceived lack, that individuals must realize their preferences in order for it to be described as need. This recognition (perception) of lack (unfulfilled need) has been linked to a series of resultant activities in the mind of the consumer. Kotler *et al* (2001) also define human needs as "states of felt deprivation". Accordingly, this section will describe participant's preferences as these mirrors their needs and wants. Accordingly, the highest the rate of participants' preferences implies high lacking rate of perceiving the required services. The exploration of participants' preferences will be with regards to the service provided by the TOs. Participants' preferences will add an important factor to participants' satisfaction. Some of these preferences have been recognized by the international insurance organizations, by complying with the corporate governance and market conduct standards. For meaningful understanding, the statistical descriptions of all five participants' preference variables are given below.

1. **Participants' Preferences for *Shari'ah* compliance (PSC)**

Table 8.27: Participants' Preferences for *Shari'ah* compliance

Q1 - Participants' Fund will be affected because SSB gives less time to judge assets validity.					
	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
Valid	Strongly Disagree	5	1.7	290.333	0.000
	Disagree	31	10.3		
	Neutral	144	48.0		
	Agree	117	39.0		
	Strongly Agree	3	1.0		
	Total	300	100.0		
Q2 - I would like to have an opportunity to select the SSB					
	Strongly Disagree	1	.3	286.567	0.000
	Disagree	26	8.7		
	Neutral	94	31.3		
	Agree	159	53.0		
	Strongly Agree	20	6.7		
	Total	300	100.0		

Table 8.27 clarifies participants' preferences of TOs' *Shari'ah* compliance. Accordingly, participants were asked if the validity of participants' fund will be affected if SSB was given less time to judge the assets portfolio and 120 (40 %) participants replied with 'agree' and 'strongly agree', respectively. A follow-up question was asked to participants as to their preferences on whether they would like to be given the chance to select the SSB members to which 179 (59.7 %) participants answered with 'agree' and 'strongly agree', respectively. This indicates that participants might require more disclosure on the *Shari'ah* pronouncements/resolutions for the participants' fund. On the other hand, the Chi -square tests reveal that the variations of responses in both questions are statistically significant (Asymp. Sig. < 0.05).

2. **Participants' Preferences for a Representative on the TOs' BoD's (PRB)**

Table 8.28: Participants' Preferences on having Representatives

Q3 **-** I would like to have a representatives who represents all participants on the BoDs					
	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
Valid	Strongly Disagree	5	1.7	317.233	0.000
	Disagree	144	48.0		
	Neutral	19	6.3		
	Agree	126	42.0		
	Strongly Agree	6	2.0		
	Total	300	100.0		

Table 8.28 reflects participants' preferences to have a representative who can represent their requirements to the TOs. The participants' replies were quite similar in that 49.7 % of the participants' replied with 'strongly disagree' and 'disagree', respectively, while 44 % of the participants replied with 'agree' and 'strongly agree', respectively. on the responses of participants might be due to the level of low premiums paid *i.e.* 182 (60.7 %) participants paid premiums between SAR 01- 1000, which might give them a feeling that it is not worthwhile for the participants representatives to spend much time managing other participants' fund for less expected profit as they prefer to concentrate on their daily life and careers. The Chi-square test reveals that the variations of responses in this question are statistically significant (Asymp. Sig. < 0.05).

3. Participants' Preferences on TOs' Key Personnel Power and Activities (PKP)

Table 8.29: Participants' Preferences on TOs' Key Personnel Power and Activities

Q4 - Participants should have the right to refuse shareholders activities on the participants' fund					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	Strongly Disagree	0	0	294.267	0.000
	Disagree	11	3.7		
	Neutral	84	28.0		
	Agree	193	64.3		
	Strongly Agree	12	4.0		
	Total	300	100.0		

Table 8.29 reflects participants' preferences of TOs' key personnel, and if they should have the rights to refuse shareholders intrusions on participants' funds. Their answer was quite reasonable in that 205 (68.3 %) participants replied with 'agree' and 'strongly agree', respectively which indicate that participants are not in favour of letting shareholders control their funds. On the other hand, the Chi -square test reveals that the variations of responses in this question are statistically significant (Asymp. Sig. < 0.05).

4. Participants' Preferences on the Reason to Use the *Takaful* Policy (PRU)

Table 8.30: Participants' Preferences on the Reason to Use the *Takaful* Policy

Q5 - Why do you use *takaful* insurance:					
5-1) To protect myself against financial loss					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	No	233	77.7	91.853	0.000
	Yes	67	22.3		
	Total	300	100.0		
5-2) To make a future plan that can benefit me and my family					
Valid	No	44	14.7	149.813	0.000
	Yes	256	85.3		
	Total	300	100.0		
5-3) To help other participants in their needs					
Valid	No	296	98.7	284.213	0.000
	Yes	4	1.3		
	Total	300	100.0		
5-4) To obey the government mandatory order to carry an insurance policy					
Valid	No	299	99.7	296.013	0.000
	Yes	1	.3		
	Total	300	100.0		
5–5) Because of *Shari'ah* compliance					
Valid	No	193	64.3	24.653	0.000
	Yes	107	35.7		
	Total	300	100.0		
Q6 - Which of the following do you prefer					
Valid	*Shari'ah*-Loose & high return	1	0.3	296.013	0.000
	Shar'iah-Strict & low return	299	99.7		
	Total	300	100.0		

Table 8.30 reflects the reasons for participants' to buy a *takaful* policy. As has been discussed previously, brotherhood and helping other Muslims is one of the main reasons that should motivates participants to buy a *takaful* policy as being stated in the Malaysian *Takaful* Act 1984. However, 256 (85.3 %) participants replied 'to make a future plan that can benefit me and my family', while only 4 (1.3 %) participants replied 'to help other participants in their needs', and 193 (64.3 %) participants clarified that *Shari'ah* compliance was not the reason that leads them to buy a *takaful* policy. Participants' preferences on the reason to buy a *takaful* policy were also challenged by linking *Shari'ah* with financial return. When participants are faced with only two choices, either loose *Shari'ah* compliance and high returns or strict *Shari'ah* compliance and low returns, 299 (99.7%) participants were in favour of the latter choice. Participants' responses to

question 6 are not in contradiction to question 5. In question 5 the question was asked of the reason to buy a *takaful* policy and the main reason given by participants was the expected financial returns. In question 6 participants were given the choice to pick their type of *Shari'ah* preference. That participants' prefered *Shari'ah*-strict & low return is not considered unusual since the religiousity is expected to be high for all Muslims. The Chi -square tests reveal that the variations of responses in all sub-questions are statistically significant (Asymp. Sig. < 0.05).

5. **Participants' Preferences for Claims and Underwriting Surplus (PCU)**

Table 8.31: Participants' Preferences for Claims and Underwriting Surplus

Q7 - When I make claim I still want to share Underwriting Surplus with other participants					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	No	81	27.0	63.480	0.000
	Yes	219	73.0		
	Total	300	100.0		
Q8 - When other participants make a claim, do you think they deserve to share Underwriting Surplus with other participants?					
Valid	No	76	25.3	73.013	0.000
	Yes	224	74.7		
	Total	300	100.0		

Table 8.31 reflects participants' preferences on claims and underwriting surplus. Participants were asked to clarify whether they wanted to share the underwriting surplus with other participants who did not make a claim and 291 (73 %) participants' replied 'yes'. The question was rephrased with a similar meaning and the participants were asked to clarify if they would allow other participants who made claims to share the underwriting surplus with them to which 224 (74.7 %) participants replied in affirmative. In short, participants' replies to these two questions supported their preferences on the main reason of buying a *takaful* policy *i.e.*, participants are buying the *takaful* policies for the expected financial return, and they are very eager to get the expected financial return regardless if they made claims or not. On the other hand, the Chi-square tests reveal that the variations of responses for both questions are statistically significant (Asymp. Sig. < 0.05).

8.4.4 Participants' Satisfaction Levels

This section will explore participants' satisfaction levels with the products and services presented by the TOs in Saudi Arabia. Accordingly, participants were asked to clarify if they are satisfied with the services and products offered by the TOs. In other words, participants' satisfaction level can be considered a reflection to the services that were presented by the TOs. The participants' satisfaction variables have been categorized into seven types which are described next.

1. **Satisfaction with the TOs' Disclosure Mechanisms (SDM)**

Table 8.32: Satisfaction with the TOs' Disclosure Mechanisms

	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
1-Are you satisfied with the company disclosure in regards to any changes on the contracts terms?					
Valid	Strongly Not Satisfied	2	.7	202.267	0.000
	Not Satisfied	104	34.7		
	Neutral	70	23.3		
	Satisfied	120	40.0		
	Strongly Satisfied	4	1.3		
	Total	300	100.0		
2-Are you satisfied with the disclosure mechanisms of informing participants of their rights related to "investment return/underwriting surplus"?					
Valid	Strongly Not Satisfied	4	1.3	210.167	0.000
	Not Satisfied	106	35.3		
	Neutral	65	21.7		
	Satisfied	123	41.0		
	Strongly Satisfied	2	.7		
	Total	300	100.0		
3 -Are you satisfied with the disclosure mechanisms that make participants eligible to receive *qard* loan in cases when their account encounters a financial loss?					
Valid	Strongly Not Satisfied	3	1.0	209.500	0.000
	Not Satisfied	100	33.3		
	Neutral	72	24.0		
	Satisfied	124	41.3		
	Strongly Satisfied	1	.3		
	Total	300	100.0		
4 -Are you satisfied with the *takaful* company in conveying your rights and obligations of receiving benefits?					
Valid	Strongly Not Satisfied	3	1.0	241.233	0.000
	Not Satisfied	96	32.0		
	Neutral	58	19.3		
	Satisfied	141	47.0		
	Strongly Satisfied	2	.7		
	Total	300	100.0		

Table 8.32 represents participants' satisfaction with different issues relating to TOs' disclosure mechanisms and 124 (41.3 %) participants replied 'satisfied' and 'strongly satisfied' for the disclosures of contract terms changes, while 106 (35.4 %) participants replied with 'strongly not satisfied' and 'not satisfied', respectively. Similarly, 125 (41.7 %) participants replied with 'satisfied' and 'strongly satisfied' regarding disclosure of informing participants of their rights related to investment return and underwriting surplus, while 110 (36.6 %) participants replied with 'strongly not satisfied' and 'not satisfied', respectively. 125 (41.6 %) participants' replied 'satisfied' and 'strongly satisfied', respectively, for the disclosure of making participants eligible to receiving *qard* loan in case of deficits, while 103 (34.3 %) participants' replied with 'strongly not satisfied' and 'not satisfied', respectively. Furthermore, participants were asked to clarify if they are satisfied with the company effort in conveying their rights and obligations of receiving their benefits; accordingly, 143 (47.7 %) participants replied with 'satisfied' and 'strongly satisfied', respectively, while 99 (33 %) participants replied with 'strongly not satisfied' and 'not satisfied', respectively. The Chi-square tests revealed that the variations of responses for all four questions are statistically significant (Asymp. Sig. < 0.05).

2. Satisfaction with the Investment Return (SIR)

Table 8.33: Satisfaction with the Investment Return

5-Are you satisfied with the income and profits generated from participant's investment accounts?					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	Strongly Not Satisfied	13	4.3	266.067	0.000
	Not Satisfied	161	53.7		
	Neutral	57	19.0		
	Satisfied	68	22.7		
	Strongly Satisfied	1	.3		
	Total	300	100.0		
6-Are you satisfied with the ways and methods used to distribute investment returns among participants?					
Valid	Strongly Not Satisfied	6	2.0	205.767	0.000
	Not Satisfied	128	42.7		
	Neutral	70	23.3		
	Satisfied	95	31.7		
	Strongly Satisfied	1	.3		
	Total	300	100.0		

Table 8.33 represents participants' satisfaction with the TOs financial position and performance considered an important factor in enhancing and developing insurance business as well as

reflecting the company ability to satisfy its promises and strength to meet participants' obligations. Accordingly, 174 (58 %) participants replied with 'strongly not satisfied' and 'not satisfied', respectively with the profits and income generated from participants investment accounts, while 134 (45 %) participants replied 'strongly not satisfied' and 'not satisfied', respectively with the ways and methods used to distribute investment returns among them. On the other hand, the Chi-square tests reveal that the variations of responses for both questions are statistically significant (Asymp. Sig. < 0.05).

3. Satisfaction with the Underwriting Surplus (SUS)

Table 8.34: Satisfaction with the Underwriting Surplus

7-Are you satisfied with the amount of underwriting surplus distributed by the company?				Chi-square test	
	Options	**Frequency**	**Percent**	**Chi-square**	**Sig.**
Valid	Strongly Not Satisfied	3	1.0	192.467	0.000
	Not Satisfied	95	31.7		
	Neutral	88	29.3		
	Satisfied	113	37.7		
	Strongly Satisfied	1	.3		
	Total	300	100.0		
8-Are you satisfied with the way and methods used in disclosing and allocating underwriting surplus?					
Valid	Strongly Not Satisfied	2	.7	224.267	0.000
	Not Satisfied	99	33.0		
	Neutral	67	22.3		
	Satisfied	131	43.7		
	Strongly Satisfied	1	.3		
	Total	300	100.0		

Table 8.34 represents participants' satisfaction about underwriting surplus. As has been explored previously, participants are eager to get an underwriting surplus even when they made a claim. As a result, participants were asked to clarify if they are satisfied with the amount of distributed surplus. The participants were divided almost equally in their opinion, with 98 (33 %) participants answering with (strongly not satisfied and not satisfied) respectively, while 114 (38 %) participants replied with 'satisfied'' and 'strongly satisfied' with the notion. Participants also have shown their satisfaction with the methods used in disclosing and allocating underwriting surplus, that 132 (44 %) participants answered with 'strongly satisfied' and 'satisfied' respectively, while 101 (34 %) participants replied with 'strongly not satisfied' and 'not

satisfied', respectively. The Chi-square tests indicate that the variations of responses for both questions are statistically significant (Asymp. Sig. < 0.05).

4. Satisfaction with *Shari'ah* Compliance (SSC)

Table 8.35: Satisfaction with *Shari'ah* compliance

9-Are you satisfied with the company *Shari'ah* compliance mechanisms?					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	Strongly Not Satisfied	3	1.0	333.000	0.000
	Not Satisfied	33	11.0		
	Neutral	93	31.0		
	Satisfied	168	56.0		
	Strongly Satisfied	3	1.0		
	Total	300	100.0		
10-Are you satisfied with the way and method used by the *Shari'ah* scholars to allocate underwriting surplus?					
Valid	Strongly Not Satisfied	9	3.0	219.767	0.000
	Not Satisfied	50	16.7		
	Neutral	115	38.3		
	Satisfied	124	41.3		
	Strongly Satisfied	2	.7		
	Total	300	100.0		

Table 8.35 represents participants' satisfaction with TOs' *Shari'ah* compliance, since *Shari'ah* compliance is considered the main pillar that differentiates *takaful* from the conventional insurance. Participants were asked if they were satisfied with the TOs' *Shari'ah* compliancesand 171 (57 %) of participants replied with 'strongly satisfied' and 'satisfied', respectively, while 36 (12 %) of participants' replied with 'strongly not satisfied' and 'not satisfied', respectively. Participants also have shown their satisfaction with the way and method used by the *Shari'ah* scholars to allocate underwriting surplus in that 126 (42 %) of participants' replied with 'strongly satisfied' and 'satisfied', respectively. On the other hand, the Chi-square tests reveal that the variations of responses for both questions are statistically significant (Asymp. Sig. < 0.05).

5. Satisfaction with Claims & Indemnities (SCI)

Table 8.36: Satisfaction with Claims and Indemnities

	Options	Frequency	Percent	Chi-square test: Chi-square	Chi-square test: Sig.
11-Are you satisfied with the terms and conditions of the required claim notice?					
Valid	Strongly Not Satisfied	2	.7	319.033	0.000
	Not Satisfied	84	28.0		
	Neutral	43	14.3		
	Satisfied	168	56.0		
	Strongly Satisfied	3	1.0		
	Total	300	100.0		
12-Are you satisfied with the prompt and permanent indemnity payments terms and conditions?					
	Strongly Not Satisfied	4	1.3	394.233	0.000
	Not Satisfied	56	18.7		
	Neutral	49	16.3		
	Satisfied	190	63.3		
	Strongly Satisfied	1	.3		
	Total	300	100.0		
13-Are you satisfied with the claim settlements procedures indicated in the policy contract?					
	Strongly Not Satisfied	3	1.0	297.400	0.000
	Not Satisfied	81	27.0		
	Neutral	52	17.3		
	Satisfied	163	54.3		
	Strongly Satisfied	1	.3		
	Total	300	100.0		
14-Are you satisfied with the time giving to participants to indemnify and recover the encountered loss?					
	Strongly Not Satisfied	2	.7	127.547	0.000
	Not Satisfied	102	34.0		
	Neutral	63	21.0		
	Satisfied	133	44.3		
	Strongly Satisfied	0	0		
	Total	300	100.0		

Table 8.36 represents participants' satisfaction with TOs' claims and indemnities procedures, since it is the main principle that distinguishes insurance business from other financial institutions. Accordingly, participants were asked a couple of questions to clarify their satisfaction levels with the TOs' claims and indemnities services and their answers are as follows:

(i) 171 (57 %) of participants replied with 'satisfied' and 'strongly satisfied' for the terms and conditions of the required claim notice. (ii) 191 (63.6 %) of participants replied with 'satisfied' and 'strongly satisfied' for the prompt and permanent indemnity payments terms and conditions.

(iii) 164 (54.6 %) of participants replied with 'satisfied' and 'strongly satisfied' for the claim settlements procedures indicated on the contract. (iv) 133 (44.3 %) of participants replied with 'satisfied' and 'strongly satisfied' against 104 (34.7 %) participants who reply with 'strongly not satisfied' and 'not satisfied', for the time given to participants to indemnify and recover the encountered loss. The Chi-square tests reveal that the variations of responses for all four questions are statistically significant (Asymp. Sig. < 0.05).

6. Satisfaction with Charged Fees, Deficits and *Qard Hasan* (SFDQ)

Table 8.37: Satisfaction with Charged Fees, Deficits and *Qard Hasan*

15-Are you satisfied if the operator called on you for additional contribution to recover a deficit on the participant's fund?					
	Options	**Frequency**	**Percent**	**Chi-square test**	
				Chi-square	**Sig.**
Valid	Strongly Not Satisfied	18	6.0	216.240	0.000
	Not Satisfied	183	61.0		
	Neutral	48	16.0		
	Satisfied	51	17.0		
	Strongly Satisfied	0	0		
	Total	300	100.0		
16-Are you satisfied with the amount of incentives that the company is deducting from participants' fund for good performance in generating underwriting surplus and investment return?					
Valid	Strongly Not Satisfied	18	6.0	68.667	0.000
	Not Satisfied	117	39.0		
	Neutral	79	26.3		
	Satisfied	86	28.7		
	Strongly Satisfied	0	0		
	Total	300	100.0		

Table 8.37 represents participants' satisfaction with fees, deficits and *qard hasan*. As explained previously, there is a strong relationship which links company charged fees and expenses, with the encountered deficits and the availability of *qard*. Accordingly, participants were asked to clarify whether will be satisfied if the Operator calls on them to pay an additional contribution to recover a deficit on the participant's fund. 201 (67 %) of participants replied with 'strongly not satisfied' and 'not satisfied', while only 51 (17 %) of participants replied with 'satisfied' and zero score for strongly satisfied with the notion. Participants have also shown their dissatisfaction with the incentives deduction from participants fund for good performance in generating underwriting surplus and investment return. 135 (45 %) of participants replied 'strongly not satisfied' and 'not satisfied', while 86 (28.7 %) of participants answered 'satisfied'

and again none indicated 'strongly satisfied'. On the other hand, the Chi-square tests revealed that the variations of responses for both questions are statistically significant (Asymp. Sig. < 0.05).

7. Satisfaction with the Company's Key Personnel Power and Activities (SKP)

Table 8.38: Satisfaction with the Company's Key Personnel and Activities

17-Are you satisfied to let the operator share underwriting surplus and investment return with you?					
	Options	Frequency	Percent	Chi-square test	
				Chi-square	Sig.
Valid	Strongly Not Satisfied	11	3.7	263.567	0.000
	Not Satisfied	67	22.3		
	Neutral	60	20.0		
	Satisfied	160	53.3		
	Strongly Satisfied	2	.7		
	Total	300	100.0		
18-Are you satisfied with the shareholders ownership share in company?					
Valid	Strongly Not Satisfied	6	2.0	377.433	0.000
	Not Satisfied	39	13.0		
	Neutral	186	62.0		
	Satisfied	67	22.3		
	Strongly Satisfied	2	.7		
	Total	300	100.0		

Table 8.38 represents participants' satisfaction with TOs' key personnel. Participants were asked to clarify whether they are satisfied to let shareholders share underwriting surplus and investment return with them. The results indicate that 162 (54 %) of participants replied 'satisfied' and 'strongly satisfied' respectively, while 78 (26 %) of participants replied 'strongly not satisfied' and 'not satisfied', respectively. Participants were also asked to clarify whether they are satisfied with the shareholders ownership share in the company and 62 % of the participants' replied with neutral 23 % of the participants replied with 'satisfied' and 'strongly satisfied' against 15 % of the participants who replied with 'strongly not satisfied' and 'not satisfied'. The Chi-square tests revealed that the variations of responses for both questions are statistically significance (Asymp. Sig. < 0.05).

8.5 PARTICIPANTS' OVERALL PERCEPTIONS

To reflect a useful interpretation and close insight into participants' responses, all questions that represent an individual variable were combined together, then recoded and divided into three levels to give a clear meaning of that variable, with the following scaling approach (0 - 0.33 = Weak Perceptions , 0.34 - 0.66 = Moderate Perceptions, 0.67 - 1 = High Perceptions).

8.5.1 - Participants' Overall Perceptions of TOs' Disclosure Variables

Table 8.39 below reflects participants' overall perceptions of the seven disclosure variables (DM, DIR, DUS, DSC, DCI, DFDQ, and DKP).

Table 8.39 Participants' Overall Disclosures

Variables	Low disclosure	Moderate disclosure	High disclosure	Chi-square & Sig.
DM	124 (41.3%)	152 (50.7 %)	24 (8 %)	90.56 (0 %)
DIR	66 (22 %)	208 (69.3 %)	26 (8.7 %)	182.96 (0 %)
DUS	277 (92.3 %)	12 (4 %)	11 (3.7 %)	469.940 (0 %)
DSC	207 (69 %)	79 (26.3 %)	14 (4.7 %)	192.860 (0 %)
DCI	234 (78 %)	0 (0 %)	66 (22 %)	94.08 (0 %)
DFDQ	276 (92 %)	11 (3.7 %)	13 (4.3 %)	464.66 (0 %)
DKP	165 (55 %)	128 (42.7 %)	7 (2.3 %)	136.58 (0 %)

Participants' Overall Perceptions of TOs' Disclosure Mechanisms (DM)

Participants' overall perceptions of the TOs' disclosure mechanisms revealed that 152 (50.7 %) participants perceived moderate disclosure, followed by 124 (41.3 %) of participants with a low perceived disclosure, and only 24 (8 %) of participants with a high perceived disclosure from the TOs. On the other hand, the Chi-square test revealed that participants overall responses on the TOs's disclosure mechanism are statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Perceptions of TO Disclosure of Investment Returns (DIR)

Participants' overall perceptions on investment returns disclosure revealed that 208 (69.3 %) of participants perceived moderate information, followed by 66 (22 %) of participants with a low perceived disclosure, and only 26 (8.7 %) participants with a high perceived disclosure. Furthermore, the Chi-square test revealed that participants overall perceptions' of TOs disclosure for participants' fund investment returns is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Perceptions of TO Disclosure of Underwriting Surplus (DUS)

Participants' overall perceptions of underwriting surplus disclosure revealed that 277 (92.3 %) participants perceived low information, followed by 12 (4.0 %) participants with a moderate perceived disclosure, and only 11(3.7 %) participants with a high perceived disclosure. Furthermore, the Chi-square test revealed that participants overall perceptions' of TOs' disclosure for the underwriting surplus is statistically significant (Asymp. Sig. . < 0.05).

Participants' Overall Perceptions of TO Disclosure of *Shari'ah* Compliance System (DSC)

Participants' overall perceptions of TO disclosure of *Shari'ah* compliance revealed that 207 (69.0 %) participants perceived low information, followed by 79 (26.3 %) participants with a moderate perceived disclosure, and only 14 (4.7 %) participants with a high perceived disclosure. Furthermore, the Chi-square test revealed that participants overall perceptions' of TOs' disclosure for *Shari'ah* compliance is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Perceptions of TO Disclosure of Claims and Indemnities (DCI)

Participants' overall perceptions on the TOs' disclosure for the claims and indemnities procedures used the TOs revealed that 234 (78.0 %) participants' perceived low information, followed by 66 (22 %) participants with a high perceived disclosure. Furthermore, the Chi-square test revealed that participants overall perceptions' of TOs' disclosure for claims and indemnities is statistically significant (Asymp. Sig. Sig. < 0.05).

Participants' Overall Perceptions of TO Disclosure of Fees, Deficits and *Qard* (DFDQ)

Participants' overall perceptions on the TOs' disclosure for the charged fees, encountered deficits and the availability of *qard* revealed that 276 (92.0 %) participants perceived low information, followed by 13 (4.3 %) participants with a high perceived disclosure, then 11 (3.7 %) participants with a moderate disclosure. Furthermore, the Chi-square test revealed that participants overall perceptions' of TOs' disclosure for fees, deficits and *qard* is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Perceptions of TO Disclosure of Key Personnel (DKP)

Participants' overall perceptions of TO disclosure of the company's key personnel revealed that 165 (55.0 %) participants' perceived low information, followed by 128 (42.7 %) of participants with a moderate perceived disclosure, then 7 (2.3 %) of participants with a high disclosure. The Chi-square test revealed that participants' overall perceptions' of TOs' disclosure for the company key personnel is statistically significant (Asymp. Sig. < 0.05).

8.5.2 - Participants' Overall Knowledge

Table 8.40, below reflects participants' overall perceptions of the seven knowledge variables (KPM, KIR, KUS, KSC, KFDQ, KKP and KDC).

Table 8.40: Participants' Overall Knowledge

Variables	Weak or no knowledge	Moderate knowledge	Good knowledge	Chi-square & Sig.
KPM	17 (5.7 %)	279 (93 %)	4 (1.3 %)	481.46 (0 %)
KIR	136 (45.3 %)	0 (0 %)	164 (54.7 %)	2.613 (0.106 %)
KUS	226 (75.3 %)	74 (24.7 %)	0 (0 %)	77.013 (0 %)
KSC	262 (87.3%)	0 (0 %)	38 (12.7 %)	167.253 (0 %)
KFDQ	272 (90.7 %)	28 (9.3 %)	0 (0 %)	198.453 (0 %)
KKP	300 (300 %)	0 (0 %)	0 (0 %)	N/A
KDC	237 (79 %)	63 (21 %)	0 (0 %)	100.920 (0 %)

Participants' Overall Knowledge of the principles of TOs Model (KPM)

Participants' overall knowledge of the used model principles revealed that 279 (93.0 %) of participants reported a moderate knowledge, followed by 17 (5.7 %) of participants with a weak knowledge, then only 4 (1.3 %) of participants with a good knowledge. Furthermore, the Chi-square test revealed that participants' overall knowledge of the used model principles is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Knowledge of Participants' Fund Investment Returns (KIR)

Participants' overall knowledge of the distribute investment returns revealed that 164 (54.7 %) of participants reported a good knowledge, followed by 136 (45.3 %) of participants with a weak knowledge. Furthermore, the Chi-square test revealed that participants' overall knowledge of the investment returns is statistically not significant (Asymp. Sig. > 0.05).

Participants' Overall Knowledge of Participants' Fund Underwriting Surplus (KUS)

Participants' overall knowledge of the distributed underwriting surplus revealed that 226 (75.3 %) participants reported a weak knowledge, followed by 74 (24.7 %) participants with a moderate knowledge. Furthermore, the Chi-square test revealed that participants overall knowledge of the underwriting surplus is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Knowledge of TOs' *Shari'ah* Compliance System (KSC)

Participants' overall knowledge of the *Shari'ah* compliance system used by the TOs revealed that 262 (87.3 %) participants reported a weak knowledge, followed by 38 (12.7 %) participants with a good knowledge. Furthermore, the Chi-square test revealed that participants overall knowledge of *Shari'ah* compliance is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Knowledge of Fees, Deficits and *Qard* (KFDQ)

Participants' overall knowledge of the charged fees, encountered deficits, and *qard* availability revealed that 272 (90.7 %) of participants reported a weak knowledge, followed by only 28 (9.3 %) of participants with a moderate knowledge. Furthermore, the Chi-square test revealed that participants overall knowledge of fees, deficits and *qard* is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Knowledge of TOs' Key Personnel (KKP)

Participants' overall knowledge of the company's key personnel revealed that all 300 participants have no knowledge. Furthermore; the Chi-square test revealed that this variable is constant; hence the chi-square test cannot be performed.

Participants' Overall Knowledge of Dissatisfaction Channels (KDC)

Participants' overall knowledge of the proper channels to quit the company when they are dissatisfied, revealed that 237 (79.0 %) of participants reported a weak knowledge, followed by 63 (21.0 %) of participants with a moderate knowledge. Furthermore, the Chi-square test revealed that participants' overall knowledge for a proper dissatisfaction channels is statistically significant (Asymp. Sig. < 0.05).

8.5.3- Participants' Overall Preferences

Table 8.41 below reflects participants' overall preferences for the five preferences independent variables (PSC, PRB, PKP, PRU, and PSU).

Table 8.41: Participants' Overall Preferences

Variables	Weak or no preference	Moderate preference	High preference	Chi-square & Sig.
PSC	22 (7.3 %)	98 (32.7 %)	180 (60 %)	124.88 (0 %)
PRB	149 (49.7 %)	19 (6.3 %)	132 (44 %)	99.86 (0 %)
PKP	11 (3.7 %)	84 (28 %)	205 (68.3 %)	192.02 (0 %)
PRU	0 (0 %)	175 (58.3 %)	125 (41.7 %)	8.333 (0.004 %)
PCU	57 (19 %)	43 (14.3 %)	200 (66.7 %)	150.980 (0 %)

Participants' Overall Preferences Regarding *Shari'ah* compliance (PSC)

Participants' overall preferences for company *Shari'ah* compliance, revealed that 180 (60.0 %) of participants reported a high preference, followed by 98 (32.7 %) of participants with a moderate preference. Furthermore, the Chi-square test revealed that participants' overall preferences for the *Shariah* compliance is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Preferences for a Representative on TO BoDs (PRB)

Participants' overall preferences to have a representative on the BoDs are almost equal, in that 149 (49.7 %) of participants reported weak preference, followed by 132 (44 %) of participants with high preference. The Chi-square test revealed that participants' overall preference to have a representative on the BoDs is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Preferences of TOs' Key Personnel (PKP)

Participants' overall preferences for shareholders' activities revealed that 205 (68.3 %) of participants reported high preferences, followed by 84 (28 %) of participants with moderate preferences. Furthermore, the Chi-square test revealed that participants' overall preference to refuse shareholders activities is statistically significant (Asymp. Sig. < 0.05).

Participants' Overall Preferences Regarding Reasons for the Use of *Takaful* policy (PRU)

Participants' overall preferences regarding reasons for buying a *takaful* policy revealed that 175 (58.3%) of participants reported a moderate preference, followed by 125 (41.7 %) of participants with high preferences. The Chi-square test revealed that participants' overall preference of the reason to buy a *takaful* policy is statistically significant (Asymp. Sig < 0.05).

Participants' Overall Preferences for Claims and Underwriting Surplus (PCU)

Participants' overall preferences for TO claims and indemnities procedures revealed that 200 (66.7 %) of participants reported high preference, followed by 57 (19.0 %) of participants with weak preference, then 43 (14.3 %) of participants with moderate preferences, Furthermore, the Chi-square test revealed that participants overall preferences on the claims and indemnities is statistically significant (Asymp. Sig < 0.05).

8.5.4 - Participants' Overall Satisfaction

Table 8.42 below reflects participants' overall satisfaction with the seven satisfaction dependent variables (SDM, SIR, SUS, SSC, SCI, SFDQ, and SKP).

Table 8.42: Participants' Overall Satisfaction

Variables	Weak or no satisfaction	Moderate satisfaction	High satisfaction	Chi-square & Sig.
SDM	91 (30.3 %)	81 (27 %)	128 (42.7 %)	34.978 (0 %)
SIR	152 (50.7 %)	76 (25.3 %)	72 (24 %)	40.64 (0 %)
SUS	105 (35 %)	66 (22 %)	129 (43 %)	20.22 (0 %)
SSC	46 (15.3 %)	83 (27.7 %)	171 (57 %)	82.46 (0 %)
SCI	79 (26.3 %)	52 (17.3 %)	169 (56.3 %)	75.06 (0 %)
SFDQ	167 (55.7%)	82 (27.3%)	51 (17.0%)	72.14 (%)
SKP	76 (25.3%)	69 (23.0%)	155 (51.7%)	45.62 (0 %)

Participants' Overall Satisfaction with TOs' Disclosure Mechanisms (SDM)

Participants' overall satisfaction with TOs disclosure mechanisms revealed that 128 (42.7 %) of participants reported high satisfaction, followed by 91 (30.3 %) of participants with weak satisfaction, then 81 (27 %) of participants with moderate satisfaction. Furthermore, the Chi-square test revealed that participants' overall satisfaction on the TOs disclosure mechanisms is statistically significant (Asymp. Sig < 0.05).

Participants' Overall Satisfaction with TOs' Investment Returns (SIR)

Participants' overall satisfaction on the distributed investment returns revealed that 152 (50.7 %) of participants reported weak satisfaction, followed by 76 (25.3 %) of participants with moderate satisfaction, then 72 (24.0 %) of participants with high satisfaction. The Chi-square test reveals that participants' overall satisfaction with the TOs investment returns are statistically significant (Asymp. Sig < 0.05).

Participants' Overall Satisfaction with TOs' Underwriting Surplus (SUS)

Participants' overall satisfaction with the distributed underwriting surplus revealed that 129 (43%) of participants reported high satisfaction, followed by 105 (35%) of participants with weak satisfaction, then 29 (9.7 %) of participants with moderate satisfaction. Furthermore, the Chi-square test revealed that participants' overall satisfaction on the TOs underwriting surplus is statistically significant (Asymp. Sig < 0.05).

Participants' Overall Satisfaction with TOs' *Shari'ah* Compliance Systems (SSC)

Participants' overall satisfaction with the *Shari'ah* compliance system used by the TOs revealed that 171 (57.0 %) of participants reported high satisfaction, followed by 83 (27.7 %) participants with moderate satisfaction, then 46 (15.3 %) participants with weak satisfaction. Furthermore, the Chi-square test revealed that participants' overall satisfaction on the *Shari'ah* compliance system is statistically significant (Asymp. Sig < 0.05).

Participant Overall Satisfaction with TOs' Claims and Indemnities (SCI)

Participants' overall satisfaction with TOs' claims and indemnities procedures revealed that 169 (56.3 %) participants reported high satisfaction, followed by 79 (26.3 %) of participants with weak satisfaction, then 52 (17.3 %) of participants with moderate satisfaction. Furthermore, the Chi-square test revealed that participants' overall satisfaction with the *Shari'ah* compliance system is statistically significant (Asymp. Sig < 0.05).

Participants' Overall Satisfaction with Fund Fees, Deficits and *Qard* (SFDQ)

Participants' overall satisfaction on the charged fees, encountered deficits and the availability of *qard* revealed that 167 (55.7 %) of participants reported weak satisfaction, followed by 82 (27.3

%) of participants with moderate satisfaction, then 51 (17%) of participants with high satisfaction. The Chi-square test revealed that participants' overall satisfaction with the charged fees, encountered deficits and the availability of *qard* is statistically significant (Asymp. Sig < 0.05).

Participants' Overall Satisfaction with TOs' Key Personnel (SKP)

Participants' overall satisfaction with the key personnel power and activities on the participants' fund revealed that 155 (51.7 %) of participants reported a high satisfaction, followed by 76 (25.3 %) of participants with a weak satisfaction, then 69 (23%) of participants with a moderate satisfaction. Furthermore, the Chi-square test revealed that participants' overall satisfaction with the key personnel power and activities on the participants fund is statistically significant (Asymp. Sig < 0.05).

8.6. Summary and Conclusion

This chapter provided information on the characteristics of the participants and also discussed the preliminary findings based on the overall results of the survey. The chapter provided detailed answers to research question 3 and the survey gives a clear picture of participants' demographic characteristics in terms of gender, age, and education level, number of members included in the contract, premium paid, occupation, and contract duration. The survey also highlighted that TO A has 82 % of the total participants who answered the research survey, while 76.6 % of participants buy *takaful* savings policies rather than risks policies.

Furthermore, the results analysis of the survey indicated that participants are not exposed to a proper disclosure mechanism to reflect their rights in receiving updated information about their benefits in the fund. For example, (92 %) participants indicated that TOs did not expose them to an effective disclosure mechanism to reflect their benefits rights in the fund. The survey also indicated an overall weak knowledge of participants of the services and products of the TOs. For example, (93%) showed no knowledge of the underwriting surplus distribution conditions, and (75%) showed no knowledge of the different kinds of underwriting surplus.

In terms of preferences, the majority of participants are in favour of being involved in controlling their funds. 60 % of participants prefer to be given an opportunity to select the SSB members and 68.4% participants prefer to refuse shareholders' activities in their fund. Surprisingly, participants have shown some moderate satisfaction in almost all satisfaction variables, with an exception for investment returns, charged fees, encountered deficits and availability of *qard*, which shows a weak satisfaction.

Finally, as this chapter provides basic univariate descriptive analysis, it is vital to continue the analysis with a complex technique that yields better results to reflect the statistically significant impacts of the three variables (participants' perceived disclosure, participants' knowledge, and participants' preferences) on participants' satisfaction levels, which will be presented in the following two chapters.

CHAPTER NINE
EXPLORING THE RELATIONSHIP BETWEEN VARIABLES AFFECTING PARTICIPANT SATISFACTION : BIVARIATE ANALYSIS

9.1 INTRODUCTION

This chapter explores the participants' satisfaction, by exploring the relationships strength between participants' perceptions about *Takaful* operators' (TOs') disclosure systems, participants' knowledge and participants' preferences with participants' satisfaction levels. To do this, the bivariate analysis approach will be used which is considered to be one of the simplest forms of quantitative (statistical) analysis (Babbie, 2007). It involves analysing two variables x and y, for the purpose of determining the empirical relationship between them, to find out whether the variables are related to one another and to measure how those two variables simultaneously change together (Babbie, 2007). The empirical analyses in this chapter responds to the following research questions:

Research Question 4: How do the participants' demographics characteristics affect their satisfaction levels?

Research Question 5: What are the strengths of relationship between participants' perceptions, knowledge and preferences, with their satisfaction about the TOs services and products?

Several inferential statistical tools are considered suitable approaches to analyzing non-parametric[75] data were used such as the Mann-Whitney U-Test (U-test), Kruskal-Wallis test (K-W test) (Pallant, 2010), while the Spearman's correlations approach has been adopted to tackle question 5. This chapter is organized as follows: Section 9.2 exploring and analyzing the relationship between participants' demographics characteristics, as identified previously, with participants' satisfaction with the service and products offered by the TOs by implementing the U-test and the K-W test. Section 9.3 identifies the relationship between the 3 TOs (A, B and C) with participants' satisfaction levels by using the K-W test. Section 9.4 describes the significant association between participants' perceptions, participants' knowledge, and participants' preferences with participants' satisfaction by using Spearman's correlations. Section 9.5 explores

[75] Refer to chapter 7 for justifying the use of non-parametric data analysis approach.

the significant association between participants' perceptions and participants' knowledge and between participants' knowledge and participants' preferences. Section 9.6 draws conclusion.

9.2 MANN-WHITNEY U-TEST & KRUSKAL-WALLIS TEST FOR PARTICIPANTS' DEMOGRAPHIC CHARACTERISTICS

This section answers research question four and investigates the impact of participants' personnel and demographic characteristics on their satisfaction level. However, another variable, total participants' satisfaction (TPS) is added to the seven satisfaction variables (SDM, SIR, SUS, SSC, SCI, SFDQ, and SKP)[76], to give a clearer insight as to participants' demographic subgroups that are satisfied with all services and products presented by the TOs. Accordingly, the U-test was employed to examine participants' gender and the K-W test to examine age, education level, premiums paid, number of members in the contract, contract duration, and occupation. The main statistic considered to draw conclusion about statistically significant differences across variables in the output is the Asymp. Sig. which indicates if the significance level is less than 0.05 (Pallant, 2010). Therefore, if there is a statistically significant difference found then the level of the difference has to be described by identifying which group variables scored the highest rank, by referring to the Mean Rank table (Pallant, 2010). Pallant also indicated that the (Z) value for U-test, and the Chi-Square (X^2) test for K-W tests, are useful pieces of information, which can add more elaboration if the resultant variables were statistically significant (Asymp. Sig. < 0.05). Full details of the significance relations between participants' demographic characteristics in relation with their satisfaction level can be found in Appendix D (Tables D.1 to D.8).

[76] **SDM** Satisfaction with TOs' Disclosure Mechanisms, **SIR** Satisfaction with TOs Investment Returns, **SUS** Satisfaction with TOs underwriting Surplus, **SSC** Satisfaction with *Shari'ah* Compliance System, **SCI** Satisfaction with Claims and Indemnities, **SFDQ** Satisfaction with Fees, Deficits and *Qard*, **SKP** Satisfaction with Key Personnel Power.

9.2.1. Participants' Satisfaction based on Resultant Significant Value

As previously mentioned, this section highlights the variables that score a statistically significant value (Asymp. Sig. < 0.05) between participants' satisfaction and their demographic characteristics. Accordingly, appendix D indicates a non-statistically significant difference (Sig. p > 0.05) between some of the participants' demographics characteristics (participants' education levels, participants' premium paid, and participants' contract durations) with all satisfaction variables. Participants' satisfaction with TOs' *Shari'ah* compliance (SSC) has also shown no statistically significant relations with all participants' demographic characteristics, which complements the fact that 256 (85.3 %) participants buy *takaful* policy for future planning.[77] Only 107 (35.7 %) buy the *takaful* policy on account of its *Shari'ah* compliance. On the other hand, the K-W test shows a repeated statistically significant difference between participants' job categories and some of the satisfaction variables (total participants' satisfaction (TPS), satisfaction with TOs' disclosure mechanism (SDM), satisfaction with underwriting surplus (SUS), satisfaction with claims and indemnities (SCI) with. Table 9.1 shows that students have the highest mean rank, while managers have the lowest for different satisfaction levels. While, participants' satisfaction with the charged fees, encountered deficits and availability of *qard* (SFDQ) has reported a significant relationships with professionals (highest mean rank = 169.00) and managers (lowest mean rank = 128.02).

Table 9.1 Relationships between Satisfaction Determinant Variables and Job Categories.

Satisfaction Determinant Variables	Students mean rank	Managers mean rank	P - Value
Total participants' satisfaction (TPS)	254.13	129.05	0.035
Satisfaction with disclosure mechanism (SDM)	224.50	130.70	0.013
Satisfaction with underwriting surplus (SUS)	199.00	114.50	0.013
Satisfaction with claims and indemnities (SCI)	204.38	132.42	0.044

The K-W test showed that participants' satisfaction with participants' funds charged fees, encountered deficits and availability of *qard* (SFDQ) has reported a statistically significant difference with participants job categories as Asymp Sig. P (0.036 < 0.05). Furthermore, Table 9.2 shows that among age grouping, participants aged above 51 years yields the highest (mean rank = 156.91), while participants aged 31 to 40 years reported the lowest (mean rank = 126.03).

[77] Refer to Chapter 8, Table 8.30.

Table 9.2 Relationships between Satisfaction with Charged Fees, Encountered Deficits and Availability of *Qard* and Participants' Age Group

Kruskal-Wallis Test for Participants' Age in Years (Yrs).					
Satisfaction	(Yrs)	N	Mean Rank	Chi- Squ. - x^2	Asymp Sig. (p)
SFDQ	Age (21-30) Yrs	24	152.67	x^2 = 8.567	0.036
	Age (31-40) Yrs	119	126.03		
	Age (41-50) Yrs	101	147.58		
	Age > 51 Yrs	35	156.91		
	Total	279			

In terms of participants' satisfaction with TOs' key personnel power and activities (SKP), the K-W test reflected a statistically significant difference across variables as per Asymp Sig. P (0.04 < 0.05), with the number of members included in the *takaful* policy. Table 9.3 indicates that participants with three members in the policy have reported the highest (mean rank =148.17), while participants with six members have reported the lowest (mean rank =111.00).

Table 9.3 Relationships between Satisfaction with TOs' Key Personnel Power and Activities and Number of Members in the *Takaful* Policy.

Kruskal-Wallis Test for Number of Members included in the *takaful* policy.					
Satisfaction	Members	N	Mean Rank	Chi-Squ. - x^2	Asymp Sig. (p)
SKP	1	68	111.63	x^2 = 13.194	0.04
	2	29	120.24		
	3	39	148.17		
	4	47	142.60		
	5	31	133.03		
	6	25	111.00		
	Members ≥7	15	128.53		
	Total	254			

While, the U-test shows that participants' satisfaction with fund investment returns (SIR) reported a statistically significant difference across the variables as Asymp Sig. P (0.035 < 0.05), Table 9.4 shows that among gender categories females are ranked the highest (mean rank = 181.85) and males have ranked the lowest (mean rank = 134.24).

Table 9.4 Relationships between Satisfaction from Investment Returns and Participants' Gender

Mann-Whitney Test for Participants' Gender.					
Satisfaction	Gender	N	Mean Rank	z	Asymp Sig. (p)
SIR	Male	261	134.24	z = 846.5	0.035
	Female	10	181.85		
	Total	271			

In short, participants' job category appears to relate with almost all satisfaction variables with a statistically significant difference between variables of less than 0.05. The implication is that TOs must concentrate on participants' job categories to enhance participants' satisfaction.

9.3 PARTICIPANTS' SATISFACTION WITH THE *TAKAFUL* OPERATORS

The K-W test explores the relationship between the three TOs (A, B, and C)[78] offering services and products with participants' satisfaction levels. Accordingly, as reported in Appendix D (Tables D.1 to D.8), the K-W test indicates that there is no statistical significance across all participants' satisfaction variables with the three TOs, because all results reported Asymp Sig. $P > 0.05$.

9.4 SPEARMAN'S CORRELATIONS

To answer research question 6 the correlation technique is used to describe the strength and direction of the relationship between two variables (Pallant, 2010). Specifically, the Spearman's rank correlation coefficient or Spearman's *rho*is used as it has long been among the standard tools for nonparametric measurement of statistical dependence between two variables. Spearman's correlation is designed for use with ordinal level or ranked data and is particular useful when the data does not meet the criteria for Pearson's correlations interval or continued data (Siegel, 1957; Pallant, 2010). Spearman's correlations will give an indication of both directions (positive or negative) and the strength of the relationship. A positive correlation indicates that as one variable increases, so does the other, while a negative correlation indicates that as one variable increases, the other decreases (Pallant, 2010). Accordingly, Spearman's correlation is carried out between participants' perceptions about TOs' disclosure systems,

[78] These codes represent the three TOs, as has been explained in chapter 7.

participants' knowledge and preferences with participants' satisfaction levels to discover significant association and strength between these variables, which will be gauged at 95% and 99 % confidence level.

Table 9.5: Spearman's Correlation between Participants' Perceived Disclosure[1] and Participants' Satisfaction[2]

	TPS	SDM	SIR	SUS	SSC	SCI	SFDQ	SKP	DM	DIR	DUS	DSC	DCI	DFDQ	DKP
TPS	1.000														
SDM	.838**	1.000													
SIR	.755**	.594**	1.000												
SUS	.771**	.622**	.540**	1.000											
SSC	.485**	.274**	.302**	.263**	1.000										
SCI	.794**	.633**	.496**	.607**	.344**	1.000									
SFDQ	.603**	.423**	.396**	.491**	.145*	.368**	1.000								
SKP	.593**	.416**	.426**	.359**	.406**	.372**	.262**	1.000							
DM	.126*	.166**	.131*	.009	.086	.124*	.079	-.017	1.000						
DIR	.011	.006	-.027	-.019	.074	.050	.036	-.028	.302**	1.000					
DUS	.009	-.008	.039	-.066	-.037	.013	.123*	.026	.247**	.619**	1.000				
DSC	-.015	-.035	.040	-.051	-.012	.002	.066	.050	.202**	.551**	.550**	1.000			
DCI	.086	.100	.069	.016	.030	.078	.145*	.072	.206**	.541**	.636**	.430**	1.000		
DFDQ	.029	.095	.020	-.006	-.106	.034	.111	-.060	.237**	.485**	.595**	.460**	.527**	1.000	
DKP	-.024	-.027	.010	-.022	-.083	.007	-.015	-.057	.309**	.562**	.514**	.504**	.392**	.472**	1.000

**. Correlation is significant at the 0.01 level (2-tailed) = significance association at 99 %

*. Correlation is significant at the 0.05 level (2-tailed) = significance association at 95 %

1. **DM** Disclosure Mechanisms, **DIR** Disclosure of Investment Returns, **DUS** Disclosure of Underwriting Surplus, **DSC** Disclosure of *Shari'ah* Compliance, **DCI** Disclosure of Claims and Indemnities, **DFDQ** Disclosure of Fees, Deficits and *Qard*, **DKP** Disclosure of Key Personnel.
2. **TPS** Total Participants' Satisfaction, **SDM** Satisfaction with TOs' Disclosure Mechanisms, **SIR** Satisfaction with TOs' Investment Returns, **SUS** Satisfaction with TOs' underwriting Surplus, **SSC** Satisfaction with *Shari'ah* Compliance System, **SCI** Satisfaction with Claims and Indemnities, **SFDQ** Satisfaction with Fees, Deficits and *Qard*, **SKP** Satisfaction with Key Personnel.

9.4.1 Spearman's Correlations: TO Disclosure *vs* Participants' Satisfaction.

The Spearman's correlation results in Table 9.5 show a 95% positive significant association between participants' satisfaction on investment returns (SIR), participants' satisfaction on claims and indemnities (SCI), and total participants' satisfaction (TPS) with the company disclosure mechanisms (DM). The correlation results also indicated a 99% positive significant association between participants' satisfaction on the company disclosure mechanisms (SDM) with the TO disclosure mechanisms (DM).

The results also indicates a 95% significant association that relates participants' satisfactions on participants' fund charged fees, encountered deficits and the availability of *qard* loan (SFDQ) facilities, with two of the disclosure determinant variables underwriting surplus (DUS), claims and indemnities procedures (DCI). While, association between participants' satisfactions with underwriting surplus (SUS) with all disclosure determinant variables appear to be insignificant. Another insignificant association has also been reported between participants' satisfactions with *Shari'ah* compliance (SSC) with all disclosure determinant variables.

Furthermore, TOs' disclosure of investment returns (DIR), TOs' disclosure of *Shari'ah* compliance (DSC), TOs' disclosure of fees, deficits and *qard* (DFDQ), and TOs' disclosure of company key personnel power and activities (DKP) show insignificant association with all participants' satisfaction variables.

In short, based on the above findings, a straight positive significant association has been reported that varies from 95% to 99% confidence level between most of participants' satisfaction determinant variables with TOs' disclosure mechanisms (DM). An insignificant relationship association has been reported between participants' total satisfaction (TPS) with the whole disclosure determinant variables, except with the disclosure mechanisms. Thus, an important conclusion can be made that TOs' disclosure mechanisms could be effective in increasing participants' satisfaction levels. In other words, as TOs have effective disclosure mechanisms (DM) so participants' most determinant satisfaction variables enhances, since TOs' disclosure mechanisms (DM) should reflect all services and products available from the company.

Table 9.6: Spearman's Correlation between Participants' Knowledge[1] and Participants' Satisfaction[2]

	TPS	SDM	SIR	SUS	SSC	SCI	SFDQ	SKP	KPM	KIR	KUS	KSC	KFDQ	KDC
TPS	1.000													
SDM	.838**	1.000												
SIR	.755**	.594**	1.000											
SUS	.771**	.622**	.540**	1.000										
SSC	.485**	.274**	.302**	.263**	1.000									
SCI	.794**	.633**	.496**	.607**	.344**	1.000								
SFDQ	.603**	.423**	.396**	.491**	.145*	.368**	1.000							
SKP	.593**	.416**	.426**	.359**	.406**	.372**	.262**	1.000						
KPM	-.042	-.068	-.093	-.183**	.100	.046	-.144*	.053	1.000					
KIR	-.031	-.044	-.017	-.143*	-.021	-.031	.111	.008	.186**	1.000				
KUS	-.117*	-.109	-.087	-.182**	-.051	-.073	.049	-.070	.088	.469**	1.000			
KSC	-.023	.001	.016	-.143*	-.001	-.054	.107	.045	.040	.347**	.605**	1.000		
KFDQ	-.186**	-.164**	-.051	-.176**	-.086	-.193**	-.054	-.047	-.072	.130*	.176**	.139*	1.000	
KDC	-.094	-.077	-.066	-.077	-.161*	-.075	.001	-.078	.138*	.178**	.274**	.147*	.144*	1.000

**. Correlation is significant at the 0.01 level (2-tailed) = significance association at 99 %

*. Correlation is significant at the 0.05 level (2-tailed) = significance association at 95 %

1. **KPM** Knowledge of the principle of the TO's Model, **KIR** Knowledge of Investment Returns, **KUS** Knowledge of Underwriting Surplus, **KSC** Knowledge of *Shari'ah* Compliance, **KFDQ** Knowledge of Charged Fees, Encountered Deficits and availability of *Qard*, **KKP** Knowledge of Key Personnel Power and Activities, **KDC** Knowledge of Dissatisfaction Channels.
2. **TPS** Total Participants' Satisfaction, **SDM** Satisfaction with TO's Disclosure Mechanism, **SIR** Satisfaction with TO's Investment Returns, **SUS** Satisfaction with TO's underwriting Surplus, **SSC** Satisfaction with *Shari'ah* Compliance System, **SCI** Satisfaction with Claims and Indemnities, **SFDQ** Satisfaction with Fees, Deficits and *Qard*, **SKP** Satisfaction with Key Personnel.
3. The **KKP** variable has been omitted by SPSS system since all parameters of this variable are constant with 0 values.

9.4.2 Spearman's Correlation: Participants' Perceived Knowledge *vs* Participants' Satisfaction.

Spearman's correlations in Table 9.6, show a negative significant association at 95% between participants' total satisfaction (TPS) with their knowledge of the underwriting surplus (KUS) activities conducted by TOs, and another negative significance association at 99% between participants' total satisfaction (TPS) with their knowledge of fees charged for participants' fund, encountered deficits and availability of *qard* loan (KFDQ) facilities. The result also shows a 99% negative significant association between participants' satisfaction on TOs disclosure mechanisms (SDM) with their knowledge of participants' fund charged fees, encountered deficits and the availability of *qard* loan (KFDQ) facilities. Also a number of significant negative associations have been noticed at 95% between participants' satisfaction on the surplus from the underwriting activities (SUS) with a number of participants' knowledge determinant variables which includes knowledge of the deserved investment returns (KIR) and knowledge of the used *Shari'ah* compliance system (KSC). Participants' satisfaction with the surplus from the underwriting activities (SUS) have significant negative associations at 99% with a number of participants' knowledge determinant variables: knowledge of the principle of the used *takaful* model (KPM), and knowledge of participants' fund charged fees, encountered deficits and availability of *qard* loan (KFDQ) facilities. On the other hand, participants' satisfaction with the company *Shari'ah* compliance system (SSC), have a negative significant association at 95% with their knowledge of the dissatisfaction channels (KDC).

The participants' satisfaction on the company claims and indemnities procedures (SCI) have a significant negative association at 99% with their knowledge of participants' fund fees, deficits and *qard* loan (KFDQ) facilities. Furthermore, participants' satisfaction with the participants' fund charged fees, encountered deficits and availability of *qard* loan (SFDQ) facilities, have a negative significant association at 95% with their knowledge of the used model and principles (KPM) by the TOs. Insignificant association has been reported between participants' satisfaction on investment returns (SIR), with all participants' knowledge determinant variables. In short, based on the above findings participants have a straight negative significance association that varies from 95% to 99 % confidence levels between most of their satisfaction determinant variables with most of their perceived knowledge determinant variables. This means that as participants' knowledge increases, their satisfaction level decreases and vice versa.

Table 9.7: Spearman's Correlation between Participants' Preferences[1] and Participants' Satisfaction[2]

	TPS	SDM	SIR	SUS	SSC	SCI	SFDQ	SKP	PSC	PRB	PKP	PRU	PCU
TPS	1.000												
SDM	.838**	1.000											
SIR	.755**	.594**	1.000										
SUS	.771**	.622**	.540**	1.000									
SSC	.485**	.274**	.302**	.263**	1.000								
SCI	.794**	.633**	.496**	.607**	.344**	1.000							
SFDQ	.603**	.423**	.396**	.491**	.145*	.368**	1.000						
SKP	.593**	.416**	.426**	.359**	.406**	.372**	.262**	1.000					
PSC	.009	-.006	-.135*	-.068	.089	.051	-.017	.052	1.000				
PRB	.153*	.227**	.144*	.096	.024	.102	.054	.073	-.018	1.000			
PKP	-.074	-.042	-.088	-.140	-.015	-.058	.026	-.055	-.009	.192**	1.000		
PRU	-.042	-.021	-.116	-.034	-.112	-.040	-.022	.048	-.074	-.027	.067	1.000	
PCU	-.018	-.009	-.012	-.071	.043	.007	-.049	.015	.072	-.135-*	-.024	.000	1.000

**. Correlation is significant at the 0.01 level (2-tailed) = significance association at 99 %

*. Correlation is significant at the 0.05 level (2-tailed) = significance association at 95 %

1. **PSC** Preference on *Shari'ah* Compliance, **PRB** Preference to have a representative on BoDs, **PKP** Preference on TOs' Key Personnel, **PRU** Preference on the reason to use *takaful* policy, **PCU** Preference on claims and underwriting surplus.
2. **TPS** Total Participants' Satisfaction, **SDM** Satisfaction with TOs' Disclosure Mechanisms, **SIR** Satisfaction with TOs' Investment Returns, **SUS** Satisfaction with TOs' underwriting Surplus, **SSC** Satisfaction with *Shari'ah* Compliance System, **SCI** Satisfaction with Claims and Indemnities, **SFDQ** Satisfaction with Fees, Deficits and *Qard*, **SKP** Satisfaction with Key Personnel.

9.4.3 Spearman's Correlation: Participants' Preferences *vs* Participants' Satisfaction.

Spearman's correlations in Table 9.7, shows a strong significant positive association at 95% between participants' preferences to have a representative who sits on TOs' BoDs[79] (PRB) with their total satisfaction (TPS), as well as participants' satisfaction in terms of the investment returns (SIR). Participants' preferences to have a representative on the BoDs (PRB) have another significance association at 99 % with their satisfaction with the TOs' disclosure mechanisms (DM), while participants' preferences of TOs *Shari'ah* compliance (PSC) shows a negative significant association at 95% with their satisfaction with the investment returns (SIR) from the participants' fund. On the other hand, a number of participants' preferences determinant variables: preferences of TOs' key personnel power and activities (PKP), preferences of the reason for buying the *takaful* policy (PRU), and preferences of TOs' claims and underwriting surplus (PCU) conditions, has shown an insignificant association with all participants' satisfaction determinant variables. Participants' satisfaction with TOs' underwriting surplus (SUS), TOs' *Shari'ah* compliance (SSC) system, TOs' claims and indemnities (SCI) procedures, charged fees encountered deficits and the availability of *qard* (SFDQ), and TOs' key personnel power and activities (SKP) has shown an insignificant association with three of participants' preferences determinant variables: preferences of TOs' key personnel power and activities (PKP), preferences of the reason for buying the *takaful* policy (PRU), and preferences of TOs' claims and underwriting surplus (PCU) conditions.

9.4.4 Conclusions Resulting From Three Spearman's Correlations

The results of the three correlations models above reflect that there are straight positive relationships between the TOs' disclosure mechanisms (DM) with most of the participants' satisfaction determinant variables. However, a negative significant association has been reported between different participants' knowledge determinant variables with almost all participants' satisfaction determinant variables, with the exception of participants' satisfaction with participants' fund investment returns (SIR). Furthermore, there is a focused positive relationship between participants' preferences to have representatives on the BoDs (PRB) with several satisfaction variables. Accordingly, another correlations approach should be conducted to find an effective layout between these variables to achieve increased participant satisfaction.

[79] Board of Directors.

9.5 SUGGESTED CORRELATIONS APPROACH

The three Spearman's correlations above imply that firstly, TOs' disclosure mechanisms can be effective in raising participants' satisfaction. Secondly, participants' current weak knowledge is causing higher levels of participants' satisfaction. Thirdly, participants' main preference is focused on having a representative on the BoDs to discuss their financial requirements in the participants' fund. These conclusions are considered logical because participants lack different knowledge that affects their participants' fund as a result of ineffective TO disclosure mechanisms. Participants are looking to have a representative that can represent their needs and wants on the BoDs. Accordingly, participants will feel satisfied with the financial conditions of their fund.

However, because participants' inadequate knowledge might be the result of a weak disclosure mechanism adopted by the TO, an active disclosure mechanism should exist to enhance participants' knowledge while increasing their satisfaction level as well. Therefore, a Spearman's correlation is carried out between participants' perceived disclosure and participants' knowledge, the main purpose of which is to find out if participants' perceived disclosure hasany association with their knowledge. If so, then a conclusion can be drawn that participants' weak knowledge was a result of a loose disclosure mechanism adopted by the TOs. Another Spearman's correlation will also be run between participants' knowledge and participants' preferences, to discover whether participants' knowledge will have an association with their preferences. Accordingly, a proper layout mechanism can be made to reflect an effective relationship between the participants' perceptions, participants' knowledge and participants' preferences of the service provided by TOs to enhance participants' satisfaction.

Table 9.8: Spearman's Correlation between Participants' Perceived Disclosure[1] and Participants' Knowledge[2]

	TPK	KPM	KIR	KUS	KSC	KFDQ	KDC	DM	DIR	DUS	DSC	DCI	DFDQ	DKP
TPK	1.000													
KPM	.161**	1.000												
KIR	.465**	.186**	1.000											
KUS	.779**	.088	.469**	1.000										
KSC	.746**	.040	.347**	.605**	1.000									
KFDQ	.243**	-.072	.130*	.176**	.139*	1.000								
KDC	.334**	.138*	.178**	.274**	.147*	.144*	1.000							
DM	.154**	.073	.151**	.229**	.089	.004	.021	1.000						
DIR	.421**	.168**	.354**	.451**	.352**	.025	.238**	.302**	1.000					
DUS	.520**	.069	.412**	.537**	.442**	.126*	.258**	.247**	.619**	1.000				
DSC	.456**	.017	.287**	.439**	.459**	.136*	.181**	.202**	.551**	.550**	1.000			
DCI	.464**	.070	.387**	.473**	.427**	.056	.166**	.206**	.541**	.636**	.430**	1.000		
DFDQ	.458**	.001	.257**	.433**	.427**	.149**	.193**	.237**	.485**	.595**	.460**	.527**	1.000	
DKP	.443**	.044	.341**	.441**	.393**	.043	.149**	.309**	.562**	.514**	.504**	.392**	.472**	1.000

**. Correlation is significant at the 0.01 level (2-tailed) = significant association at 99 %

*. Correlation is significant at the 0.05 level (2-tailed) = significant association at 95 %

1. **DM** Disclosure Mechanisms, **DIR** Disclosure of Investment Returns, **DUS** Disclosure of Underwriting Surplus, **DSC** Disclosure of *Shari'ah* Compliance, **DCI** Disclosure of Claims and Indemnities, **DFDQ** Disclosure of Fees, Deficits and *Qard*, **DKP** Disclosure of Key Personnel.
2. **TPK** Total Participants' Knowledge **,** **KPM** Knowledge of the principle of the TO's Model, **KIR** Knowledge of Investment Returns, **KUS** Knowledge of Underwriting Surplus, **KSC** Knowledge of *Shari'ah* Compliance, **KFDQ** Knowledge of Charged Fees, Encountered Deficits and availability of *Qard*, **KKP** Knowledge of Key Personnel Power and Activities, **KDC** Knowledge of Dissatisfaction Channels.
3. **TPK** has been added to the knowledge determinant variables, for better reflection of how disclosure determinant variables can affect participants' total knowledge.
4. The **KKP** variable has been omitted by SPSS system since all parameters of this variable are constant with 0 values.

9.5.1. Spearman's Correlation: Participants' Perceived Disclosures *vs* Participants' Knowledge.

Spearman's correlation in Table 9.8, shows a significant association at 99% between participants' total knowledge (TPK) with several TO disclosure determinant variables: disclosure mechanisms (DM), investment returns (DIR), underwriting surplus (DUS), *Shar'iah* compliance (DSC), claims and indemnities (DCI), charged fees encountered deficits and availability of *qard* (DFDQ), and key personnel power and activities (DKP).

A significant association at 99 % was also reported between TOs' disclosure mechanisms (DM) with participants' knowledge of the deserved investment returns (KIR) and underwriting surplus (KUS). TOs' disclosure on investment returns (DIR) has a positive 99 % significant association with participants' determinant knowledge variables: knowledge on the principles of the *takaful* model used (KPM), knowledge of participants' fund investment returns (KIR),knowledge of participants' fund underwriting surplus (KUS), knowledge of the TOs' *Shari'ah* compliance system (KSC), and knowledge of the dissatisfaction channels (KDC) set by the TOs.

Disclosure of participants' fund underwriting surplus (DUS) reported a 99 % significant association with the following participants' knowledge determinant variables: knowledge of participants' fund investment returns (KIR), knowledge of participants' fund underwriting surplus (KUS), knowledge of TOs' *Shari'ah* compliance systems (KSC) and knowledge of proper dissatisfaction channels (KDC) set by the TOs. Disclosure of participants' fund underwriting surplus (DUS) also reported a significant association at 95% with participants' knowledge of participants' fund charged fees encountered deficits and *qard* loan availability (DFDQ). While disclosure of TOs' *Shari'ah* compliance system (DSC) reported the same impact on participants' determinant knowledge variables as disclosure of TOs participants' fund underwriting surplus (DUS). Furthermore, disclosure of TOs' claims and indemnities procedures (DCI) reported a 99 % significant association with the following participants' knowledge determinant variables: knowledge of participants' fund investment returns (KIR), knowledge of participants' fund underwriting surplus (KUS), knowledge of the TOs' *Shari'ah* compliance system (DSC), knowledge of participants' fund charged fees encountered deficits and the availability of *qard* loan (KFDQ), and knowledge of TOs dissatisfaction channels (KDC). While disclosure of TOs' key personnel power and activities (DKP) reported the same impact on participants' knowledge determinant variables as disclosure of TOs' claims and indemnities (DCI) procedures.

Finally, TOs disclosure of participants' fund charged fees encountered deficits and *qard* loan availability (DFKP) has a positive 99 % significant association with following participants' knowledge determinant variables: knowledge of participants' fund investment returns (KIR), knowledge of participants' fund underwriting surplus (KUS), knowledge of TOs' *Shari'ah* compliance system (KSC), knowledge of participants' fund charged fees encountered deficits and the availability of *qard* loan (KFDQ), and knowledge of proper dissatisfaction channels set by the TOs (KDC).

In short, a strong significant association has been reported between almost all TOs disclosure determinant variables with most of the participants' knowledge determinant variables, which indicates strong relationships between disclosure and knowledge, *i.e.* as TOs have an affective disclosure to reflect participants' benefits from the participants' fund so participants' knowledge enhances.

Table 9.9: Spearman's Correlation between Participants' Knowledge[1] and Participants' Preferences[2]

	PTP	PSC	PRB	PKP	PRU	PCU	KPM	KIR	KUS	KSC	KFDQ	KDC
PTP	1.000											
PSC	.436**	1.000										
PRB	.499**	-.018	1.000									
PKP	.354**	-.009	.192**	1.000								
PRU	.103	-.074	-.027	.067	1.000							
PCU	.402**	.072	-.135*	-.024	.000	1.000						
KPM	.058	.110	-.106	.031	.103	.137*	1.000					
KIR	.058	-.010	-.112	.043	.048	.230**	.186**	1.000				
KUS	.024	.030	-.097	.093	.042	.118*	.088	.469**	1.000			
KSC	.040	.030	-.041	.088	.000	.118*	.040	.347**	.605**	1.000		
KFDQ	-.006	-.125	-.040	.094	.096	.055	-.072	.130*	.176**	.139*	1.000	
KDC	.009	-.013	-.235**	.045	.059	.142*	.138*	.178**	.274**	.147*	.144*	1.000

**. Correlation is significant at the 0.01 level (2-tailed) = significant association at 99 %

*. Correlation is significant at the 0.05 level (2-tailed) = significant association at 95 %

1. **KPM** Knowledge of the principle of the TOs Model, **KIR** Knowledge of Investment Returns, **KUS** Knowledge of Underwriting Surplus, **KSC** Knowledge of *Shar'iah* Compliance, **KFDQ** Knowledge of Charged Fees, Encountered Deficits and availability of *Qard*, **KKP** Knowledge of Key Personnel Power and Activities, **KDC** Knowledge of Dissatisfaction Channels.
2. **PTP** Participants' Total Preferences, **PSC** Preference on *Shari'ah* Compliance, **PRB** Preference to have a representative on BoDs, **PKP** Preference on TOs 'Key Personnel, **PRU** Preference on the reason to use *takaful* policy, **PCU** Preference on claims and underwriting surplus.
3. **PTP** has been added to the participants' preferences determinant variables, for better reflection of how participants' knowledge determinant variables can affect participants' total preferences.

   The **KKP** variable has been omitted by SPSS system since all parameters of this variable are constant with 0 values.

9.5.2 Spearman's Correlation: Participants’ Knowledge *vs* Participants’ Preferences.

Spearman’s correlations in Table 9.9 show insignificant association between several participants’ preferences determinant variables: total preferences (PTP), preference on *Shari’ah* compliance (PSC), preference on key personnel power and activities (PKP) and preference on the reason to buy *takaful* policy (PRU) with all participants’ knowledge determinant variables. While participants’ knowledge of participants’ fund charged fees encountered deficits and availability of *qard* reported an insignificant association with all participants’ preferences variables. However, the Spearman correlations between participants’ knowledge and participants’ preferences, reported that participants’ have become more focused on their preference on claims and underwriting surplus (PCU) which reported a positive 95 % significant association with the following knowledge determinant variables: knowledge of *takaful* model principles (KPM), knowledge of participants’ fund underwriting surplus (KUS), knowledge of TOs’ *Shari’ah* compliance systems (PSC), and knowledge of proper dissatisfaction channels (KDC), and 99 % significant association with the participants’ knowledge on investment returns (KIR).

On the other hand, a negative significant association has been reported at 99 % between participants’ preferences to have representatives on the BoDs (PRB) with participants’ knowledge of the proper dissatisfaction channels (KDC). This relationship indicates that whenever participants’ knowledge of the proper dissatisfaction channels, *i.e.* proper procedures to quit the TOs whenever participants are dissatisfied with the TOs services increases/decrease, then their preferences to have a representatives on the BoDs decreases/increase, since participants will not be in a need to present their needs and wants at BoDs level. Participants can quit the policy whenever they feel dissatisfied with the TOs service because they will have enough knowledge to legally quit the TOs whenever needed. In short, when participants’ knowledge increases, then they will be not in a need to intrude with the company strategic management by having a representative on the BoDs and they will be more focused on the variable that can directly impact their financial positions (claims and underwriting surplus).

9.5.3 Conclusions of Spearman's Correlations Suggested Approach

Spearman's correlations on disclosure *vs* knowledge reveal a significant association among all variables from both sides, which indicates as participants' perceived disclosure increases so their knowledge increases as well. While participants' preferences to have a representative on the BoDs has been shifted to focus on their preferences on claims and underwriting surplus conditions, after Spearman's correlations have been conducted on knowledge *vs* preference.

9.6 SUMMARY AND CONCLUSIONS

This chapter is the first stage to analyze the significance of participants' satisfaction, by exploring the relationship strength between different variables that are expected to have an impact on participants' satisfaction. Accordingly, the analysis in this chapter has been conducted to address two main research questions 4 and 5. Research question 4 was addressed by implementing a statistical non-parametric data analysis technique U-Test and K-W test, to figure out the significant relationship between participants' demographics characteristics with the satisfaction variables. Accordingly, the analysis results indicated that participants' job categories have reported the most significant categorical variables that relate with almost all satisfaction variables.

Research question 5, on the other hand, was addressed by implementing the Spearman's correlations technique between participants' perceptions about TOs disclosure systems, participants' knowledge, and participants' preferences with participants' satisfaction levels. Accordingly, the obtained correlations model reflects a straight positive significant association between company disclosures determinant variables with participants' satisfaction determinant variables, which indicates that as TOs disclose more information so participants' satisfaction increases and vice-versa.

On the other hand, a straight negative significant association was reported between most of the participants' knowledge determinant variables with most of the participants' satisfaction determinant variables. This indicates that as participants' knowledge of TOs' products and services increases/decreases, so their satisfaction level decreases/increases.

Furthermore, participants' preference to have a representative on the BoDs (PRB) reported a positive correlation with most of participants' satisfaction determinant variables. However, participants will be dissatisfied with participants' fund investment returns (SIR) if their preferences on *Shari'ah* compliance (PSC) haven't been achieved.

The above discussions concluded that TOs disclosure mechanisms can do a great job in raising participants' satisfaction, while participants' weak knowledge and awareness might be a result of weak disclosure mechanisms adopted by TOs. Hence, an active disclosure mechanism should exist to enhance participants' knowledge while increasing their satisfaction level as well. Therefore, a correlation has been run between participants' perceived disclosure and participants' knowledge of the services presented by the TOs. The main purpose of running this correlation is to find out if participants' lack of knowledge is linked directly to participants' weak perceived disclosure. Accordingly, the correlation results indicated a straight positive significant association between participants' perceived disclosure and participants' knowledge, *i.e.* whenever the TOs implement a proper disclosure mechanism, then participants' knowledge is going to increase in the right direction, which will enhance their satisfaction level.

Another correlation has been run between participants' knowledge and participants' preferences, to figure out how participants obtained knowledge impact their preferences. Accordingly, the new correlation revealed a straight positive association between participants' knowledge and participants' preferences. Participants' preferences have been shifted from their preference to have a representative on the BoDs (PRB) to becoming more focused on their preference on claims and underwriting surplus (PCU). Almost all participants' knowledge determinant variables with the exception of their knowledge of charged fees, encountered deficits, and availability of *qard* (KFDQ) reported a significant association with participants' preferences on claims and underwriting surplus (PCU). The correlation results also revealed a negative significant association between participants' preference to have a representative on the BoDs (PRB), and their knowledge of the proper dissatisfaction channels (KDC), *i.e.* when they have proper knowledge of how to quit the TOs whenever they are dissatisfied, then their preference to have a representative on the BoDs is not valid any more.

Therefore, a proper layout can be suggested for the TOs and to establish effective disclosure mechanisms, which will enhance participants' satisfaction by increasing their knowledge in the right directions. The disclosure mechanisms should reflect all participants' rights in the fund, investment returns and underwriting surplus. *Shari'ah* compliance, claims and indemnities procedures, fund encountered fees, deficits and *qard* facility, and shareholders activities in the fund. By reflecting such facts participants' preferences will improve as their satisfaction level increases.

Finally, as the current chapter reflects the significant strength of relationships between the variables that are expected to have an impact on participants' satisfaction by implanting some of the bivariate analysis technique, then it will be quite beneficial to explore the significant form of relationships, by viewing the predicted categorical outcomes which can be achieved by using some of the Multivariate analysis approach. This is done in the next chapter.

CHAPTER TEN
EXPLORING THE RELATIONSHIPS BETWEEN VARIABLES AFFECTING PARTICIPANT SATISFACTION : MULTIVARIATE ANALYSIS

10.1 INTRODUCTION

This chapter continues with the theme of the previous chapter of exploring the factors that impact on participant satisfaction, by reviewing the significant relationships between participants' satisfaction levels as a dependant variable and three independents variables: participants' perceptions about TOs disclosure systems, participants' knowledge and participants' preferences. Accordingly, a multivariate analysis approach is used for further analysis. Multivariate statistics involve observation and analysis of more than one statistical variable at a time to perform studies across multiple dimensions and take into account the effects of all variables on the responses of interest (Babbie, 2007).

This chapter will address research question 6: What are the forms of relationship between participants' perceptions, knowledge and preferences, with their satisfaction about the TOs services and products?

Accordingly, this chapter uses multinomial logistic regression analysis as a tool to discover the factors that can impact on participants' satisfaction. This chapter is organized as follows: Section 10.2 clarification of the validity of implementing multinomial logistic regression analysis; Section 10.3 presenting the form of relationships between dependent and independent variables; Section 10.4 presents a conclusion of the findings obtained from the previous three multinomial logistic regression analyses; Section 10.5 suggesting an approach to enhance participant satisfaction by running two multinomial logistic regression models between participants' perceived disclosure and participants' knowledge and between participants' knowledge and participants' preferences. Section 10.6 draws a conclusion of the suggested regression findings. Section 10.7 draws an overall conclusion.

10.2 THE VALIDITY OF MULTINOMIAL LOGISTIC REGRESSION

As outlined in the research methodology chapter, the multinomial logistic regression method was used as it most appropriate for dealing with the types of dependent variables. This study is concerned with non-parametric categorical data, *i.e.* the respondents had to indicate 'yes' or 'no' to some of the questions (Field, 2005; Tabachnick *et al*, 2007; Pallant, 2010). This is the opposite of multiple regression analysis, as the dependent variable in the latter technique needs to be a continuous variable, with scores reasonably normally distributed (Pallant, 2010).

Accordingly, logistic regression allows researchers to test models to predict categorical outcomes with two or more categories. The predictor independent variables can be either categorical or continuous or a mix of both in one model. There is a family of logistic regression techniques available in SPSS which will allows researchers to explore the predictive ability of sets or blocks of variables and to specify the entry of variables (Field, 2005; Tabachnick *et al*, 2007; Pallant, 2010). The multinomial logistic regression approach is used here instead of binary logistics, as the dependent variables of interest in this study have an unordered categorical data with more than two categories[80] (Wright, 1995; Hosmer *et al*, 2000; Peat, 2001; Tabachnick *et al*, 2007; Pallant, 2010).

The presence of a relationship between the dependent variable and a combination of independent variables is based on the statistical significance of the final model Chi-square (Likelihood Ratio Tests) in the SPSS table titled 'Model Fitting Information'. Therefore, to predict a significant form of relationship between the independent variables and the dependent variable the significant p-value should be less than 0.05 (Moutinho *et al*, 2007). However, a statistic that is important for the logistic regression analysis is that the overall regression model is fit for the test (Field, 2005; Pallant, 2010). For that purpose, the (goodness of fit) test needs to be carried out and the multinomial output should indicate the overall fitness of the model presented by the Likelihood Ratio Tests, (and the significant p-value (sig) of the final results should be less than 0.05) (Field, 2005; Pallant, 2010).

[80] Examples are (0, 0.33, 0.66, 1), or (0, 0.25, 0.5, 0.75, 1).

The multinomial logistic regression provides another unique feature for model (goodness of fit), the deviance chi-square test. In this test, the output is interpreted differently from the results the Likelihood Ratio Tests, that if the significant value is less than 0.05, this means the overall model is poor. Hence, for the model to be considered a good fit, then the significant value of the test must be higher than 0.05 (Agresti, 1996).

The model's 'goodness of fit' can also be indicated by the value R-Square. The value of R-Square indicates the amount of variation between dependent variables explained by the model (Pallant, 2010). The R-square in logistic regression is known as pseudo R-square statistics, another version of R-square provided in multiple regressions (Tabachnick *et al*, 2007). Hence, it is highly desirable to have a larger R-square for the model. However, the interpretation of pseudo R-square here should not be treated the same way as true R-square available in multiple regressions; hence it is highly recommended that the interpretation of the statistics is carried out with a high degree of caution (Pallant, 2010).

On the other hand, the intercept has been omitted from all models, since all reported intercept coefficients are not significant; also the reported goodness of fit for the models without intercept has reported better results than with the intercept model. The researcher has followed the work of Hahn who suggests running the regression model with and without an intercept, and compares the models for superior fit (Hahn, 1997). Indeed, Theil contends "from an economic point of view, a constant term usually has little or no explanatory virtues" (Theil, 1971:176). Accordingly there are certainly cases in which economic theory posits the absence of the intercept because of unrealistic results, such as Douglas (1976), Casella (1983), Chambers *et al* (1986) and Adelman *et al* (1994).

Finally, the results of each multinomial logistic regression model, has been summarized to reflect the three (goodness of fit) gauges and to reflect the prediction relationships between dependent and independent variables. All detailed tables have been reported in the appendix E (Tabales E1 to E31) on account of space constraints.

10.3 DEPENDENT, INDEPENDENT VARIABLES AND FORMS OF RELATIONSHIPS

As demonstrated in the table below, a multinomial logistic regression was carried out to find out prediction relationships between the three independent variables (participants' perceived disclosure, participants knowledge, and participants' preference) with the only dependent variable participants' satisfaction level:

Table 10.1: Multinomial Logistic Regression for Participants' Perceived Disclosure *vs* Participants' Satisfaction

Dep[2].Var.	Independent[1] Variables								Overall Model Goodness-of-Fit		
		DM	DIR	DUS	DSC	DCI	DFDQ	DKP	Chi - Square (Sig.)	R^2	Chi - Square Deviance
TPS	Coff.	534.99	427.07	420.84	417.94	403.33	407.25	407.72	213.498	0.57	365.562
	Sig.	0.32	0.003***	0.009***	0.06*	0.236	0.339	0.12	(0.02)		(0.12)
SDM	Coff.	842.96	1825.44	585.17	526.25	3784.07	546.71	584.18	579.442	0.88	471.699
	Sig.	0.97	0.001***	0.9	0.99	0.001***	0.01***	0.276	(0.06)		(1.00)
SIR	Coff.	439.74	315.34	291.3	294.88	288.9	289.05	298.42	274.700	0.717	258.338
	Sig.	0.044**	0.002***	0.881	0.696	0.517	0.961	0.028	(0.0)		(0.953)
SUS	Coff.	438.2	307.7 9	302.46	312.92	300.86	299.9	301.17	260.852	0.7	277.156
	Sig.	0.102	0.298	0.372	0.076*	0.087*	0.688	0.269	(0.0)		(0.725)
SSC	Coff.	343.37	240.83	234.04	243.92	214.96	224.22	232.59	326.145	0.81	199.358
	Sig.	0.157	0.001***	0.005***	0.002***	0.236	0.059*	0.0***	(0.0)		(1.00)
SCI	Coff.	747.32	495.11	453.1	479.91	455.81	456.42	467.5	658.969	0.91	397.790
	Sig.	0.998	0.002***	0.591	0.061*	0.005***	0.371	0.0***	(0.0)		(1.00)
SFDQ	Coff.	407.19	285.82	262.78	259.5	250.55	252.84	260.54	331.273	0.78	212.071
	Sig.	0.001***	0.001***	0.02**	0.16	0.07*	0.268	0.004***	(0.0)		(1.00)
SKP	Coff.	382.7	270.23	257.91	266.63	265.26	266.58	268.36	284.490	0.75	228.772
	Sig.	0.316	0.155	0.911	0.372	0.009***	0.096	0.014***	(0.0)		(0.991)

1. **DM** Disclosure Mechanisms, **DIR** Disclosure of Investment Returns, **DUS** Disclosure of Underwriting Surplus, **DSC** Disclosure of *Shari'ah* Compliance, **DCI** Disclosure of Claims and Indemnities, **DFDQ** Disclosure of Fees, Deficits and *Qard*, **DKP** Disclosure of Key Personnel.
2. **TPS** Total Participants' Satisfaction, **SDM** Satisfaction with TOs Disclosure Mechanism, **SIR** Satisfaction with TOs Investment Returns, **SUS** Satisfaction with TOs underwriting Surplus, **SSC** Satisfaction with *Shari'ah* Compliance System**,** **SCI** Satisfaction with Claims and Indemnities, **SFDQ** Satisfaction with Fees, Deficits and *Qard*, **SKP** Satisfaction with Key Power.
3. *** Significant at 1% level of significance (p≤0.01), ** significant at 5% level of significance (0.01<p≤ 0.05), and * significant at 10% level of significance (0.05<p≤ 0.10).

10.3.1 Form of Relationships between Participants' Perceived Disclosure *vs* Participants' Satisfaction.

Table 10.1 reflects the multinomial logistic regression model between each satisfaction variable as the dependent variable with the combination of participants' perceived disclosure as independent variables.

All (disclosures *vs* satisfaction) models reported an overall statistical significance goodness of fit, as the overall chi-square p-value of all models reported less than 0.05, with the exception of participants' satisfaction on disclosure mechanisms (SDM) model, as it has a p-value of $(0.06 > 0.05)$. Another important model fitness test is the deviance significance test, which indicates additional evidence of model fitness to adequately fit the data. Accordingly all (disclosures *vs* satisfaction) models reported an overall statistically significant goodness of fit, as the overall chi-square p-value of all models reported a p-value greater than 0.05. The last overall goodness fit test, is the R^2 value, that the greater the R^2 the better goodness of fit for the model. This means that the greater the R^2 the greater chance of the satisfaction dependent variable can be explained by the combination of the disclosure independent variables. Accordingly all (disclosures *vs* satisfaction) models reported a high R^2 that ranges from 57 % to 91 %.

The likelihood ratio test was used to figure out the categorical prediction outcomes, between independent and dependent variables. Accordingly, participants' satisfaction of TOs' *Shari'ah* compliance (SSC) model and participants' satisfaction regarding fund charged fees, encountered deficits and availability of *qard* (SFDQ) has been the most significant model to be explained by the disclosure determinant variables, as both satisfaction models were explained by five of the disclosure determinant variables. This is followed by participants' satisfaction of the TOs claims and indemnities procedures (DCI) model, which was explained by four disclosure determinant variables.

The likelihood ratio test for the SSC *vs* disclosure determinant variable model, revealed significance ($p \leq 0.01$) for TOs' disclosures of participants' funds (investment returns DIR, underwriting surplus DUS, *Shari'ah* compliance system SSC). It also showed significance for the same p-value with the TOs' key personnel power and activities SKP and significance ($p \leq 0.1$) with the TOs disclosure regarding participants' fund charged fees, encountered deficits and availability of *qard* (SFDQ).

The SFDQ *vs* disclosure determinant variable model revealed significance ($p \leq 0.01$) with TOs disclosure of participants' fund investment returns (DIR), TOs' disclosure of company key personnel power and activities (DKP), and TOs disclosure of the availability of proper disclosure mechanisms (DM). Participants' satisfaction with the notion has significance ($p \leq 0.05$) with TOs disclosure of participants' fund underwriting surplus (DUS), and significance ($p \leq 0.10$) with TOs disclosure of company claims and indemnities procedures (DCI).

Participants' satisfaction with TOs claims and indemnities on the other hand, has revealed significance ($p \leq 0.01$) with TOs disclosures regarding participants' fund investment return (DIR), TOs' claims and indemnities procedures (DCI), and TOs' key personnel power and activities (DKP). Participants' satisfaction with the notion has significance ($p \leq 0.1$) with the TOs' disclosure of the company *Shari'ah* compliance system (DSC).

Furthermore, participants' total satisfaction (TPS) model and participants' satisfaction regarding TOs' disclosure mechanisms (SDM) model is explained by three of the disclosure determinant variables, that the (TPS) model has a significant ($p \leq 0.01$) with the TOs' disclosures of participants fund (investment return DIR and underwriting surplus DUS), participants total satisfaction (TPS) is also significant at ($p \leq 0.10$) with the TOs' disclosure of the company *Shariah* compliance system (DSC). While (SDM) model has a significant ($p \leq 0.01$) with the TOs' disclosures of participants fund investment return (DIR), participants fund charged fees, encountered deficits and the availability of *qard* (DFDQ), and TOs' claims and indemnities procedures (DCI).

The participants' satisfaction with fund investment returns (SIR) model and the participants' satisfaction with fund underwriting surplus (SUS) model have reported the least satisfaction models explained by the disclosure determinant variables, which were explained by two disclosure variables only. The satisfaction on investment return (SIR) model is significant ($p \leq 0.01$) with TOs' disclosure of participants' fund investment returns (DIR) and significance ($p \leq 0.05$) with TOs' disclosure mechanism (DM). The satisfaction on underwriting surplus (SUS) model has significance ($p \leq 0.10$) with the TOs' disclosures of the company *Shari'ah* compliance system (SSC) and TOs disclosure of the company claims and indemnities procedures (DCI).

In conclusion, TOs' disclosure of participants' fund investment returns (DIR) has been the disclosure variable that formed the most significant relationship with six satisfaction determinant variables. This is followed by disclosure of claims and indemnities (DCI) and disclosure of the TOs' key personnel power and activities (DKP), since it has a significance relationship with four satisfaction determinant variables. Meanwhile disclosure of participants' fund underwriting surplus (DUS) has formed a significant relationship with three satisfaction determinant variables. Lastly, disclosure of the TOs' *Shari'ah* compliance system (DSC) and TOs' disclosure mechanisms (DM) has reported the least significant relationship with the satisfaction variables, with only two reported significance relationships. Such findings conclude that the most suitable way to disclose information of participants' desires information would be conducted by an effective disclosure mechanism which can be adopted by TOs.

Table 10.2 Multinomial Logistic Regression for Participants' Knowledge *vs* Participants' Satisfaction

Dep[2].Var.		Independent[1] Variables						Overall Model Goodness-of-Fit		
		KPM	KIR	KUS	KSC	KFDQ	KDC	Chi - Square (Sig.)	R^2	Chi - Square Deviance
TPS	Coff.	293.29	257.42	269.3	257.59	269.83	268.12	77.504 (0.01)	0.25	163.056 (0.089)
	Sig.	0.001***	0.88	0.059*	0.806	0.243	0.09*			
SDM	Coff.	465.13	435.27	453.74	434.66	3510.09	456.15	243.489 (0.0)	0.57	259.957 (1.00)
	Sig.	0.81	0.67	0.55	0.75	0.00***	0.12			
SIR	Coff.	229.42	209.43	223.49	210.05	213.9	212.918	114.610 (0.0)	0.38	121.871 (0.72)
	Sig.	0.11	0.71	0.06*	0.52	0.74	0.65			
SUS	Coff.	219.32	186.28	197.49	189.09	195.59	192.62	147.221 (0.0)	0.48	106.482 (0.8)
	Sig.	0.00***	0.8	0.16	0.19	0.28	0.34			
SSC	Coff.	224.374	205.046	219.261	202.283	206.796	209.548	193.337 (0.0)	0.6	136.270 (0.17)
	Sig.	0.06*	0.18	0.02**	0.74	0.88	0.24			
SCI	Coff.	454.2	402.87	425.82	396.13	422.8	409.52	359.811 (0.0)	0.72	254.268 (1.00)
	Sig.	0.03**	0.2	0.14	0.93	0.54	0.65			
SFDQ	Coff.	225.821	206.451	210.282	203.147	213.958	200.949	142.386 (0.0)	0.45	120.783 (0.7)
	Sig.	0.02**	0.02**	0.2	0.14	0.06*	0.94			
SKP	Coff.	213.877	184.509	209.249	184.132	199.147	189.851	171.562 (0.0)	0.54	116.361 (0.42)
	Sig.	0.00***	0.59	0.00***	0.72	0.1	0.38			

1. **KPM** Knowledge of the principle of the TOs Model, **KIR** Knowledge of Investment Return, **KUS** Knowledge of Underwriting Surplus, **KSC** Knowledge of *Shari'ah* Compliance, **KFDQ** Knowledge of Charged Fees, Encountered Deficits and availability of *Qard*, **KKP** Knowledge of Key Personnel Power and Activities, **KDC** Knowledge of Dissatisfaction Channels.
2. **TPS** Total Participants' Satisfaction, **SDM** Satisfaction with TOs' Disclosure Mechanism, **SIR** Satisfaction with TOs' Investment Returns, **SUS** Satisfaction with TOs' underwriting Surplus, **SSC** Satisfaction with *Shari'ah* Compliance System, **SCI** Satisfaction with Claims and Indemnities, **SFDQ** Satisfaction with Fees, Deficits and *Qard*, **SKP** Satisfaction with Key Power.
3. The **KKP** independent variable has been omitted by SPSS system as all parameters of this variable are constant with 0 values
4. *** Significant at 1% level of significance ($p \leq 0.01$), ** significant at 5% level of significance ($0.01 < p \leq 0.05$), and * significant at 10% level of significance ($0.05 < p \leq 0.10$).

10.3.2 Forms of Relationships between Participants' Knowledge *vs* Participants' Satisfaction

Table 10.2 reflects the multinomial logistic regression model between each determinant of the satisfaction dependent variable with a combination of participants' knowledge as independent variables.

All (knowledge *vs* satisfaction) models reported an overall statistical significance goodness of fit, as the overall chi-square p- value of all models reported less than 0.05. Also, the overall deviance goodness of fit values for all models showed statistically significant values, which reflects that the model adequately fits the data, as the overall chi-square (p-value) of all models reported a p-value greater than 0.05. The R^2 values on the other hand, ranged from 25 % to 72 %. The reported R^2 reflects by what percentage the satisfaction dependent variable can be explained by the combinations of participants' knowledge independent variables.

Furthermore, the likelihood ratio test indicates participant knowledge of the principles used by the TOs' model (KPM) has reported the most independent variable to form a relationship with participant satisfaction determinant variables. It has a total of six significant forms of relationship, where the KPM has formed a statistical significance ($p \leq 0.01$) with three satisfaction determinant values (total participants' satisfaction (TPS), satisfaction with participant fund underwriting surplus (SUS) and satisfaction with TOs' key personnel power and activities (SKP)). Participants' knowledge of principles used by TOs' models (KPM), has formed another statistically significant relationship ($p \leq 0.05$) with two satisfaction determinant variables: satisfaction with TOs' claims and indemnities procedures (SCI) and satisfaction with participants' fund charged fees, encountered deficits and availability of *qard* (SFDQ). (KPM) has also reported statistical significance ($p \leq 0.1$) for satisfaction with TOs' *Shari'ah* compliance system (SSC). Such findings for participants' knowledge of the principles of TOs' models (KPM), indicates the importance of this variable to enhance participants' satisfaction, as participants will be aware of all conditions that allow them to get the ultimate benefit from their contribution to the participants' fund.

Knowledge of participants' fund underwriting surplus (KUS) has reported the second largest knowledge variable to form a significant relationship with participants' satisfaction determinant variables, with four statistically significant relationships: (KUS) has statistical significance at ($p \leq 0.01$) with TOs' key personnel power and activities (SKP) and another statistically significant relationship at ($p \leq 0.05$) with TOs' *Shari'ah* compliance system (SSC). Lastly the (KPM) reported a statistically significant relationship at ($p \leq 0.1$) with the total participants' satisfaction (TPS), and satisfaction with participants' fund investment returns (SIR).

The third knowledge variable with a statistically significant association with satisfaction determinant variables is participants' knowledge of fund charged fees, encountered deficits and the availability of *qard* (KFDQ), since it formed two statistically significant relationships. These are that the (KFDQ) has a statistically significant relationship ($p \leq 0.01$) with the satisfaction with TOs' disclosure mechanisms (DM) and another relationship at ($p \leq 0.1$) with satisfaction with participants' fund charged fees, encountered deficits and the availability of *qard* (SFDQ).

While, knowledge of participant fund investment return (KIR) and knowledge of proper dissatisfaction channels (KDC), has reported the least knowledge variables that have a significant relationship with the satisfactions determinant variables in that the (KIR) has reported one statistical significance relationship at ($p \leq 0.05$) with the satisfactions of participants fund charged fees, encountered deficits and availability of *qard* (SFDQ). The (KDC) on the other hand, has reported another unique statistical significance relationship at ($p \leq 0.01$) with total participants' satisfaction (TPS).

Participants knowledge of *Shari'ah* compliance, has not reported a significant relationship with all satisfaction determinant variables, which complement the fact that 256 (85.3 %)[81] participants bought their *takaful* policy for future financial planning and 193 (64.3 %) participants replied with 'no' to *Shar'iah* compliance as a reason that made them buy their *takaful* policy.

[81] Refer to Chapter 8, Table 8.30.

The multinomial regression results indicate that participants' total satisfaction (TPS) and participants' satisfaction with participants' fund charged fees, encountered deficits and the availability of *qard* (SFDQ) has been the variable with the most satisfaction to be explained by three knowledge determinant variables. The (TPS) formed a significance relationship at ($p \leq 0.01$) with participants' knowledge of the principles used by TOs' models (KPM), and another two significant relationships at ($p \leq 0.1$) with participants' knowledge of fund underwriting surplus (KUS) and participants' knowledge of the proper dissatisfaction channels (KDC). The SFDQ has reported two significant relationships at ($p \leq 0.05$) with knowledge of the principles used by TOs' models (KPM), and knowledge of fund investment returns (KIR). The other significant relationship at ($p \leq 0.1$) with the knowledge of participants fund charged fees, encountered deficits and the availability of *qard* (SFDQ).

In conclusion, participants' knowledge of the principles used by TOs' models (KPM) has reported six significant relationships with participant satisfaction determinant variables, followed by participants' knowledge of the underwriting surplus (KUS) which reported four significant relationships with participants' satisfaction determinant variables. These results indicate participants need to be informed about the operational principles of the *takaful* model that runs their fund; they are also in need of enhancing their knowledge about several issues that concern their rights to receiving underwriting surplus. Thus by improving participants' KPM and KUS, their satisfaction level would also increase.

Table 10.3 Multinomial Logistic Regression for Participants' Preferences *vs* Participants' Satisfaction

Dep.[2] Var.		Independent[1] Variables					Overall Model Goodness-of-Fit		
		PSC	PRB	PKP	PRU	PCU	Chi - Square (Sig.)	R^2	Chi - Square Deviance
TPS	Coff.	140.83	144.54	141.01	151.54	141.12	30.150 (0.067)	0.17	71.485 (0.056)
	Sig.	0.789	0.06*	0.389	0.053*	0.736			
SDM	Coff.	232.86	2063.75	230.86	240.78	239.79	157.772 (0.0)	0.6	114.344 (0.99)
	Sig.	0.557	0.00***	0.19	0.41	0.12			
SIR	Coff.	128.06	126.88	123.38	131.64	126.06	52.558 (0.0)	0.31	65.955 (0.12)
	Sig.	0.18	0.08*	0.45	0.13	0.37			
SUS	Coff.	110.72	115.56	115.78	113.43	110.95	57.614 (0.0)	0.35	55.204 (0.28)
	Sig.	0.84	0.04**	0.03**	0.38	0.8			
SSC	Coff.	135.37	132.8	132.7	141.42	134.38	76.191 (0.0)	0.43	85.276 (0.002)
	Sig.	0.57	0.85	0.89	0.17	0.75			
SCI	Coff.	226.89	225.69	221.4	227.12	226.15	177.820 (0.0)	0.65	109.478 (0.99)
	Sig.	0.53	0.13	0.48	0.88	0.59			
SFDQ	Coff.	123.33	122.53	125.95	127.59	123.32	50.513 (0.0)	0.29	58.896 (0.23)
	Sig.	0.82	0.71	0.12	0.45	0.83			
SKP	Coff.	100.28	99.82	97.46	105.15	100.52	66.050 (0.0)	0.38	35.300 (0.91)
	Sig.	0.39	0.16	0.52	0.17	0.36			

1. **PSC** Preference on *Shari'ah* Compliance, **PRB** Preference to have a representative on BoDs, **PKP** Preference on TOs' Key Personnel, **PRU** Preference on the reason to use *takaful* policy, **PCU** Preference on claims and underwriting surplus.
2. **TPS** Total Participants' Satisfaction, **SDM** Satisfaction with TOs' Disclosure Mechanisms, **SIR** Satisfaction with TOs' Investment Returns, **SUS** Satisfaction with TOs Underwriting Surplus, **SSC** Satisfaction with *Shari'ah* Compliance System, **SCI** Satisfaction with Claims and Indemnities, **SFDQ** Satisfaction with Fees, Deficits and *Qard*, **SKP** Satisfaction with Key Power.
3. *** Significant at 1% level of significance ($p \leq 0.01$), ** significant at 5% level of significance ($0.01 < p \leq 0.05$), and * significant at 10% level of significance ($0.05 < p \leq 0.10$).

10.3.3 Forms of Relationships between Participant Preferences and Participant Satisfaction

Table 10.3 reflects the multinomial logistic regression model between each determinant of the satisfaction dependent variables with a combination of participants' preferences as independent variables.

All (preferences *vs* satisfactions) models reported an overall statistically significant goodness of fit, as the overall chi-square p-value of all models was reported at less than 0.05, with the exception of the participants' total satisfaction (TPS) model, as it has a p-value of ($0.067 > 0.05$). Also, the overall deviance goodness of fit values for all models showed statistically significant values, reflecting that the model adequately fits the data. This is because the overall chi-square (p-value) of all models reported a p-value greater than 0.05, with the exception of participant satisfaction with TOs' *Shari'ah* compliance system (SSC), as it has a p-value of ($0.002 < 0.05$). The R^2 values on the other hand, ranged from 17% to 75%. The reported R^2 reflects the percentage to which the satisfaction dependent variable can be explained by the combination of participants' preferences as independent variables.

Participants' preferences to have a representative on the Board of Directors (BoDs) (PRB), has reported the preferences variable most likely to form a significant statistical relationship with satisfaction determinant variables, with four significant relationships. The (PRB) formed a significance relationship ($p\leq 0.01$) with participants' satisfaction with the TOs disclosure mechanisms (SDM). The next significant relationship was at ($p\leq 0.05$) with participants' satisfaction with fund underwriting surplus (SUS). The two other significance relationships were at ($p\leq 0.1$) regarding fund investment returns (SIR) and another significance relationship with the participants' total satisfaction (TPS).

Participants' preferences regarding TOs' key personnel power and activities (PKP), reported a statistically significant relationship at ($p\leq 0.05$) with participant satisfaction with participants underwriting surplus (SUS). Also participants' preferences regarding the reason for buying a *takaful* policy (PRU), reports a statistically significant relationship at ($p \leq 0.1$) with total participant satisfaction (TPS).

Furthermore, participants' preferences for TOs' *Shari'ah* compliance system (PSC) and participants' preferences regarding TOs' claims and underwriting surplus (PCU) reported insignificant relationships with all satisfaction determinant variables. Participants' total satisfaction (TPS) was explained by two participants' preference determinant variables: (TPS) has a statistically significant relationship at ($p \leq 0.1$) with participants' preference to have a representative on the BoDs (PRB) and with participants' preferences for using the *takaful* policy (PRU).

Participants' satisfaction with participants fund underwriting surplus (SUS) has also been explained by two preferences determinant variables, that the (SUS) has a significant relationship at ($p \leq 0.05$) with participants' preferences to have a representative on the BoDs (PRB), and with participants preferences regarding TOs' key personnel power and activities (PKP). Both satisfaction determinant variables, participants' satisfaction about TOs' disclosure mechanisms (SDM) and participants' satisfaction regarding participant fund investment returns (SIR), have been explained by participants' preferences for a representative on the BoDs (PRB), with a statistical significance ($p \leq 0.01$) for the (SDM) and a statistical significance ($p \leq 0.1$) for the (SIR).

In conclusion, participants' preference to have a representative on the BoDs (PRB), showed the most preference determinant variables that can bring satisfaction to participants, since it formed four significant relationships with participant satisfaction variables (TPS, SDM, SIR and SUS). Accordingly, to achieve participants' satisfaction, TOs must adhere to participants' preferences for assigning a representative on their behalf to discuss their rights and desires on participants' underwriting surplus, investment return, and to have an effective disclosure mechanism with the BoDs, which will eventually increase their total satisfaction level.

10.4 CONCLUSIONS FROM THREE MULTINOMIAL LOGISTIC REGRESSIONS

The likelihood ratio test of the three multinomial logistic regression analyses indicated a number of significant forms of relationships between the three determinant independent variables (participants' perceived disclosure, participants' knowledge, and participants' preferences) with the satisfaction determinant variables. It was noticed that TOs' disclosure of investment returns (DIR) has been the disclosure variable that formed the most significant relationship with six satisfaction models, followed by disclosure regarding claims and indemnities (DCI) and disclosure of TOs' key personnel power and activities (DKP).

Participants' knowledge determinant variables also indicated a number of significant relationships with the satisfaction determinant variables, that participant knowledge of the principles used by the TOs' models (KPM) reported six significant relationships with participants' satisfaction determinant variables. This was followed by participants' knowledge of underwriting surplus (KUS) with four significant relationships with participants' satisfaction determinant variable. In terms of participants' preferences, participants showed a concentrated preference to have a representative on the BoDs (PRB) and such a preference has formed four significant relationships with participants' satisfaction variables.

From the above discussion, it can be concluded that participants are in favour of obtaining more information about their financial benefits in the participants' fund, which was obvious by their preference to have a representative on the BoDs (PRB). Such a fact was supported by a significant relationship between participants' satisfaction and their knowledge of the principles of the *takaful* model used (KPM). Participants' knowledge of the principles of the *takaful* model used could be a substitute for their preference to have a representative on the BoDs (PRB). If they have enough knowledge of how their fund is running then they will not need to have somebody representing their wishes to the TOs' upper management. However, transferring the knowledge to participants would not be as efficient without having a suitable disclosure mechanism that conveys the desired financial benefits information to participants. Accordingly, it is believed that TOs' proper disclosure mechanisms do a great job in enhancing participants' knowledge; it is is also believed that once participants have enough knowledge, their preferences can be improved, as they already possess the required information. Therefore, two multinomial logistic regression analyses are carried out between participants' perceptions about TOs' disclosure systems as an independent variable with participant knowledge as a dependent variable, to discover any impact from participants' perceived disclosure on their knowledge. The second multinomial logistic regression analyses is run between participants knowledge as an independent variable with participants' preferences as a dependent variables to figure out how participants knowledge might substitute participants' desires preferences. By obtaining information on such a relationship could suggest ways to enhance participant satisfaction.

Table 10.4. Multinomial Logistic Regression for Participants' Perceived Disclosure *vs* Participants' Knowledge

Dep.[2] Var.	Independent[1] Variables								Overall Model Goodness-of-Fit		
		DM	DIR	DUS	DSC	DCI	DFDQ	DKP	Chi - Square (Sig.)	R^2	Chi - Square Deviance
TPK	Coff.	171.21	110.69	112.57	113.33	108.78	111.21	117.16	305.219 (0.0)	0.85	102.351 (1.00)
	Sig.	0.45	0.52	0.19	0.23	0.13	0.19	0.00***			
KPM	Coff.	5.09E+02	3.42E+02	3.03E+02	2.99E+02	2.82E+02	2.91E+02	2.81E+02	932.766 (0.0)	0.97	241.765 (1.00)
	Sig.	1	0.00***	0.59	0.95	0.68	0.87	0.99			
KIR	Coff.	289.55	221.41	213.85	216.56	216.01	212.91	219.08	173.969 (0.0)	0.58	183.695 (0.19)
	Sig.	0.11	0.09*	0.76	0.47	0.04**	0.82	0.02**			
KUS	Coff.	2.66E+02	1.72E+02	1.46E+02	1.43E+02	1.30E+02	1.38E+02	1.51E+02	688.127 (0.0)	0.95	115.924 (1.00)
	Sig.	0.99	0.00***	0.16	0.52	0.7	0.46	0.00***			
KSC	Coff.	109.571	55.511	51.093	59.077	47.187	54.23	52.617	367.032 (0.0)	0.94	42.265 (1.00)
	Sig.	0.46	0.06*	0.21	0.01***	0.16	0.03**	0.02**			
KFDQ	Coff.	6.10E+02	3.77E+02	2.74E+02	2.98E+02	2.34E+02	2.95E+02	2.29E+02	958.815 (0.0)	0.98	91.288 (1.00)
	Sig.	0.09*	0.00***	0.54	0.01***	0.89	0.00***	1			
KDC	Coff.	5.76E+02	3.91E+02	385.854	405.159	378.167	383.19	402.456	418.956 (0.0)	0.8	342.459 (1.00)
	Sig.	0.32	0.41	0.6	0.01***	0.48	0.58	0.00***			

1. **DM** Disclosure Mechanisms, **DIR** Disclosure of Investment Return, **DUS** Disclosure of Underwriting Surplus, **DSC** Disclosure of *Shari'ah* Compliance, **DCI** Disclosure of Claims and Indemnities, **DFDQ** Disclosure of Fees, Deficits and *Qard*, **DKP** Disclosure of Key Personnel.
2. **TPK** Total Participants' Knowledge**, KPM** Knowledge of the principle of the TOs'Models, **KIR** Knowledge of Investment Return, **KUS** Knowledge of Underwriting Surplus, **KSC** Knowledge of *Shari'ah* Compliance, **KFDQ** Knowledge of Charged Fees, Encountered Deficits and availability of *Qard*, **KKP** Knowledge of Key Personnel Power and Activities, **KDC** Knowledge of Dissatisfaction Channels.
3. The **KKP** independent variable has been omitted by SPSS system since all parameters of this variable are constant with 0 values.
4. **TPK** has been added to the knowledge determinant variables, for better reflections of how disclosure determinant variables can affect participants' total knowledge.
5. *** Significant at 1% level of significance ($p \leq 0.01$), ** significant at 5% level of significance ($0.01 < p \leq 0.05$), and * significant at 10% level of significance ($0.05 < p \leq 0.10$).

10.5 MULTINOMIAL LOGISTIC REGRESSION SUGGESTED APPROACH

The following section reflects on suggested multinomial regression analysis models, which will be between the participants' perceptions about TOs' disclosure system' and participants knowledge and between participants' knowledge and participants' preferences.

10.5.1. Forms of Relationships between Participants' Perceived Disclosure and Participants' Knowledge[82]

Table 10.4 reflects the multinomial logistic regression model which illustrates the significance relationship between each knowledge determinant dependent variable with the combinations of participants' perceived disclosure as an independent variable.

All (disclosure *vs* knowledge) models reported an overall statistically significant goodness of fit, as the overall chi-square p - value of all models reported less than 0.05. Also, the overall deviance goodness of fit values for all models showed statistical significance values, which shows that the model adequately fits the data, as the overall chi-square (p-value) of all models reported a p-value of greater than 0.05. The R^2 values on the other hand, ranged from 58 % to 97 %. Likelihood ratio test on the other hand, showed that two of the knowledge determinant variables, can be explained by four of the disclosure combined variables. Participants' knowledge of the TOs' *Shari'ah* compliance systems (KSC) reported a significant relationship at ($p \leq 0.01$) with TOs' disclosure of the *Shari'ah* compliance system (DSC), and another significant relationship at ($p \leq 0.05$) with two of the disclosure variables. These were disclosure regarding fund charged fees, encountered deficits and availability of *qard* (DFDQ) and disclosure of TOs' key personnel power and activities (DKP). There is a fourth significance relationship at ($p \leq 0.1$) with participants' fund investment returns.

Participants' knowledge of fund charged fees, encountered deficits and availability of *qard* (KFDQ) can be explained by four of the disclosure combined variables. (KFDC) reports a significant relationship at ($p \leq 0.01$) with disclosure of participants' fund

[82] The used findings were taken from Tables 10.1 and 10.2.

investment return (DIR), disclosure of TOs' *Shari'ah* compliance system (DSC) and disclosure of participants' fund charged fees, encountered deficits and availability of *qard* (DFDQ), and another significance relationship at ($p \leq 0.1$) with TOs' disclosure mechanisms (DM).

The third knowledge group to report a significant relationship is participants' knowledge of fund investment returns (KIR) explained by three of the disclosure combined variables. (KIR) reported a significant relationship at ($p \leq 0.05$) with TOs' disclosure of claims and indemnities (DCI) and TOs' disclosure of the company key personnel power and activities (DKP). There is another significant relationship at ($p \leq 0.1$) with disclosure participants' fund investment returns (DIR).

Disclosure of participants' fund investment returns (DIR) and disclosure regarding TOs' key personnel power and activities (DKP), have reported the disclosure variables that formed the most significant relationship with knowledge determinant variables. Each one of them formed five significant relationships with the knowledge determinant variables, followed by disclosure of TOs' *Shari'ah* compliance systems (DSC) which formed three significant relationships with the knowledge determinant variables.

Three of the five significant relationships conducted by (DIR) were reported at ($p \leq 0.01$) with knowledge of the principles of the *takaful* model used (KPM), knowledge of participants' fund underwriting surplus (KUS), and knowledge of participants' fund charged fees, encountered deficits and availability of *qard* (KFDQ). (DIR) formed another two significant relationships at ($p \leq 0.1$) with knowledge of the *Shari'ah* compliance system (KSC), and knowledge of participants' fund investment returns (KIR).

Disclosure regarding TOs' key personnel power and activities (DKP) has formed three significant relationships at ($p \leq 0.01$) with the total participants' knowledge (TPK) knowledge of participants' fund underwriting surplus (KUS), and knowledge about proper dissatisfaction channels (KDC). (DKP) also formed another two significant relationships at ($p \leq 0.05$) with the knowledge of participants; fund investment returns (KIR), and knowledge of *Shari'ah* compliance systems (KSC). Disclosure of TOs' *Shari'ah* compliance systems (DSC) reported three significant relationships at ($p \leq 0.01$) with the knowledge of the *Shari'ah* compliance system (KSC), knowledge of participants' fund charged fees, encountered deficits and availability of *qard* (KFDQ), and knowledge of proper dissatisfaction channels (KDC).

To conclude, the multinomial logistic regression analysis findings indicate that disclosure of participants' fund investment returns (DIR) and disclosure of TOs' key personnel power and activities (DKP) have the greatest impact on participants' knowledge which reflects such a logical approach. This is because participants are more eager to gain financial return from their contributions to the fund. They are also more willing to recognize the role, power and activities of the TOs' key personnel. Furthermore, it should be highlighted that both disclosure variables (DIR and DKP) have similar significance relationships with three of the knowledge determinant variables, knowledge of participants' fund investment returns (KIR), knowledge of the *Shari'ah* compliance systems (KSC), and knowledge about participants' fund underwriting surplus (KUS). This means that as TOs enhance their (DIR and DKP), participants' (KSC, KUS and KIR) will increase, which will bring satisfaction to participants, as the (KUS) reported a statistical significance with four satisfaction determinant variables.

It should also be noted that disclosure of fund investment returns (DIR) which was the disclosure variable that brings the most satisfaction to participants, has reported a statistical significance relationship with the knowledge of the principles of the TOs' *takaful* models used. (KPM) which was the knowledge variable that brings the most satisfaction to participants, gives a clear picture that TOs' disclosure of fund investment returns (DIR) will positively impact participants' knowledge, not only of the principles of the TOs' model of *takaful* (KPM), but also of other four knowledge determinant variables, which will increase participants' satisfaction level.

Table 10.5 Multinomial Logistic Regression for Participants' Knowledge *vs* Participants' Preferences

Dep[2].Var.	Independent[1] Variables							Overall Model Goodness-of-Fit		
		KPM	KIR	KUS	KSC	KFDQ	KDC	Chi - Square (Sig.)	R^2	Chi - Square Deviance
PTP	Coff.	201.91	178.69	178.52	176.18	181.29	177.89	240.710 (0.0)	0.62	110.181 (0.97)
	Sig.	0.02**	0.26	0.86	0.92	0.87	0.93			
PSC	Coff.	168	154.84	158.68	151.61	166.03	158.82	227.837 (0.0)	0.69	97.834 (0.93)
	Sig.	0.28	0.19	0.3	0.96	0.15	0.29			
PRB	Coff.	145.08	139.96	144.41	139.92	144.85	162.1	43.372 (0.0)	0.19	81.080 (0.11)
	Sig.	0.63	0.75	0.2	0.81	0.41	0.00***			
PKP	Coff.	38.4	34.94	35.91	35.77	36.61	37.16	225.485 (0.0)	0.86	21.033 (1.00)
	Sig.	0.82	0.68	0.77	0.31	0.87	0.49			
PRU	Coff.	2.14E+02	1.93E+02	1.96E+02	1.93E+02	2.07E+02	2.02E+02	520.249 (0.0)	0.85	114.251 (1.00)
	Sig.	0.78	0.86	0.97	0.93	0.78	0.62			
PCU	Coff.	218.03	197.88	199.08	188.47	199.54	198.7	221.788 (0.0)	0.58	117.298 (0.91)
	Sig.	0.00***	0.00***	0.07**	0.63	0.28	0.08**			

1. **KPM** Knowledge of the principle of the TOs' Models, **KIR** Knowledge of Investment Returns, **KUS** Knowledge of Underwriting Surplus, **KSC** Knowledge of *Shari'ah* Compliance, **KFDQ** Knowledge of Charged Fees, Encountered Deficits and availability of *Qard*, **KKP** Knowledge of Key Personnel Power and Activities, **KDC** Knowledge of Dissatisfaction Channels.
2. **PTP** Participants' Total Preferences**, PSC** Preference on *Shari'ah* Compliance, **PRB** Preference to have a representative on BoDs, **PKP** Preference on TOs' Key Personnel, **PRU** Preference on the reason to use *takaful* policy, **PCU** Preference on claims and underwriting surplus.
3. The **KKP** independent variable has been omitted by SPSS system since all parameters of this variable are constant with 0 values.
4. **PTP** has been added to the participants' preferences determinant variables, for better reflections of how participants' knowledge determinant variables can affect participants' total preferences.
5. *** Significant at 1% level of significance (p≤0.01), ** significant at 5% level of significance (0.01<p≤ 0.05), and * significant at 10% level of significance (0.05<p≤ 0.10).

10.5.2. Forms of Relationships between Participants' Knowledge and Participants' Preferences[83]

Table 10.5 reflects the multinomial logistic regression model which best illustrates the significant relationship between each preference as dependent variable with the combinations of participants' knowledge as independent variables. All (knowledge *vs* preference) models reported an overall statistical significance goodness of fit, as the overall chi-square p-value of all models reported less than 0.05. Also, the overall deviance goodness of fit values for all models showed statistically significant values, which reflects an adequate model fit for the data. This is because the overall chi-square (p-value) of all models reported a p-value of greater than 0.05. The R^2 values on the other hand, ranged from 19 % to 86 % indicating the percentage the preference dependent variable can be explained by a combination of participants' knowledge independent variables.

Among the preference variables, participants' preferences of participants' fund claims and underwriting surplus conditions (PCU) is mostly explained by knowledge determinant variables, with four significance relationships. This is because the PCU reported statistically significant relationships at ($p \leq 0.01$) with knowledge of the principles of the *takaful* model used (KPM) and knowledge of participants' fund investment returns (KIR). There is another statistically significant relationship at ($p \leq 0.05$) with participants' knowledge of underwriting surplus conditions (KUS) and knowledge of the proper dissatisfaction channels (KDC). Participants' total preferences (PTP) and participants' preferences to have a representative on the BoDs (PRB) reported the preference variables to have a least significant relationship with the knowledge determinant' variables with a unique significance relationship. Accordingly, the PTP reported a significant relationship at ($p \leq 0.05$) with the knowledge of the principles of *takaful* model used (KPM).The (PRB) reported a significance relationship at ($p \leq 0.01$) with the knowledge of the proper dissatisfaction channels (KDC).

On the other hand, participants' preferences of *Shari'ah* compliance systems (PSC), preferences of the TOs' key personnel power and activities and preferences of the motivation for buying a *takaful* policy reported an insignificant relationship with all knowledge determinant variables.

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[83] [83] The used findings were taken from Tables 10.2, and 10.3.

In conclusion, the multinomial logistic regression analysis indicated that participant' preferences for claims and underwriting conditions (PCU) reported the most preference variable to have the least significant relationship with the knowledge determinant variable. Among these determinant' variables is participants' knowledge of the principles of the *takaful* model used (KPM) which was the knowledge variable that is most likely to bring satisfaction to participants. It should also be highlighted that there is a complete shift between participants' intensive preferences to have a representative on the BoDs (PRB) (Preferences *vs* Satisfaction) to participants' intensive preferences on claims and underwriting surplus conditions (Knowledge *vs* Preferences). Such a shift in participants' preferences indicates that once participants have enough knowledge of their contributions benefits from the participants' fund, they would no longer require a representative to convey their wishes to the TOs' upper management.

10.6 CONCLUSIONS OF MULTINOMIAL LOGISTIC REGRESSION: SUGGESTED APPROACH[84]

The likelihood ratio test of the suggested multinomial logistic regression analysis for both models indicated some significant findings. Particularly that TOs' disclosure of participants' fund investment returns (DIR) and disclosure of TOs' key personnel power and activities (DKP) will have a significant impact on participants' knowledge. It is also clear that there is a significant relationship between the DIR which was the disclosure variable that brings most satisfaction to participants, with the knowledge of the principles of the TOs' *takaful* model used (KPM) which was the knowledge variable that brings most satisfaction to participants. Participants' intensive preferences to have a representative on the BoDs (PRB) (Preferences *vs* Satisfaction) have been shifted to an intensive preference for TOs' claims and underwriting surplus conditions (PCU) (Knowledge *vs* Preferences). The (PCU) reported a significant relationship with the knowledge of the principles of the *takaful* model used (KPM) which was the knowledge variable that brings most satisfaction to participants.

Accordingly, it can be concluded that as TOs disclose more information of participants' fund investment returns (DIR) and other disclosure variables, participants gain more knowledge, not only of the principles of the TOs' models of *takaful* (KPM), but also of other knowledge determinant variables, and once participants possess enough knowledge of their benefits from the

[84] The used findings were taken from Tables 10.1, 10.2, 10.3, 10.5

participants' fund, then their preferences will be concentrated on issues that directly affect their benefits. These include claims and underwriting surplus (PCU) without intruding into company management decisions by having a representative on the BoDs (PRB). Hence, such a cycle between participants' perceived disclosure, knowledge and preferences will increase participants' satisfaction levels.

10.7 SUMMARY AND CONCLUSION[85]

This chapter complements the previous empirical chapters by discovering the most suitable way to achieve participants' satisfaction by reviewing the forms of relationship between the three independent variables (participants' perceptions about TOs' disclosure systems, participants' knowledge and participants' preferences) with participants' satisfaction levels as a dependent variable. This chapter also provides an answer to research question 6, as stated in the introduction section of this chapter. Thus, three multinomial logistic regressions were conducted to determine the significant relationships between the three independent determinant variables with the dependent satisfaction determinant variables: the forms of relationships were varied according to 90%, 95% and 99% confidence level. Accordingly, the results of the three regression analysis models indicated an overall statistically significant goodness of fit, as the overall chi-square p- value of all models reported less than 0.05, reflecting the suitability of all models to fit the data, with the exception of two models (Disclosure determinant variables *vs* participants' satisfaction of TOs' disclosure mechanisms SDM) and (preferences determinant variables *vs* total participants' satisfaction (TPS)).

Furthermore, the deviance result of all reported models indicated that all deviance results are statistically significant (p-value > 0.05), which reflects the suitability of all models to adequately fit the data. The R-Square figures on the other hand, indicated that most of the R-Square values range from 60 % to 100 %, with very little scattered R-Square values from 16 % to 45 %. As has been explained previously, the greater the value of the R-Square, the better fit for the model, which means the greater the chance that the satisfaction dependent variable can be explained by combinations of the disclosure independent variables.

[85] The used findings were taken from Tables 8.9, 8.39, 8.40, 10.1, 10.2, 10.3

On the other hand, the likelihood ratio test indicated a number of significant forms of relationships between the three determinant independent variables with the satisfaction as dependant variables. It can be noted that TOs' disclosure of participants' fund investment returns (DIR) is the disclosure variable that formed the most significant relationship with six satisfaction models, followed by disclosure of claims and indemnities (DCI) and disclosure of TOs' key personnel power and activities (DKP). This is because it has a significant relationship with four satisfaction determinant variables, while disclosure of participants' fund underwriting surplus (DUS) has formed three relationships with the satisfaction determinant variables. Such significant relationship indicates the important of exposing participants to the expected investment returns from their contributions to the fund. Participants also show their desire to be made aware of the conditions that allow them to be indemnified whenever a claim has been made. Participants also wish to recognize the role, power and activities of the company key personnel. Participants' knowledge determinant variable also indicated a number of significant relationships with the satisfaction determinant variables. Participants' knowledge of the principles of the TOs' models used (KPM), reported six significant relationships with participants' satisfaction determinant variables. This is followed by participants' knowledge of the underwriting surplus (KUS) with four significant relationships with participants' satisfaction determinant variable. While the participants' preferences determinant variable has shown a concentrated preference to have a representative on the BoDs (PRB), such preference has formed four significant relationships with participants' satisfaction variable.

From the three regression analyses, it can be concluded that, in order to bring satisfaction to participants, TOs should adhere to three main desires of participants. They should:

I. Provide a representative, who can present and discuss participants' rights and benefits to the TOs' higher management.
II. Educate participants about the principles of the *takaful* model used, *i.e. Wakalah, Modarabah, Waqf, etc.*
III. Make participants aware of the expected financial benefits, especially participants' fund investment returns, as 230 (76.7 %) participants participate in the investment fund accounts, and to expose them on the conditions that made them indemnified to cover future claims.

The three satisfaction conditions above indicate that because of participants' weak knowledge, which might be a result of a weak perceived disclosure, participants' main preference is to have a representative on the BoDs. Thus, proper disclosure mechanisms adopted by the TOs would be effective for enhancing participants' knowledge. Once participants have enough knowledge then their preferences might change as they will possess the required knowledge to substitute their requested preferences. Accordingly, another two multinomial logistic regressions were run between participants' perceived disclosure as an independent variable with participants' knowledge as a dependent variables, and between participants' knowledge as an independent variable with participants' preferences as a dependent variable.

The regression analysis findings of disclosure *vs* knowledge complements participants' three satisfaction conditions, that disclosure of participants' fund investment returns (DIR) and disclosure of TOs' key personnel power and activities (DKP), have the greatest significant relationships with the participants' knowledge determinant variables, as it reported five significant relationships. Interestingly, the DIR which was the disclosure variable that brings most satisfaction to participants reported a statistically significant relationship with KPM which was the knowledge variable that brings most satisfaction to participants. This paints a clear picture of the fact that TOs' disclosure of fund investment returns (DIR) will positively impact participants' knowledge of the principles of the *takaful* model (KPM) used. Another interesting finding is participants' focus preferences on claims and underwriting conditions (PCU), which reported the preference variable to have most significance relationships with the knowledge determinant variables. These results complement the assumption that knowledge and preferences change; participants changed from their preference to have a representative on the TOs' BoDs (PRB), to focus on claims and underwriting conditions (PCU). This result indicates that once participants have enough knowledge about their contributions benefits from the participants' fund, then they will not need a representative who can convey their preferences to the TOs' upper management.

CHAPTER ELEVEN
CONTEXTUALIZATION OF RESEARCH FINDINGS: IMPLICATIONS FOR SAMA

11.1 INTRODUCTION

As been explained previously the layout structure of this research follows Wells *et al* (1995) effort. They study the regulatory directives system for better service quality toward policyholders. The main objective of projecting the regulator assessment and directives is to see whether the local regulator in Saudi Arabia has provided the TOs with the required tools to achieve participants' desires satisfactions. Accordingly, this chapter will link between the international insurance policies per the literature chapters, along with the obtained findings of the empirical chapters to come up with a set of recommendations to enhance SAMA regulations for better services for the *takaful* participants. By doing so, the current chapter will address research question 7:

Question 7: What are the suggested solutions for the Saudi Arabian Insurance Regulator to overcome any shortfalls in providing the required protections for *takaful* participants?

This chapter is organized as follows: section 11.2 compares the Saudi insurance regulatory laws and directives with the international insurance and *takaful* standards and policies and with participants' perceptions. Section 11.3 draws a conclusion.

11.2 SAMA REGULATIONS *VS* INTERNATIONAL INSURANCE STANDARDS

This section provides an answer to research question 7, by comparing the Saudi insurance laws and regulations as assigned by the Saudi Arabian Monetary Agency (SAMA) with the international insurance regulatory standards as has been reflected in the literature chapters. Some of the results from participants' perceptions, knowledge and preferences found in the empirical chapters will be used to consolidate the findings' conclusions with one main objective *i.e.* protecting rights of participants who contributed to the *takaful* fund. This is to be used to encourage SAMA to establish special *takaful* directives devoted for *takaful* companies operating in Saudi Arabia. Accordingly, this section will follow the sequence of the literature chapters by tackling some of the important issues that have been addressed on the Corporate Governance and Market Conduct & Disclosure chapters.

11.2.1 Corporate Governance

An important issue to mention here is that SAMA has never addressed *takaful* insurance or addresses a *Shari'ah* Governance issue in any of its directives; they often refer to cooperative insurance companies. Accordingly, the following discussion will address some important points that were mentioned in the corporate governance chapter, which might affect participants' rights in receiving financial and social benefits.

I. Stakeholders' Relationships as per SAMA directives

SAMA has issued a number of corporate governance regulations to strengthen the Saudi insurance market, some of which were directed towards the stakeholders. SAMA has identified the role of BoDs, actuaries, auditors and intermediaries, to provide the required protections to the policyholders. However, SAMA has not put in place any obligatory rules to guide the insurance companies to structure a corporate governance framework that specifies the strategic, operational roles, responsibilities, functions of all organs of the firms including but not limited to the BoD's and its committees.

It is preferable if SAMA develops its own insurance corporate governance system in accordance with the economical and political situations surrounding the Saudi financial market. Each organization should develop its own corporate governance model that caters for its specific needs and objectives (OECD, 2004; IAIS, 2004; IFSB, 2008, 2009a). The model should put in place a balance of governance mechanisms that satisfies all stakeholder parties *i.e.* shareholders and participants. Such a balanced environment will create a good and strong culture of governance that enhances homogeneity and effective information flow among all stakeholders (IFSB, 2008). A sound corporate governance system should establish a connection between directors, managers, employees, shareholders, customers, creditors, and suppliers (Kaplan *et al*, 2000). By establishing such healthy relationships between insurance company stakeholders, the problem of culture manipulation and information concealment will be minimized if not eliminated.

Accordingly, it is recommended that SAMA identify a set of relationships between a company's management, its board, its shareholders, and other stakeholders.

II. *Shari'ah* Corporate Governance System

SAMA in its first article on the supervision of the cooperative of insurance company's laws' has stated that the insurance business shall be operated in accordance with the principles of Islamic *Shari'ah* (SAMA, 2005a: 1).

SAMA is also a "full member"[86] of the Islamic Financial Services Board (IFSB) organization, which entitled SAMA to receive several benefits including, (i) technical assistance, (ii) participate in the IFSB awareness programme, (iii) participate in the development of the IFSB prudential standards, (iv) receive complimentary first-hand copies of the IFSB exposure drafts and be invited to comment on them, (v) receive complimentary printed copies of the IFSB publications such as standards, guidelines, surveys *etc.*

Despite the membership of SAMA in IFSB and the fact that SAMA insurance law is in faith adhering to the Islamic principles, there is no single directive devoted to *Takaful* insurance, nor restrictions on certain assets portfolio that go against *Shari'ah* principles, nor directive on the rules of the *Shari'ah* supervisory board (SSB) and/or the insurance internal *Shari'ah* departments. Accordingly, it is preferable if SAMA identifies for insurance and *takaful* companies the methods of conducting activities in accordance with *Shari'ah* principles. It is also recommended that SAMA identifies the formation of the in-house religious advisers (SSB) with their roles and responsibilities as well as the roles and responsibilities of the Internal *Shari'ah* Review Audit (ISRA) and the Internal *Shari'ah* compliance unit/department (ISCU) and their relationships with the SSB members.

Another vital issue is the successful efforts exerted by SAMA in simulating the international advanced insurance market by formulating the actuaries work. However, SAMA has ignored vital rules of the actuaries work, that the actuary and the *Shari'ah* Board should be in charge of

[86] http://www.ifsb.org/membership.php.

finding proper investments contracts to run participants' funds (either by *mudaraba*, *wakala*), setting *wakala* fees for investments management or any other combination, and they should set and advise of the fee structure and the profit-sharing ratio on the investment management between participants and the operator.

The actuary is also responsible for allocating and approving the *takaful* benefits to participants in the family *takaful* business such as distribution of underwriting and/or investment profit. The collaboration between non-executive directors, *Shari'ah* scholars, actuary and/or participant's representative should provide adequate protection for *takaful* participants by monitoring the reserve and distribution of underwriting and/or investment profit (IFSB, 2009a). Accordingly, it is vital for SAMA to link the actuaries work with the principles of Islamic laws to satisfy *takaful* participants' goal of contributing to the *takaful* fund. It is recommended that SAMA conduct a research study among participants to find out their preferences to have a representative on the TOs' management as it has been suggested by IFSB.

III. Underwriting Surplus Distributions

SAMA, in its directive called the "Implemented regulations" Article 70, mentions that the surplus distribution should be conducted as 10% of the net surplus distributed to the policyholders, the remaining 90% of the net surplus should be transferred to the shareholders' income statement. Furthermore, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of the paid capital (SAMA, 2005b).

While AAOIFI *Shari'ah* standard No. 26 (5/5) of 2007 states clearly that *takaful* surplus belongs to participants only. Therefore, surplus can only be distributed to the participants based on the participants' donation percentage share. In Saudi Arabia, where the majority of the TOs are using the *wakalah* model to operate the *takaful* scheme (AlJazira, 2008; SAAB, 2009; AlAhli, 2010), contradiction arises with SAMA instructions as the TO in the *wakalah* operational mechanisms is considered an agent to run the underwriting and investments activities. The TO should not share underwriting surplus with participants and they have only four sources of income[87] and surplus is not one of these sources.

Furthermore, SAMA seems in favour of implementing the net underwriting surplus instead of the gross underwriting surplus (SAMA, 2005b) which implies that the investment income is ploughed back into the *takaful* fund and the *takaful* company shares with the participant the surplus from the *takaful* fund (Ali *et al*, 2008; Asaria, 2009). Following SAMA's surplus distribution instructions, therefore, reduces both underwriting surplus and investment return for participants, while shareholders get the ultimate benefits as per SAMA instructions. Therefore, it is preferable that SAMA states the operational scheme of the *wakalah* model, in accordance with the standards set by international organizations such as IFSB or AAOIFI, since the above-mentioned TOs are claiming that they are running their *takaful* scheme with the *wakalah* model. However, the TOs in their public reports or websites never highlight any specific percentage of surplus distribution. In other words, to be fair to participants TOs should distribute underwriting surpluses to participants as per AAOIFI.

The contradiction of SAMA's rule of limiting surplus distribution to 10% only with the international insurance bodies can create confusion among participants as 226 (75 %) participants[88] do not know the difference between net and gross underwriting surplus. Accordingly, it will be recommended that SAMA identifies the best approach to allocate underwriting surplus among participants. The allocation can take place by of of the following three ways: pro-rata mode, selective mode, or offsetting mode.[89] This will help the participants as 280 (93 %) of them[90] do not know the conditions of sharing in the underwriting surplus.

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[87] Refer to chapter 2 for further discussion on types of *takaful* models. Also more details on the four sources of income for TOs' operating by the *Wakalah* Model in Saudi Arabia, can be found on *AlJazira Takaful* website at (http://www.takaful.com.sa/m1sub3.asp)

[88] Refer to chapter 8, Table 8.22, for further discussion, also as per *AlJazira Takaful* web-site at (http://www.takaful.com.sa/m1sub3.asp).

[89] Refer to chapter 4, for further discussion on this issue.

[90] Ibid.

IV. Shareholders' Power and the Availability of *Qard Hassan*[91]

In some jurisdictions, such as in Malaysia, TOs are obligated to give an undertaking to the regulator to provide a *qard* facility to be drawn upon in the event of a deficit of a *takaful* fund (Hussain, 2009). One way to cover a deficit is by deducting the reserve amount from the *takaful* fund namely, claims contingency reserve (CCR). However, in case the reserve is not enough to cover the deficit then TOs will ask shareholders to provide *qard hasan* facility to cover the deficit (Tobias, 2009).

Participants may be asked to pay regularly more than what is needed for the anticipated compensations in a given period and use the extra amount to build up a reserve as back-up capital for extraordinary damages (Archer *et al*, 2009). Alternatively, deducting from the past underwriting surplus can be used to build up a reserve (AAOIFI, 2010). According, clear instruction should be given by SAMA on the proper procedure that the TOs should follow to recover the shareholders loan facilities used to overcome a deficit in the *takaful* fund. As mentioned in SAMA's Implemented Regulations directive, 20% of the net shareholders' income should be set aside as a statutory reserve until this reserve amounts to 100% of the paid capital. However, SAMA does not clarify the sequences associated with the shareholders' obligations to cover any deficits in the fund. In other words, it is preferable that SAMA identifies possible scenarios to pay back the shareholders' loan which can be done either by increasing participants' future contributions to the fund or by preventing participants getting any future underwriting surplus or investment return.

SAMA might assert in its regulations and laws that the TOs should identify different types of expenses and management fees that are going to be deducted from the participants' fund, as these might cause future deficits in the participants' fund and prevent participants receiving underwriting surplus. The results show that 298 (99%) participants have no idea about different fees that have been charged by the TOs and 281 (94%) participants have no idea about the situations that causes them to pay additional contributions to the company. It is recommended that SAMA follows AAOIFI standards No. 13, which require disclosure of the basis applied by

[91] Findings of this section have been taken from chapter 8, Tables 8.24, 8.25 and 8.29.

the company in calculating expenses affecting policyholders' funds such as pre-operating expenditures, reserves, costs of assets used in operations, claims and compensations, *etc.*

On the other hand, there are several acceptable practices that can be exerted by the shareholders to use the *takaful* fund underwriting surplus and the investment return. However, SAMA did not specify the extent of shareholders' power and limitations on the participants' fund. This can open the door for the TOs to exert more discretion on the participants' fund which might cause dissatisfaction among participants. This is supported by the findings which show that 300 (100%) participants do not know if the shareholders are sharing in participants' underwriting surplus and investments returns and 205 (68%) participants agree to have the right to refuse shareholders activities on the participants' fund. Accordingly, it's recommended that SAMA follows AAOIFI standards No. 13 which requires disclosure of the bases governing the contractual relationship between policyholders and shareholders.

V. Clear Segregation between Shareholders' and Participants' Funds

SAMA has clearly stated in the laws on the cooperative insurance directives Article 2, the Implemented Regulations Article 70, and the investment regulations, that the investment policy shall segregate policyholders' funds from shareholders' funds. This is because each type of asset is classified by different objectives and targets, which will require different financial statements. The main objectives are protecting policyholders' and shareholders' interests in terms of ability to meet liabilities and to ensure the business meets the minimum level of capital requirement (SAMA, 2005a; 2005b; 2011a). Despite the fact that SAMA asserts the importance of a clear segregation between policyholders' and shareholders' fund', SAMA did not announce any directives to guide TOs with the proper instructions to separate the two funds.

As one of the main challenges encountered in the *takaful* business is the hybrid structural scheme with the combination of mutual and proprietary, simultaneously following the principles of *Taawun, Tabarru* and the prohibition of *Riba* can raise a conflict of interest. TOs are considered custodians of a *takaful* fund and they might exert a good amount of discretion to determine the range of products, pricing, terms and conditions of contracts. Additionally conflict can arise due to an agency problem; the separation between the TO and the participants' funds will create asymmetric information and insufficient power for the participants to monitor the TO as a result of lack of representation (Hussain, 2009). Accordingly, it is recommended that SAMA assigns a directive to address the separation instructions in *takaful* insurance; the directive should clearly give an instruction to separate the assets in the family *takaful* between Participant Risk Fund (PRF) and those of the Participant Investment Fund (PIF), as well as between the assets of the *takaful* fund and those of the shareholders' funds.

VI. Asset-liability matching framework

Assets-liability matching management is an important process in protecting policyholders' rights in receiving financial benefits out of their contributions in the *takaful* fund. As IAIS (2002) asserts that the insurance companies should structure a framework to explain the used type of assets instruments, as well as contingent or intangible assets to reflect the suitability of the assets to gain profit in the short-term and a long-term time horizon and to reflect the suitability of the assets to work as a strong capital. The framework should explain how quickly the insurance company will be able to liquidate its investments if necessary without substantial loss in value. It should also identify the sensitivities of these investments to fluctuations in key types of market variables such as exchange rate, and equity price indices and credit risks.

SAMA (2008b; 2005b) addresses the importance of assets-liabilities matching management to avoid liquidity risk. However, SAMA did not specify the required assets-liabilities matching procedures, nor identify suitable assets that fit with the *takaful* principles and model structures which mainly rely on the principles of Islamic laws since investments portfolio assets classes' percentage includes types of assets that contradicts Islamic laws *e.g.* foreign bonds (SAMA, 2005b). Accordingly, it is recommended that SAMA issues a directive which identifies and classifies the type and percentage weights of the assets that can support the TOs operations.

11.2.2 Market Conduct & Disclosure

This section discusses some of the market conduct and disclosure matters that, when not implemented, can cause a negative impact on participants' financial and social benefits.

I. Intermediaries

Although SAMA has stressed that the intermediaries should have proper knowledge, training and enough experience (SAMA, 2011a), it did not specify the required knowledge and skills needed for the intermediaries - knowledge related to the economic and political situation of the Saudi market. The intermediaries should possess the necessary knowledge about different aspects on *Shari'ah* to sell a *takaful* policy. Researchers have a common complaint regarding the lack of training of life insurance salesmen (Gower, 1984).

One of the IAIS (2011) requirements is for the intermediaries to be licensed. Similarly, it is recommended that SAMA enforces the intermediaries to be licensed or at least to possess the Insurance Fundamentals Certificate Exam (IFCE), which has been assigned by SAMA to all insurance employees working in Saudi Arabia and to comply with the UK Financial Services Act 1986, which made it mandatory for intermediaries to comply with the code of conduct. Indeed, 96 (74 %) out of 129 participants state that the intermediaries who sold them the *takaful* policy have insufficient knowledge about different issues of *takaful* principles and insufficient knowledge about the associated *Shari'ah* knowledge.

SAMA has identified the duties of intermediaries to provide sufficient information to customers in terms of price comparisons, premiums payments, payable fees and expenses, claims required documents. However, SAMA did not touch on the element of human action/intervention when delivering the service. This element is important as it was the first four elements of Parasuraman *et al.* (1988) five dimensions of service quality.

Finally, researchers are critical about the conflicts of interest that can arise from the commission payments structure by which intermediaries remunerated and the cultural environment in which they work (Mercantile & General Reinsurance, 1993; Gower 1984). Accordingly, it is preferable that SAMA becomes involved in setting up fair amounts of commissions and remunerations for intermediaries by comparing the domestic commission rates with the international advanced insurance market. It is expected that by setting fair intermediaries commission, a good service quality will be delivered to the perspective policyholders.

II. Disputes Settlement Procedures

SAMA has made a noticeable effort to instruct the insurance companies to fairly treat policyholders' claims and disputes, by structuring a claims department within the company which should settle all policyholders' claims situations by appointing a specialized adjuster. The claim departments should also support policyholders to fill out the dispute form for further compliant investigation by the claim committee.

Despite SAMA's efforts to settle policyholders' claim situations, it has not addressed the importance of disclosing options that policyholders can undertake to resolve the dispute issue with the insurance company. For example, policyholders might have the option to resolve the dispute with the insurance companies with the support of the adjuster. However, if the policyholder is not satisfied with the adjuster's opinions then arbitration might be another option. If still unhappy with the arbitrator decision then the case can be escalated to the Grievances Court for final dispute resolution. The disputes settlement procedures should be available and disclosed to policyholders at all times for fair treatment. The importance of disclosing such information was clearly obvious in the conclusions of the research conducted by Wells *et al* (1995). They have concluded that a consumer tends to rate service quality higher if they are aware of their right to complain to the regulator. The awareness that a consumer advocate exists may reduce feelings of helplessness, dissatisfaction, or resentment.

Indeed, 215 (72 %) participants[92] replied that they do not know which parties they should refer to when a dispute is encountered with the insurance companies. Therefore, it is recommended that SAMA asserts the importance of disclosing the dispute resolution procedures along with the legal bodies to whom participants should rely on to resolve their disputes with the company.

SAMA, with the cooperation of the Saudi jurisdiction, should relieve the controlling power of the Board of Grievances on the arbitrations committee. In other words, the arbitration organization should be treated as a separate entity from the Board of Grievances for better judgment diversifications and for policyholders to get the ultimate benefits of using arbitration services as it has wide feature functions[93]. Since the arbitral tribunal cannot execute their judgment on a commercial matter until the Board of Grievances approves an arbitration

[92] Refer to chapter 8, Table 8.26 for further discussion.
[93] Refer to Chapter 4, section 4.3.2, for further discussion.

instrument, the Board of Grievances can at any time be involved in any commercial case is that within the custody of the arbitration board (Ghazzawi *et al.*, 2011). This will eventually limit arbitrators to do their work as has been identified by some of the advanced insurance markets such as in the UK. It is also recommended that SAMA introduce the Ombudsman Service as an important alternative option to resolve policyholders' insurance disputes. The ombudsman service should possess professional expertise in the insurance field to provide a free service to resolve disputes in insurance or other financial services.

III. Disclosure Mechanisms

SAMA, in its Insurance Market Code of Conduct Regulation, 2008 directive, clarifies that companies should communicate all relevant information with the customer and ensures that such information is provided to customers in writing. SAMA also points out that the company, upon customer request, should provide the customer with the key terms and conditions of the product and service purchased icluding benefits, claims and complaint procedures, restriction conditions, fund past performance, *etc*. The above disclosure instructions seem devoted to current customers or customers who are about to buy an insurance policy which is quite beneficial. However, this information should be available for all the general public (and not only on request of current/potential customers) as per IAIS (2011) public disclosure directive which asserts that information should be properly disseminated according to the international standards and designed in adequate methods and assumptions to bring the attention of policyholders and the public to the relevant information; it also states that the best channels to disclose information to the public is by using the internet.

New customers would like to view different information about the company such as, financial performance, profit and loss statement, fund expenses and fees, policyholders' financial benefits, assets portfolio, assets-liabilities matching process, *Shari'ah* board and *Shari'ah* compliance mechanisms, claim and complaint procedures, stakeholders obligations, company market position, board, management and shareholders structure, corporate culture, *etc*. The current policyholders would also like to review their benefits at the fund, which requires the TOs to provide an effective IT system to serve their desires.

Gow (2000) asserts that some insurers are still stuck in paper documentation, hampering faster communications with clients. This will prevent insurers from making the most from existing customer relationships. Gow (2000) ascertains what was quite obvious in the current research which showed that 276 (92%)[94] participants indicated that the company did not disclose ways to let them review their benefits; 287 (96 %) participants indicated that the company did not use the internet to communicate with them; 206 (69 %) participants indicated that the company is communicating with them by letter and 287 (96 %) participants indicated that the company did not communicate with them at all. Accordingly, it is recommended that SAMA encourages insurance companies to let go of the old fashioned paper handling approaches and to establish an active disclosure mechanism that uses the best available IT system to properly disseminate information to the public and to the current customers.

IV. Code of Ethics

SAMA Market Code of Conduct Regulation, 2008 requires insurance key stakeholders to act with integrity, honesty and fair dealing. However, SAMA has not put in place an adequate observation system that can periodically be conducted to monitor the compliance with this code and to effectively address any dishonourable behaviour.

As SAMA demanded (in its first Article on the supervision of cooperative insurance laws) that insurance companies operating in Saudi Arabia should adhere to the Islamic principles, it is recommended that SAMA imposes a social ethical framework for implementation by *takaful* and insurance companies operating in Saudi Arabia.

The framework should encourage and monitor correct and positive ethical behaviour, such as *ihsan* (goodness), *tawakkal* (trust in God), *amanah* (honesty), *infaq* (spending to meet social obligation), *sabr* (patience) and *istislah* (public interest) (Lewis, 2005). The framework should also mandate that any decision involving more than one party should access and consult on the basis of principles of *Shura* (consultation). Thus directors and senior managers would be expected to listen to the opinions of other executives before making a decision and *shura* members would include, as far as possible, representatives of shareholders, employees, suppliers,

[94] Refer to chapter 8, Tables 8.10 and 8.11 for further discussion.

customers. Other stakeholders including the community should also play a role in providing mutual cooperation to protect interests as a whole and to stimulate the social wellbeing function for social welfare (Choudhury *et al*, 2004).

It is recommended that SAMA ensure that the code of ethics is properly implemented by whoever promotes or advertises the insurance and *takaful* products, such as a conventional bank with a *takaful* window, brokers, agents, actuaries, representatives, *etc*. In terms of investment activities TOs should strictly adhere to Islamic ethical codes. The framework should ensure that, for the long-term *takaful* contracts especially family *takaful* plans where long-term relationships are established between *takaful* participants and the TO's, an adequate code of ethics and conduct should be observed by the representatives of the TOs' before and after the finalization of the contract; such contracts should contain clear illustrations for better understanding and appreciation by *takaful* participants who may not be familiar with *takaful* terminology (IFSB, 2008).

Another ethical practice that can be suggested by SAMA to be implemented by the *takaful* and insurance companies is to find a way that can improve participants' financial return in long-term contract such as participants who contributed to the family *takaful* scheme. SAMA can impose the methods used by the Islamic banking to attract participants such as, (i) minimizing shareholders equity to mobilize more benefits to participants, (ii) Profit Equalization Reserve (PER), by matching participants' financial return with other operators in the same industry by setting aside both participants' and shareholders' funds before allocation, (iii) displaced commercial risk, encouraging shareholders to give up part or their entire *mudarib* share to the participants to motivate them into continuing to place their funds with the bank, in other words TOs' should not ask for a refund for the amount of *qard* provided to recover a deficit in the *takaful* fund (Archer *et al*, 2009).

V. Service Quality[95]

Bad practice, callous treatment and poor service design and delivery, have contributed to widespread customer dissatisfaction in the insurance industry (Wells *et al*, 1995; Friedman, 2001a, 2001b; Cooper *et al*, 2001). Customers are demanding a lot more than the industry has been willing to give, leaving clients frustrated with their services (Robert, 2000). Such malpractices have created a growing distrust of the insurance industry among almost all stakeholder level customers, employees, regulators, shareholders and the public (Darcy, 1996).

Wells *et al* (1995) call for regulators to seek more sophisticated and accurate diagnostic models for assessing insurer service quality in the insurance industry. Accordingly, it is important for SAMA to adopt a suitable service quality model to measure customer satisfaction levels, by assessing how well customers' needs, expectations and perceptions are being met or exceeding the company's offering. Indeed, the current research reflects that the majority of participants have a high level of preferences in that 179 (60 %) participants agrees to be given an opportunity to select the *Shari'ah* supervisory board, 205 (68 %) participants agree to be given an opportunity to refuse shareholders' activities on the participants' fund, and 224 (75 %) participants want to share with other participants the underwriting surplus whether they made claims or not. It is also recommended that SAMA encourages insurance companies to adhere to customers' expectations and perceptions by implementing a means of scoring satisfaction as a way of improving service quality in the Saudi insurance industry; it will be quite beneficial if SAMA has access to insurance companies' policyholders' satisfaction scoring card, for quick and adequate intrusions timing. The research findings report that 152 (51 %) participants have a weak satisfaction level with the participants fund investment return (SIR), and 167 (56 %) participants have a weak satisfaction level with the participants fund charged fees, encountered deficits and availability of *qard* (SFDQ).

VI. Lesson from the Advanced International Insurance Industry

The FSA in the United Kingdom has worked hard to develop and control their insurance market to provide the required protections to policyholders, especially (with-profits policyholders')[96],

[95] The findings of this section have been taken from chapter 8 (Tables 8.27, 8.29 and 8.31).

[96] Refer to chapter 3 for further discussion.

since they have the rights to share in the bonuses generated from the investment activities (similar to participants in the family *takaful* scheme). One of the FSA reform approach is to educate insurance customers of their rights and obligations, especially after the failure of Equitable Life insurance. Accordingly, the FSA has launched the Financial Capability Steering Group[97] which will examine the approach to consumer education to achieve better public awareness and better policyholder protection (FSA, 2003). Accordingly, regulators should have the burden and the responsibility to inform and educate consumers about the nature of the financial system (Dewing *et al*, 2001). It is recommended that SAMA simulates the FSA programme to educate and enhance policyholders' awareness and knowledge about their rights and obligations in the fund, especially with those participants who possess a life family *takaful* policy as they have a long-term contractual agreement with the insurance company, which entitles them to receive periodic financial benefits. The importance of implementing an educational programme among takaful and insurance participants in the Saudi insurance market is supported by participants' responses in the current questionnaire i.e. 226 (75 %) participants have an overall weak knowledge about the takaful fund underwriting surplus distributions (KUS), 262 (87 %) participants have an overall weak knowledge about the takaful fund *Shari'ah* compliance system (KSC), 272 (91 %) participants have an overall weak knowledge about the takaful fund charged fees, encountered deficits and availability of *qard* (KFDQ), and 237 (79%) participants have an overall weak knowledge about the proper dissatisfaction channels (KDC) when they are dissatisfied with the TOs' services and products.

Furthermore, it is preferable that SAMA simulate the FSA rules and guidance in relation to treating with-profits policyholders fairly according to the FSA's Conduct of Business Handbook (COBS 20) and the associated Principle 6 (Customers' interests), Principle 7 (Communications with clients), and Principle 8 (Conflicts of interest) (FSA, 2010).

VII. Knowledge of Supervisory Authority

Sound market conduct policies and procedures will not be carried out without having effective supervisors who can encourage insurers to make effective disclosure, by maintaining efficient, fair, safe, and stable insurance markets for the benefit and protection of policyholders (IAIS,

[97] The UK is considered the world pioneer to incorporate consumer education (Dewing and Russell, 2001).

2002). The supervisors will need to have sufficient knowledge about *takaful* to be able to understand the products with which they are dealing and the significant differences between *takaful* contracts and conventional ones. The *takaful* contracts should cover the contractual relationships between TOs and participants, including circumstances of any additional contributions that may be sought and the basis for the distribution of any surplus (Casey, 2009).

It is very important that SAMA enhances their employees' knowledge about the principles and products of *takaful* insurance according to the different used *takaful* models. SAMA employees should understand different implications between conventional and *takaful* insurance. It is preferable that SAMA relies on the already-established standards by organizations such as AAOIFI, IFSB and similar standards as per IAIS to regulate *takaful* insurance in Saudi Arabia and it will be quite beneficial if SAMA separates the *takaful* laws and regulations from the cooperative insurance ones as *takaful* consists of a hybrid structure, with the combination of mutual and proprietary scheme.

11.3 SUMMARY AND CONCLUSION

This chapter provides an answer to research question 7, since this chapter linked SAMA regulations with the international insurance directives along the findings of the empirical chapters. A conclusion can be made that SAMA, does not have any directives and laws towards the *takaful* business, nor does it issue directives that address any *Shari'ah* concerns. Accordingly, it is highly recommended that SAMA assign separate directive laws that address the *takaful* insurance, and the principles of the *Shari'ah* laws. It is also recommended that SAMA enhances their employees' knowledge about the principles and products of the *takaful* model. SAMA should also rely on the already-established standards as per AAOIFI, IFSB and similar standards as per IAIS to regulate the *takaful* insurance in Saudi Arabia.

CHAPTER TWELVE
CONTEXTUALIZATION OF RESEARCH FINDINGS: IMPLICATIONS FOR TOs

12.1 INTRODUCTION

The current chapter discusses the findings of the empirical chapters. To do so, it follows the layout structure of Wells *et al* (1995). They study consumer perceptions of insurer's service quality. The main objective of projecting participants' perceptions is to see whether the *Takaful* Operators (TOs) are following the international insurance and *takaful* standards in providing the required service to participants. Accordingly, this chapter will provide the required discussions and recommendations to address research question8:

Question 8: What are the suggested solutions to overcome any shortcoming of the current practises conducted by the TOs in Saudi Arabia to institute the required protections to the *takaful* participants?

This chapter is organized as follows: section 12.2 compares participants' perceptions about TOs' disclosure systems, participants' knowledge and participants' preferences with the existing literatures of corporate governance and market conduct and disclosure as outlined in Chapters 3 and 4. Section 12.3 discusses the significant findings that relate participants' demographics characteristics with their satisfaction in accordance with the findings discussed in Chapter 8. Section 12.4 discusses the significant findings that link participants' (perceptions, knowledge and preferences) with their satisfaction levels in accordance with the regression and Spearman correlation results presented in the last two chapters. Section 12.5 presents a suggested linkage between disclosure, knowledge and preferences. Section 12.6 Implications for participants. Section 12.7 draws a conclusion.

12.2 PARTICIPANTS' PERCEPTIONS, KNOWLEDGE AND PREFERENCES

This discussion section follows the layout structure of section 8.4 of chapter 8 by elaborating on participants' most noticeable replies about participants' perceptions about TOs disclosure systems, participants perceived knowledge and participants preferences. This section also discusses the implications for answer of research question number 3 which was provided in chapter 8. The elaboration will address participants' overall perceptions, as well as participants' specific perceptions about each dimension. A comparison will also made between the available policies and standards of the international insurance and *takaful* bodies with the current operational situations of the Saudi TOs as per participants' perceptions, to give a clearer picture on what are the ideal and preferable way to deal with participants for better treatments and protections. The results of this section are discussed and justified in order to respond to research question 3. This section will also partially provide an answer to research question 7.

12.2.1 Participants' Overall Perceptions of TOs' Disclosure Variables

This section compares participant's perceptions about the TOs' disclosure systems according to the seven disclosure variables with the ideal corporate governance and market conduct polices and standards to figure out a proper way to protect participants. Participants' perceptions about TOs' disclosure systems will be judged based on the overall percentage of participants' perceptions as per Table 8.39 in chapter 8. Hence, the larger the percentage rate of the "overall low disclosure perceptions" implies that participants have not been properly exposed to adequate disclosure from the TOs.

An active and updated disclosure mechanism (DM) is considered the main driver for the success of any *takaful* company as the company disclosure mechanism is a hub where all company activities are generated from. However 276 (92 %) participants have scored the TOs' (DM) with low to moderate perceptions. Such figures reflect a shortfall on TOs' ability to adopt an active disclosure mechanism that can convey participants' financial benefits. However, IFSB (2009a) asserts that the TOs should disclose a framework of the *takaful* models (either *wakalah* or *mudarabah*) which should address the rights and interests of stakeholders, and assign compliance mechanisms of underwriting and investment according to identified legal and regulatory frameworks.

The majority of participants' perceptions about TOs' disclosure about participants' fund investments return (DIR) scored low and moderate with 274 (91 %) participants. Participants' low and moderate perceptions about TOs' (DIR) indicates that TOs have not successfully disclosed important information that address participants' financial deserves in the participants' fund, which comes in contrast to IAIS (2002) and AAOIFI standards No. 13. This points out to the importance of disclosing investment returns to participants and policyholders.

In terms of participants' perceptions about TOs' disclosure about participants fund underwriting surplus (DUS), an overall of 277 (92.3 %) participants have reported low perceptions of DUS, which revealed that TOs have not accurately disclosed the required information about the surplus distributions to their participants. However, AAOIFI standard No. 13 stated that TOs should disclosed underwriting surplus distributions to participants. Participants' perceptions about TOs' *Shari'ah* compliance systems (DSC) were also low, with 207 (69%) participants in the category. The shortfall of TOs' to convey their obligations to act within *Shari'ah* compliance is against the IFSB (2009b) rules, since TOs' have a fiduciary responsibility towards their customers to comply and disclose the Islamic *Shari'ah* rules and principles at all times.

Disclosure about TOs' claims and indemnities (DCI) also scored low perceptions among 234 (78 %) participants. This reflects that the TOs' do not discloses enough information about their policies and procedures for handling participants' claims and indemnities, which comes in contrast with AAOIFI standard No.13 which stresses on the importance of disclosure which must be in line with the bases applied by the company in calculating claims and compensations.

Also, 276 (92%) participants have an overall low perception about TOs' disclosures on participants fund charged fees, encountered deficits and availability of *qard* (DFDQ). The low disclosure about the DFDQ reflects TOs' shortage to disclose the required information about this notion, which comes in contrast with AAOIFI standard No. 13, which stresses on the importance of disclosing information in line with the bases applied by the company in calculating management remuneration, charged fees and expenses affecting policyholders' funds. In terms of TOs' Key Personnel Power and Activities (DKP), participants have shown an overall low perception with 165 (55 %) participants. This low perception rate reflects TOs' shortage in disclosing the required information about key personnel power and activities. However, IAIS (2002) asserts the importance of disclosing the financial relationship between shareholders and policyholders, and insurance management structures.

In conclusion, despite the fact that an updated and active disclosure mechanism leads to the success of any company, participants overall perceptions about TOs disclosure variables have scored low. Accordingly, TOs need to adhere to the regulations and standards that have been imposed on them for better participants' education and to reflect TOs empathy and reliability in accommodating participants' needs and wants.

12.2.2 Participants' Knowledge

This section compares participant's perceived knowledge according to the seven knowledge variables with the ideal corporate governance and market conduct polices and standards to seek proper ways to protect participants. Participants' perceived knowledge is judged based on the overall percentage of their knowledge as per Table 8.40, in chapter 8. Hence, the larger the percentage rate of "overall low knowledge" implies that participants have less education about *takaful* services and products.

The results show that 279 (93 %) participants have shown a moderate knowledge about the principles of the used *takaful* model (KPM). Such figures contradict IFSB (2009a) recommended policy, that TOs should disclose fundamental information about their business activities and models. Participants' overall knowledge about investment return (KIR) has shown that 136 (45.3 %) participants and 164 (54.7 %) participants have a weak and good knowledge, respectively. However, the near-equal percentages of a weak and good knowledge is considered normal, since participants should decide prior of signing the contract which fund to undertake which will suit their needs and wants *i.e.* either Participants Investments Fund (PIF) or Participants Risk Fund (PRF). Therefore, it is highly recommended that the TO's design a disclosure mechanism which reflects the estimated returns and the complaints-handling and other contractual arrangements of PRF and PIF (IFSB, 2009a).

Participants' knowledge about participants' fund underwriting surplus (KUS) has also shown as weak with 226 (75.3%) participants. However, TO's must realize that it is important to spend a good effort to educate people about their rights in receiving underwriting surplus, as the underwriting surplus belongs to participants, as per AAOIFI *Shari'ah* standard No. 26 (5/5) of 2007. Participant's weak knowledge was also obvious about the *Shari'ah* system, as 262 (87.3

%) participants' have shown an overall weak knowledge about TOs' *Shari'ah* compliance systems (KSC), However, as an important step to ensure *Shari'ah* adherence, the *Shari'ah* Supervisory Board should present a *Shari'ah* annual report to the public (IFSB, 2009b).
Participants have also scored an overall low knowledge about participants' fund charged fees, encountered deficits and availability of *qard* (KFDQ) with 272 (90.7 %) participants. It is very important for TOs to educate people about the different types of expenses and fees charged to the participants' funds, as their contribution can be used to cover different types of expenses, either direct or indirect, as per AAOIFI (2010) *Shari'ah* Standards and per AAOIFI standards No. 13.

In regards to knowledge about TOs' key personnel power and activities (KKP), all 300 participants have shown no knowledge about a single member of the TOs' key personnel nor whether if shareholders are sharing with them the underwriting surplus and investment return generated from the participants fund. TOs should adhere to the insurance international standards to educate people about the company's governing personnel as per IAIS (2002) and IFSB (2009) which state that insurance and *takaful* companies should disclose information about the company board and senior management structure and their incentive structure.

In terms of knowledge about dissatisfaction and quitting options (KDC), 237 (79 %) participants have shown weak knowledge. However, as per the international insurance regulatory bodies, proper negotiation procedures should be conducted between the insurer and the insured to resolve the issues; if disputes still stand then either litigation, arbitration or referral to the ombudsman should be resorted to in order to resolve the issues (Vaughan, 1999).

In conclusion, participants' overall perceived knowledge was low, which implies that TOs have not conducted a proper education programme to enhance participants' knowledge and awareness. Accordingly, TOs need to adopt an education programme or to structure an active disclosure mechanism to educate participants about the principles of the used *takaful* model. Furthermore, the findings of this research complements the findings of Metawa *et al* (1998); Bley *et al* (2004); Naser *et al.* (1999) and Gait *et al* (2009a; 2009b) who find that participants in Arabic and GCC countries have the basic knowledge of Islamic banking financing schemes such as savings accounts, current accounts (participants in the current research are aware of the different investments returns from savings and risk accounts, underwriting surplus return rate). However, respondents are not aware of the complicated concepts used in the Islamic banks such as *mudarabah*, *musharakah*, and *murabahah*. The results of this research also indicate that participants have a limited knowledge on the differences between net and gross underwriting surplus, between re-*takaful* or re-insurance and between *wakalah* or *murabahah takaful* models, *etc*.

12.2.3 Participants' Preferences[98]

A higher degree of participants preferences implies more lack of perceiving the required services, as preferences is a mirrors of need, that individual must realize (preference) their need in order for it to be described as need (Blythe, 1997). Hence, participants' preferences are a reflection of their needs, where Kotler *et al* (2001) define human needs as states of felt deprivation. This section compares participants' overall preferences as presented in Table 8.41, chapter 8 with the international insurance standards and policies to improve participants' protections. The results show that 180 (60 %) participants score high overall preferences about the *Shari'ah* compliance systems (PSC) of the TOs, which implies shortfalls in the TOs' *Shari'ah* services. Specifically, Table 8.27 shows that 179 (60 %) participants clarified that they want to select the *Shari'ah* supervisory board (SSB), since 120 (40 %) participants believe that participants' funds will be affected because the SSB is given less time to judge assets validity. Thus, TOs should try to fulfil participants' needs and wants in this regard. IFSB (2009b) asserts that the SSB should adopt and disclose a specified *Shari'ah* pronouncements/resolutions system and to identify fast and sound *Shari'ah* board response channels.

Participants' preferences to have a representative on the TOs' Board of Directors (BoDs) (PRB), has scored almost equivalent score in that 132 (44 %) participants have an overall high preference, and 149 (49 %) have an overall low preference. However, it is recommended that fhe TOs adhere to IFSB (2009a) by assigning a governance committee which consists of non-executive directors, *Shari'ah* scholars, and actuary and/or participants' representative.

[98] Findings of this section has been taken from chapter 8 (Tables 8.30, 8.22)

Participants' preferences on TOs' key personnel power and activities (PKP), revealed an overall high preference with 205 (68 %) participants, which indicates participants' objections to TOs' intrusions in participants' fund. In other words 205 participants agree to refuse shareholders activities on participants' fund as per Table 8.29. As a result, TOs need to follow IFSB (2009a) which requires TOs to disclose the allocation of surplus or deficit for proper relationship determination between participants and shareholders.

Participants' preferences on the reason for using a *takaful* policy (PRU) indicates that the majority of participants are buying the *takaful* policy for the expected financial benefits. Specifically, Table 8.32 show that 256 (85 %) participants bought their policy for future planning that can benefit them and their families. 233 (78 %) bough their policy as a reason of loss protection, while 193 (64 %) participants indicated that *Shari'ah* compliance was not the reason to buy a *takaful* policy and 296 (99%) participants indicated they had not bought their *takaful* policy to help other participants in their financial loss.

These findings indicate that participants are highly motivated by the promised financial return. However, they have less concern about the morality of *takaful* operations complying with the *Shari'ah* system. Participants also show less concern about one of the main purposes of *takaful* insurance *i.e.* to help other participants in their financial loss. The findings of the current research effort support results from previous writings such as Ramlee (2000); Bacha 2004) Sukmana *et al* (2005) that indicate that customers in Islamic banks are willing to move to a conventional bank as a reason of low financial return. Participants have not been educated properly by the TOs about the main purpose of using *takaful* products and they might be financially motivated by the promises made by *takaful* salespersons/intermediaries of expected quick and short financial returns. Mercantile & General Reinsurance (1993) concluded that the quality of life assurance sale is dependent on the quality of the people selling, the training they receive, the commission structure by which they are remunerated and the cultural environment in which they work. Gower (1984) was critical of the lack of training of life insurance salesmen and the conflicts of interest that can arise from commission payments. Therefore, it will better if *takaful* products are sold by the operator itself, since intermediaries need to acquire a wide set of information about customer preferences, such as customer perspectives and their view in regards to *Shari'ah* issues (Ali *et al*, 2008).

Participants' preferences for claims and underwriting surplus (PCU) scored overall high preferences with 200 (67 %) participants. Specifically, Table 8.31 indicates that 219 (73 %) participants want to share in the underwriting surplus even when they made a claim for indemnities. Also, 224 (74%) participants also do not object to other participants who made claims to share the expected underwriting surplus with them. Participants' preferences on this notion concluded that participants are in favour of implementing the pro-rate mode of distributing underwriting surplus as per AAOIFI *Shari'ah* standards (2010). Despite the fact that the majority of participants want to share on the underwriting, 280 (93 %) participants did not know of the options that can be used to share underwriting surplus with other participants in association with the claim situation. Accordingly, TOs need to educate their participants about the options that can used to distribute underwriting surplus among participants as per AAOIFI *Shari'ah* standards (2010). In conclusion, participants have shown overall high preferences on all dimensions. However, there is a noticeable motivated preference for participants to have a decent financial return rather than *Shari'ah* compliance needs. These findings come in contrast of Metawa *et al* (1998) and Haron *et al* (1994) who conclude that Islamic banking customers in GCC are religiously motivated rather than profit-motivated. However, the current research complements the findings of Erol *et al* (1989) on the Jordanian Islamic banking sector.

12.3 The Impact of Participants' Demographic Characteristics on Their Satisfactions Levels[99]

This section discusses the findings of participants' demographics characteristics in relation to participants' satisfaction levels. The goal of this analysis is to draw an important awareness message for the TOs to exert extra precaution with certain segmented participants' characteristics. The results of this section are discussed and justified in order to consolidate the answer which was provided in chapter 9 to address research question 4. This section will also partially provide an answer to research question 8.

[99] All participants' actual demographics data has been taken from chapter 8. All participants' demographic *vs* satisfaction test has been taken from chapter 9, Tables 9.1, 9.2 and 9.4.

Accordingly, Job categories are recorded as the largest of the demographic categories to have a relationship with 4 satisfaction variables: total participants satisfaction (TPS), satisfaction with TOs' disclosure mechanisms (SDM), satisfaction with underwriting surplus (SUS), satisfaction with claims and indemnities (SCI). Students are found to be the most satisfied and managers the least, among job categories. On the other hand, professionals and managers have reported a significant relationship with satisfaction about charged fees, encountered deficits and availability of *qard* (SFDQ). Therefore, TOs must take extra precautions when dealing with participants with a managerial position, since these people are more familiar with the Saudi market's financial situation. This is due to their experience as managers in different working sectors because, as they hold managerial positions, they are exposed to different financial terminologies and calculations. Furthermore, as managers might have more experience than other participants in other job categories, and as they are expected to have a decent financial income, they expect better financial rewards on their contributions in the participants' fund, which negatively reflects on their satisfaction level with the TOs' services and financial returns.

In contrast, students are the most satisfied participants with TOs' services and products. This fact may be because students are less experienced than managerial participants about the required financial returns from their contributions in the fund. This along with their lack of knowledge about the principles of the used *takaful* model can lead students to be satisfied with the current services and products presented by the TOs.

The findings show that participants with an age above 51 years are the most satisfied with participants' fund charged fees, encountered deficits, and availability of *qard*, as they might be in a good financial position with less financial responsibility as their offspring might be old enough to be financially independent. Accordingly, they are flexible to pay more fees and to pay back shareholders' *qard*-loans that may be necessary due to the deficits encountered in the participant's fund. The participants aged between 31-40 years are the most dissatisfied, if the TOs called them to increase their contributions to the fund to recover shareholders' *qard*-loan, as people at this stage are at the saving stage and have more responsibilities involving different financial commitments, such as paying back a mortgage loan, or paying children's school fees, *etc*. The current research findings of age-satisfaction relationships is similar to Okumkus' (2005) findings, who found existence of a significant relationship between customer satisfaction and different age variables. It is also wise to refer to Bhaty (2007) who called *takaful* industry players to design their products to satisfy customers' needs and wants by following the life- cycles approach.

The findings show that female participants are more satisfied than males with the participants' fund investments return, as females in Saudi Arabia have less responsibility than males. The current research complemented the findings of AL-Nouri (1993, 1995) and Gait (2009) who find that males are repeatedly reminded of the responsibilities as husband and father, while girls are kept in anticipation of marriage, motherhood and housekeeping[100].

Participants' satisfaction with TOs' *Shari'ah* compliance (SSC) system has shown no statistically significant relations with any participants' demographic characteristics. The findings complement the research effort of Erol, Kayank, *et al* (1990) that there was no effect at all for religious motivation in the use of Islamic bank's services by Jordanian customers. The findings also complements the fact that 256 (85.3 %) participants buy *takaful* policies for future planning and profit return, and only 107 (35.7 %) buy the *takaful* policy on account of its *Shari'ah* compliance.

Other demographic characteristics, such as participants' education levels, participants' premium paid, and participants' contract durations, show no significant statistical relationships with all satisfaction determinant variables. The findings were strongly explained by the fact that 138 (46 %) participants have *takaful* contract durations between 0 - 5 years, *i.e.* half of the participants have short family *takaful* contracts, which might be due to a distrust of the TOs' services and products, or participants are in the period of acquaintance where they want to assess the TOs' services before making long-term commitments. However, both reasons do not imply that participants are satisfied or dissatisfied with the TOs.

[100] However, with the overseas scholarship programme sponsored by the Saudi Government 7 years ago, thousands of returning females are expected to search for jobs.

In terms of premiums paid, a majority of participants, 98 (32.7 %) pays a premium between SAR 1-500 followed by 84 (28 %) participants paying between SAR 501-1000, both groups representing a total of 62.7 % participants who pay less than SAR 1000 a month which are considered as low premium values. Such a fact might be a vital reason for lack of significance relationships between premiums paid and satisfaction determinants variables, practically as premiums increase this implies more financial return is expected. Accordingly, participants are paying lower premiums because they might be not satisfied with the income generated from their contributions in the participants' fund.

12.4 THE IMPACT OF PARTICIPANTS' PERCEPTIONS ON THEIR SATISFACTIONS LEVEL (MULTINOMIAL LOGISTIC REGRESSION AND SPEARMAN CORRELATION RESULTS)

The regressions and correlations models conducted previously to examine the impacts of three variables (participants' perceptions about TOs' disclosure systems, participants' perceived knowledge and participants' preferences) with participants' satisfaction levels revealed some important relationships between the variables. The discussion of this section relies on the regression findings to identify the form of relationships, *i.e.* it will indicate which variable causes the other. The correlation findings are also presented to indicate the directions of the relationship, *i.e.* positive or negative. The results of this section are discussed and justified in order to consolidate the answer which was provided in chapters 9 and 10 to address research questions 5 and 6 respectively. This section will also partially provide an answer to research question 8.

12.4.1 Participants' Perceived Disclosure *vs* Participants' Satisfaction[101]

Spearman's correlation findings on Disclosures *vs* Satisfaction indicate a straight positive relationship between disclosure and satisfaction variables. Specifically, the findings showed a number of positive relationships between disclosure mechanisms (DM) and almost all satisfaction variables. This indicates that an active and updated disclosure mechanism will improve participants' satisfactions levels in all dimensions; the disclosure mechanisms should address participants' financial benefits, *Shari'ah* compliance system and claims and indemnities procedures.

[101] The findings of this section has been taken from Chapters 8, 9, and 10 (Tables 8.10,8.11, 8.42, 8.12, 9.5, 10.1)

The results from regressions analysis on the other hand, indicate that company disclosure about participants' fund investment returns (DIR), disclosure of claims and indemnities (DCI) procedures, disclosure of the TOs' key personnel power and activities (DKP), and disclosure of participants' fund underwriting surplus (DUS) have a significant effect on the majority of the satisfactions variables. In other words, as TOs enhance their disclosure mechanisms (DM) so participants' satisfaction levels are going to increase, in relation with the above-mentioned disclosure dimensions. Despite the fact that disclosure mechanism (DM) improves satisfaction of participants, 92 % of participants scored the TOs' (DM) with weak to moderate perceptions. This resulted in participants' dissatisfaction, as 57 % of participants scored weak to moderate satisfaction about TOs' disclosure mechanisms (SDM). Participants' low perception about TOs disclosure mechanisms (DM) has led them to score other disclosure determinants variables with low perceptions as well. This is because in order for the TOs to disclose participants' different benefits, they need to have an active disclosure mechanism.

Thus, TOs should take extra attention to disclose more information about participants' investment fund returns and claims and indemnities procedures as these are the highest impact satisfactions variables. TOs have failed to disclose this information properly to participants as 91 % of participants have scored low to moderate perceptions about TOs disclosure on investment return (DIR) and 78 % of participants have scored low perceptions about TOs disclosure in claims and indemnities procedures (DCI). These low disclosures resulted in 51 % of participants having a weak satisfactions level with participants fund investments return (SIR), and 44 % of participants have weak to moderate satisfaction about claims and indemnities procedures (SCI).

To have an active disclosure mechanism (DM) TOs must use proper tools such as an accessible and updated IT system, expert and educated intermediaries or sales personnel, and a well-established social communication scheme, *etc*. as these tools can potentially affect customer satisfaction levels. Such a fact was strongly supported by the inclusion measurement suggested by Parasuraman *et al.* (1988) who identified the first four elements of five dimensions relating to product and process (reliability, responsiveness, assurance, empathy and tangibility) as elements of human action/intervention in service delivery. This has been validated by numerous other studies which highlight the importance of customer interface (Roth *et al*, 1995; Krishnan *et al.*, 1999).

The findings of the research show that 276 (92 %) participants reveal that the TOs do not disclose how they can review their benefits in the fund; 287 (96 %) participants indicate that the TOs did not use the internet as a way to communicate with them, and 96 (74 %) out of 129 participants who bought their *takaful* policy from the intermediaries indicate that the intermediaries do not have sufficient knowledge about *takaful* and different *Shari'ah* issues.
In conclusion, in order for the TOs to satisfy their participants they must disclose as much information as possible about investment returns (DIR) followed by claims and indemnities (DCI) and key personnel power and activities (DKP). The best way to expose participants to these disclosure variables is to introduce an updated and effective disclosure mechanism (DM).

12.4.2 Participants' Knowledge *vs* Participants' Satisfaction[102]

The Spearman's correlation findings on knowledge *vs* satisfaction indicate a straight negative relationship between knowledge and satisfaction determinant variables, with clear concentration between participants' satisfactions about underwriting surplus (SUS) with almost all knowledge determinant variables. This implies that the participants' satisfaction about participants' fund underwriting surplus (SUS) decreases/increases whenever participants' knowledge increases/decreases. Such findings complement the findings of Wells *et al* (1995) who found that consumers' actual knowledge of insurance has had a negative relationship with satisfaction levels.

The regression findings indicate strong relationships between participants' knowledge on the principles of the used *takaful* model (KPM) with six satisfaction determinant variables. In other words whenever TOs implement an education programme to enhance participants' knowledge about the principle of *takaful* model (KPM), participants' satisfactions about TOs' key personnel power and activities (SKP), charged fees, encountered deficits and availability of *qard* (SFDQ),

[102] The findings of this section have been taken from Chapters 8, 9, and 10 (Tables 8.40, 9.6, 10.2).

claims and indemnities (SCI), *Shari'ah* compliance (SSC), underwriting surplus (SUS), and participants total satisfactions (TPS) are impacted positively.

Both correlation and regression findings provide a logical explanation, that negative knowledge about the principles of the *takaful* model will keep participants' in the grey area. When participants have little knowledge about the *takaful* model, then they will be satisfied with any financial return from the participants' fund, as they have no idea about their specific rights and obligations in the fund. This conclusion can be seen in that only 1.3 % of participants have a good knowledge about the *takafu*l principles (KPM), which results in participants' high satisfaction in almost all satisfaction determinant variables: 43 % of participants are highly satisfied with the underwriting surplus (SUS), 57 % of participants are highly satisfied with the *Shari'ah* compliance (SSC), 56.3 % of participants are highly satisfied with the claims and indemnities, and 51.7% of participants are highly satisfied with the key personnel power and activities (SKP).

Another practical example which proves that participants weak knowledge can lead to participants' satisfactions, is the significance relationships between participants' knowledge about underwriting surplus (KUS) with participants' satisfaction about *Shari'ah* compliance (SSC) and satisfaction with TOs' key personnel (SKP) in that 75.3 % participants have scored a weak knowledge about underwriting surplus (KUS), which causes participants' satisfaction about *Shari'ah* compliance (SSC) and satisfaction about TOs' key personnel power and activities (SKP) to increase with 57 % and 51.7%, respectively.

In conclusion, it will be quite fair if the TOs launch an education programme to enhance participants' knowledge about the principles of the *takaful* model (KPM), and this in a way will let participants excuse any shortfall from the TOs, as they will have enough knowledge about the principles of the *takaful* model. Hence, they can line up their rights and obligations in the fund with the current situations of the domestic financial market in terms of politics and financial situations. The best way to enhance participants' knowledge is by improving TOs' disclosure mechanisms, which should include both parties' rights and obligations. As Roy (2002) asserts, insurers must realize that customers do want 24/7 access to their information which means availability of server access 24/7; it is all about improving insurers' communications capabilities and there does not seem to be alternatives other than investing in more robust IT systems.

12.4.3 Participants' Preferences *vs* Participants' Satisfaction[103]

The Spearman's correlation findings on preferences *vs* satisfactions indicate a positive relationship between preference and satisfaction determinant variables. Participants' preferences to have a representative on the BoDs (PRB) reported a significant relationship with almost all satisfaction determinant variables. Interestingly, the regression analysis results indicated similar findings in that participants' preferences to have a representative on the BoDs significantly influences 4 satisfaction determinant variables: satisfaction on disclosure mechanism (SDM), satisfaction about *takaful* fund investment return (SIR), satisfaction about *takaful* fund underwriting surplus (SUS), and participants' total satisfaction (PTP). In other words, if participants have a representative on the BoDs to discuss their rights and benefits on the fund, their satisfaction levels are expected to increase. To be specific, 50 % of participants scored weak preferences to have a representative on the BoDs. In similar percentage rates, 57 % of participants scored a weak to moderate satisfaction level about TOs' disclosure mechanisms (SDM) and 57 % of participants scored a "weak to moderate" satisfaction about *takaful* fund underwriting surplus (SUS).76 % of participants scored a "weak to moderate" satisfaction about fund investment return (SIR).

As has been described by Blythe (1997), need is a perceived lack, that individuals must realize (preference) their need in order for it to be described as need. This recognition (perception) of lack (unfulfilled need) has been linked to a series of resultant activities in the mind of the consumer. In other words, participants' high percentage of preferences implies high rate of needs. However, it does not explicitly mean that as the majority of participants scored weak preferences about PRB, they are not in favour of having a representative on the BoDs, since the correlation and regression findings show a concentrated relationship between PRB and almost all satisfaction determinant variables. The proper explanation for that is their inadequate knowledge causes weak confidence in the *takaful* services and products, which eventually leads to their

[103] The findings of this section have been taken from Chapters 9 and 10 (Tables 9.7, 10.3).

weak preferences to have a representative as they have less knowledge to discuss their benefits with the TOs. Howcroft *et al.* (2003) assert the importance of the level of knowledge and understanding of the financial products the customer should have, as this will determine their level of confidence in using any of the products and services.

In conclusion, IFSB (2009a) suggests that the BoDs assign a governance committee consisting of 3 parties (non-executive directors, *Shari'ah* scholars, and actuary and/or participant's representative) to achieve adequate protection for *takaful* participants by monitoring the reserve and distribution of underwriting and/or investment profit. Therefore, it will be quite beneficial for participants to have a representative who can discuss their rights and obligations on the *takaful* fund, and it will be more beneficial and encouraging if this representative was given a financial reward for the time spent in discussing other people desires.

12.5 SUGGESTED LINKAGE BETWEEN DISCLOSURE, KNOWLEDGE AND PREFERENCES

Following the approach that has been suggested in chapters 9 and 10 about the correlation and regression models, in order for participants to be satisfied they will require more disclosure about investment return (DIR), disclosure about claims and indemnities (DCI) and disclosure about key personnel power and activities (DKP). Participants will be also satisfied if they have enough knowledge about the principles of the *takaful* model (KPM). Participants' preferences to have a representative on BoDs (PRB) have shown significant relationships with almost all satisfaction variables.

Accordingly, a positive relationship seems to exist between disclosure and knowledge and effective disclosure mechanisms (DM) should be in place to convey participants' investments return (DIR) and for better education on the principles on the used *takaful* model (KPM). Another positive relationship seems to exist between knowledge and preferences as participants scored an overall weak knowledge; they are in need to have a representative on the BoDs to convey their rights on the *takaful* fund. Hence, the following discussion will elaborate on the form of relationships between participants' perceptions about TOs' disclosure mechanisms *vs* participants' knowledge and participants' knowledge *vs* participants' preferences'. By doing so, this section will complete the provision to answer research question 8.

12.5.1 Participants' Perceived Disclosure and Participants' Knowledge

The Spearman's correlation[104] findings on Disclosure *vs* Knowledge indicate a positive relationship between disclosure and knowledge determinant variables. Participants' knowledge about *takaful* fund investment returns (KIR) and *takaful* fund underwriting surplus (KUS) scored 7 significant relationships with disclosure variables, followed by knowledge about TOs' *Shari'ah* compliance systems (KSC) and TOs' available dissatisfaction channels (KDC). While disclosure of *takaful* fund investment returns (DIR), underwriting surplus (DUS), *Shari'ah* compliance (DSC), charged fees, deficit and *qard (*DFDQ) show 5 significance relationships with the knowledge variables. These findings, shows strong positive relationships between disclosure and knowledge variables - in other words the existence of an active disclosure system can cause an enhancement in participants' knowledge and vice versa.

The multinomial logistic regressions between the two variables also indicate a significant relationship between TOs' disclosures about *takaful* fund investments return (DIR) with 5 knowledge variables. Disclosure of fund investment return (DIR) enhances participants knowledge about the principles of the used *takaful* model (KPM), fund investment return (KIR), fund underwriting surplus (KUS), fund's *Shari'ah* compliance system (KSC), and charged fees, deficits and availability of *qard (*KFDQ). The regression findings were supported by participants' perceptions which show that 91 % of the participants reported a weak to moderate perception about the TOs disclosure on fund investments return (DIR), their weak perceptions are reflected on their knowledge: 99 % of the participants have a weak to moderate knowledge about the principles of the used model (KPM), 75 % of the participants have a weak knowledge about the fund underwriting surplus (KUS), 87 % of the participants have a weak knowledge about the fund's *Shariah* compliance system (KSC), 91 % of the participants have a weak knowledge about the fund charged fees, encountered deficits and availability of *qard* (KFDQ).

However, participants' weak perceptions about TOs' disclosure of fund investment return (DIR) did not cause their knowledge about investment return KIR) to be weak as well, as 55 % of the participants have a high knowledge about the fund investments return (KIR) against 45 % who have a weak knowledge. Participants' high knowledge about investment return (KIR) comes in

[104] Refer to chapter 9, Table 9.8.

parallel with other researchers' findings (Metawa *et al*, 1998; Bley *et al*, 2004; Naser *et al.*, 1999; Gait *et al*, 2009a; 2009b) that clarifies that respondents in GCC and other Arabic countries have a high level of awareness and knowledge of the basic of Islamic banking financing schemes. This is similar to the question asked on this research to find out if participants are aware of the difference between investment account and risk account.

The multinomial logistic regression also reflected a significant relationship between TO disclosures on the company key personnel power and activities (DKP), with 5 knowledge determinant variables. Disclosure of information on company key personnel power and activities can enhance knowledge on fund investment return (KIR), fund underwriting surplus (KUS), fund *Shari'ah* compliance (KSC), dissatisfaction channels (KSC), and participants total knowledge (TPK).

The regression findings were supported by participants' perceptions, that 98 % of the participants have weak to moderate) perceptions about TOs' disclosures on the company key personnel power and activities (DKP). Their weak perceptions are reflected in their knowledge: that 75 % of the participants have a weak knowledge about the fund underwriting surplus (KUS), 87 % of the participants have a weak knowledge about the fund's *Shari'ah* compliance system (KSC), 79 % of the participants have a weak knowledge about the company dissatisfaction channels (KDC).

In conclusion, participants' knowledge is considered one of the challenges facing the *takaful* industry. It is entirely dependent on industry players, who must take a more active role in educating their customers (Abdi, 2007). Accordingly, as participants' satisfaction occurs when customers compare their perception of the performance of the products and services in relation to their desires and expectations (Spreng *et al.,* 1996) TOs should have an effective disclosure mechanism to improve participants' knowledge, which will enable them to make proper comparisons of their perceptions with the company performance of the products and services.

12.5.2 Participants' Knowledge and Participants' Preferences[105]

The Spearman's correlation findings on Knowledge *vs* Preference indicate a positive relationship between participants' preferences on claims and underwriting surplus (PCU) with 5 knowledge determinant variables, principles on the used *takaful* model (KPM), *takaful* fund investment return (KIR), *takaful* fund underwriting surplus (KUS), *takaful* fund *Shari'ah* compliance system (KSC), and dissatisfaction channels (KDC). The correlation findings also indicate one negative relationship between participants' preference to have a representative on the BoDs (PRB) and participants' knowledge about TOs' dissatisfaction channels (KDC).

Similarly, the regression findings show similar results as the Spearman's correlation. A significance relationship occurs between participants' knowledge about (KPM, KIR, KUS, and KDC) and their preferences about claims and underwriting surplus (PCU). The participants scored 67 % as a high preference on claim and underwriting surplus, which indicates they are in a need to gain underwriting surplus regardless if they made a claim or not, as Blythe (1997) indicates preference is a reflection of a need.

Participants' high preferences on (PCU) is a result of their little knowledge about the scenarios that allowed them to participate with other participants on the expected financial benefits from the *takaful* fund, as 75 % have a weak knowledge about participants' fund underwriting surplus (KUS). Participants' requirements to be identified whether they made claim or not comes in parallel with AAOIFI[106] *Shari'ah* standards (2010), which indicate three scenarios that TOs can follow to distribute underwriting surplus among participants' whenever participants made a claim for indemnity through pro-rata mode, selective mode or offsetting mode. The pro-rata mode distributes underwriting surplus among all *takaful* participants in proportion to the contributions paid, without differentiating between claimable and non-claimable accounts. This is done on the grounds that all *takaful* participants initially contributed to the fund to provide mutual help and protection for all participants (Haytham, 2009). Accordingly, TOs need to educate their participants about the core principles of contributing in the *takaful* fund, to support

[105] Findings of this section have been taken from chapters 8 & 9 (Tables 8.30 and 9.9).
[106] Accounting and Auditing Organization for Islamic Financial Institutions.

other participants in their financial loss. However, 296 (99 %) participants state that they did not buy their *takaful* policy to help other participants in their needs.

One of the main reasons for not helping other participants and preferring future benefits is participants' weak knowledge as the regression analysis indicates a significance form of relationships between the (KPM, KIR, KUS, and KDC and PCU). Hence, participants' overall understanding about these mentioned knowledge variables was weak as 99 % of the participants have a weak to moderate knowledge about the principles of the used *takaful* model (KPM), 75 % of the participants have a weak knowledge about fund underwriting surplus (KUS), and 79 % of the participants have a weak knowledge about the company dissatisfaction channels (KDC). Enhancing participants' knowledge about the principles about the *takaful* model (KPM), will enable participants to understand the conditions that allow them to share with other participants in the underwriting surplus which is based on the concept of solidarity and helping other participants in their needs.

Another important finding is the significant relationship between participants' preferences to have a representative on the BoDs (PRB) with their knowledge about the proper way to leave the company when they are dissatisfied with the company services (KDC). As the correlation finding indicates a negative relationship between (PRB) and (KDC), which means the existence of one dimension cancels the need for the other one. If TOs decide not to assign participants representative in the BoDs then they have to enhance participants' knowledge about the proper way to leave the company when they are dissatisfied with the company services as 79 % of the participants have a weak knowledge about the (KDC).

In conclusion, an adequate education programme for participants is required in the *takaful* industry to give them the confidence to properly identify their needs and preferences. It can be seen from this section that participants' weak knowledge has affected their preferences. Participants are in favour of sharing underwriting surplus with other participants' whether they made a claim or not. This is in line with AAOIFI *Shari'ah* standards (2010) which reason that all *takaful* participants initially contributed to the fund to provide mutual help and protection. TOs should also identify legal dissatisfaction channels that allow participants to the leave company when they feel unhappy with the company services without major financial loss.

Finally, TOs should disclose a framework that includes the *takaful* model used with the investment management functions such as: investment profit-sharing distribution, product benefits, termination charges in the case of early termination of a *takaful* contract with the exit options and the consequences of losing benefit payments from both Participant Risk Fund (PRF) and/or Participant Investment Fund (PIF). The framework should also disclose the frequency of investment profit and/or underwriting surplus declaration and their estimated returns and the complaints-handling and other contractual arrangements (IFSB, 2009a).

12.6 IMPLICATIONS FOR PARTICIPANTS

Takaful is based on the concepts of *tabarru* and *mudarabah*. Participants are committed to donate in the *takaful* fund for the purpose of helping others in their financial loss as a mean of solidarity and brotherhood between participants. *Mudarabah* occurs because the TO invests participants accumulated donations or premiums in an islamically acceptable business. Accordingly, participants shall bear in mind these two concepts when contributing to the *takaful* fund. Participants must also bear in mind that the TOs is a *wakil* or an agent to manage the fund according to *Shari'ah* principles and to provide a reasonable financial security for those who genuinely deserve it against the loss or damage suffered by them resulting from a defined risk. Hence, the TO is eligible to receive a fee, or upon a full consent of the participants might share with them the investments profit as a reward for managing the *takaful* scheme.

Accordingly, it's very important for the participants to realise the principles of the *takaful* insurance and the main purpose behind their contributions in the fund. Participants' shall also be aware of their duties, rights and obligations to the *takaful* fund. Despite the fact that 93.7 % of the participants indicated that the TOs have briefed them on the principles of the *takaful* models, however 75.3 % of the participants shows a weak knowledge about their rights in receiving underwriting surplus. 87.3 % of the participants indicated that they have a weak knowledge about the *Shariah* compliance process. Surprisingly, underwriting surplus and *Shariah* compliance are the main distinguishing matter with the conventional insurance. As the conventional insurance are based on an exchange contract.

Participants shall also realise that brotherhood and helping other participants in their financial distress are the main object of their contributions to the *takaful* fund. However, 98.7 % and 64.3 % of the participants have indicated that helping other participants in their needs and *Shariah* compliance respectively, are not the main reasons for their contributions to the *takaful* fund.

It's the responsibility of the TOs to educate their participants about their rights and obligations in the fund. It's also the responsibility of the participants to search for their rights and benefits in the fund. Participants shall recognize the real object of Islamic insurance. They shall understand that *Shariah* compliance is a great favour and benefit to them, as they will be avoided to enter into a contract that involves a prohibition element to Islam.

12.7 SUMMARY AND CONCLUSION

This chapter provides an answer to research question 8, since this chapter has discussed the findings of the empirical chapters on participants' perceptions about TOs disclosure mechanisms, participants' knowledge and participants' preferences. The chapter also discussed the significant relationship between participants' satisfaction levels with participants' demographics findings and between participants' satisfactions levels with the participants' perceptions, knowledge and preferences. Accordingly, participants' overall perceptions about TOs disclosure systems are low, which reflects TOs shortfalls in disclosing the required information to participants. Participants' low perceived disclosure has affected their knowledge as participants' overall knowledge is scored weak as well. As a result of participants' low perceived disclosure and weak knowledge, their preferences were concentrated on having a representative on the BoDs to discuss their rights and obligations in the *takaful* fund.

The correlation and regression results between participants' perceived disclosure and participants' knowledge and between participants' knowledge and participants' preferences supported the fact that participants' perceived disclosure has positively impacted on their knowledge, *i.e.* an effective TO disclosure system implies improved participants' knowledge.

The results also indicated a significant relationship between participants' knowledge and preferences, and that participants need to be educated about the conditions that allowed them to share with other participants in the underwriting surplus in association with their claims situations. Another vital result is that whenever participants have enough knowledge to leave the company when they are dissatisfied with the company services and products, then they will not be in a need to have a representative on the BoDs.

In terms of significant relationship between participants' demographic characteristics and satisfactions, the results indicate that TOs should take into consideration participants' job categories as one of the main demographic characteristics that significantly related with almost all satisfaction variables. In short, the current research study has found participants are contributing to the *takaful* fund as a reason of the expected financial return (investment return and underwriting surplus) and there is no effect at all for religious motivation.

CHAPTER THIRTEEN
CONCLUSION AND RESEARCH RECOMMENDATIONS

13.1 INTRODUCTION

This study aimed to explore participants' satisfaction levels by reviewing their perceptions knowledge and preferences about the current services and products presented by the *Takaful* Operators (TOs), with the ultimate goal of providing better protections for the participants by suggesting a set of recommendations for both the TOs and the insurance regulatory authority in Saudi Arabia. To meet this aim, survey questionnaires were distributed among participants of *takaful* funds to get their perceptions and opinions. The results of the survey were analyzed and compared with the theories, standards, policies and related literature. This chapter recapitulates the main and practical recommendations for both TOs and the Saudi Insurance Regulatory Authority, for enhancing better service to achieve ultimate protections for *takaful* participants in Saudi Arabia and elsewhere. This chapter also highlights the research limitations and recommendations for future research.

13.2 IMPLICATIONS FOR *TAKAFUL* OPERATORS

The present study was motivated by a belief that a gap existed between the operational schemes of the *takaful* companies in Saudi Arabia and policies set out by standard-setting bodies for the *takaful* insurance industry. This discrepancy leads to unfair treatment of participants who contribute to the *takaful* fund. The participants are entitled to have their claim paid if there are enough underwriting funds to finance payout and are also entitled to share in the distribution of any investment and underwriting surplus. The only right that participants can exert on the *takaful* scheme is to discontinue their contract with the company in case of dissatisfaction. This study provides positive recommendations for various stakeholders in pursuing the desired ultimate objectives of operating the *takaful* insurance.

In addition, this research also contributes to the existing academic research in terms of opening up new areas of study. It also renders valuable input to industry practitioners for improving current regulations and practice related to the operational and practical aspects of the product. The findings of this research might provide useful business growth from the marketing perspective strategy. Accordingly, this section provides recommendations for the TOs based on participants' perceptions and satisfaction findings

13.2.1 Participants' Demographics Characteristic Recommendations:

This study draws an important conclusion about participants' demographic characteristics impact on satisfaction levesl. The study has discovered that participants' job categories have the most significant categorical variables that relate with almost all satisfaction variables, followed by other characteristics such as age grouping, number of members included in the policy and gender that made a unique significant relationship with different satisfaction variables.

Accordingly, TOs should take into consideration participants' job categories as one of the main demographic characteristics to address the participants' satisfaction levels. TOs should be in frequent communication with those participants with a managerial background to satisfy their desires as they usually possess the required experience on the financial field and they are expecting more rewards for their contributions in the fund. TOs should also address the needs of the student participants as they may require a special family long-term plan (such as establishing a new business, marriage expenses, *etc*.) that can benefit them when they graduate.

TOs need to apply the life-cycle approach, as participants with different age groupings have shown different satisfaction levels. TOs need to develop their products in accordance with participants' age grouping. For instance participants aged from 20 to 30 might need special products that can benefit them in future such as housing support, marriage support.

Finally, female participants might have a different investment strategy than males as they are more satisfied with the company's investment return. Hence, TOs should design a saving account product that serves the interest of female participants. These can include, providing a savings account to help females launch their own project, such as a beauty shop, ladies dress shop, in-house food delivery, *etc.* TOs can also design savings account products that can support males establishing their own project that can generate a financial return, such as car maintenance garage, restaurants, *etc.*

13.2.2 Participants Perceptions, Knowledge and Preferences Recommendations:

This study has shown that participants have overall low perceived information, which reflected a shortfall on the TOs disclosure system. The disclosure and satisfactions relating analysis concluded that in order for participants to be satisfied, TOs should disclose more information about investment return (DIR), followed by information about claims and indemnities procedures (DCI), and information about TOs key personnel power and activities (DKP).

Findings on participants' overall knowledge have also shown similar results. The knowledge and satisfaction analysis has shown that in order for participants to be satisfied they should posses a good knowledge about the principles of the used *takaful* model (KPM), followed by knowledge about *takaful* fund underwriting surplus (KUS).

Participants scored an overall high regarding their preferences, which is considered a reflection of their needs and wants. The preference and satisfaction analysis concludes that in order for participants to be satisfied they need to have a representative on the *takaful* company's Board of Directors (PRB).

From the above three-model analysis, a conclusion can be made that participants' low perceived information has affected their knowledge; hence they are in a need for someone to convey their wants and needs on the company's Board of Directors. Accordingly, TOs need to adhere to these recommendations to satisfy their participants:

I. Provide a representative, who can present and discuss participants' rights and benefits to the TOs higher management.
II. Educate participants about the principles of the *takaful* model used by the TOs, *i.e.* (*Wakalah , Mudarabah, Waqf, etc*).
III. Make participants aware of the expected financial benefits, by disclosing enough information about *takaful* fund investment returns, claims and indemnity, and company key personnel power and activities.

From the above it seems that improving participants' perceived information will enrich their knowledge, and when participants possess enough knowledge their preferences will change as they will not be in a need for someone to convey the message from/to them.

Accordingly, another two relationship models were conducted between disclosure and knowledge and knowledge and preferences. The analysis findings indicated that when TOs improve their disclosure about *takaful* fund investments return (DIR), followed by a disclosure about TOs' key personnel power and activities (DKP), then participants' knowledge will be enhanced in almost all knowledge variables. Participants' knowledge and preferences relationship show participants' desire to possess enough knowledge about the conditions that let them receive underwriting surplus when they made claim (PCU) which has relationships with almost all knowledge variables. The model also indicates that whenever participants have enough knowledge about the proper way to leave the company when they are dissatisfied with the company services *i.e.* proper dissatisfaction channels (KDC), then they will not need to have a representative on the Board of Directors (PRB) to convey their dissatisfaction.

The above two models supports the previous conclusion that when participants have enough information then their knowledge will be improved, and when their knowledge improves they will not require a representative as they will have enough knowledge about the ways to leave the company when they are dissatisfied with the company services and products. Accordingly, TOs needs to adhere to these recommendations to satisfy their participants:

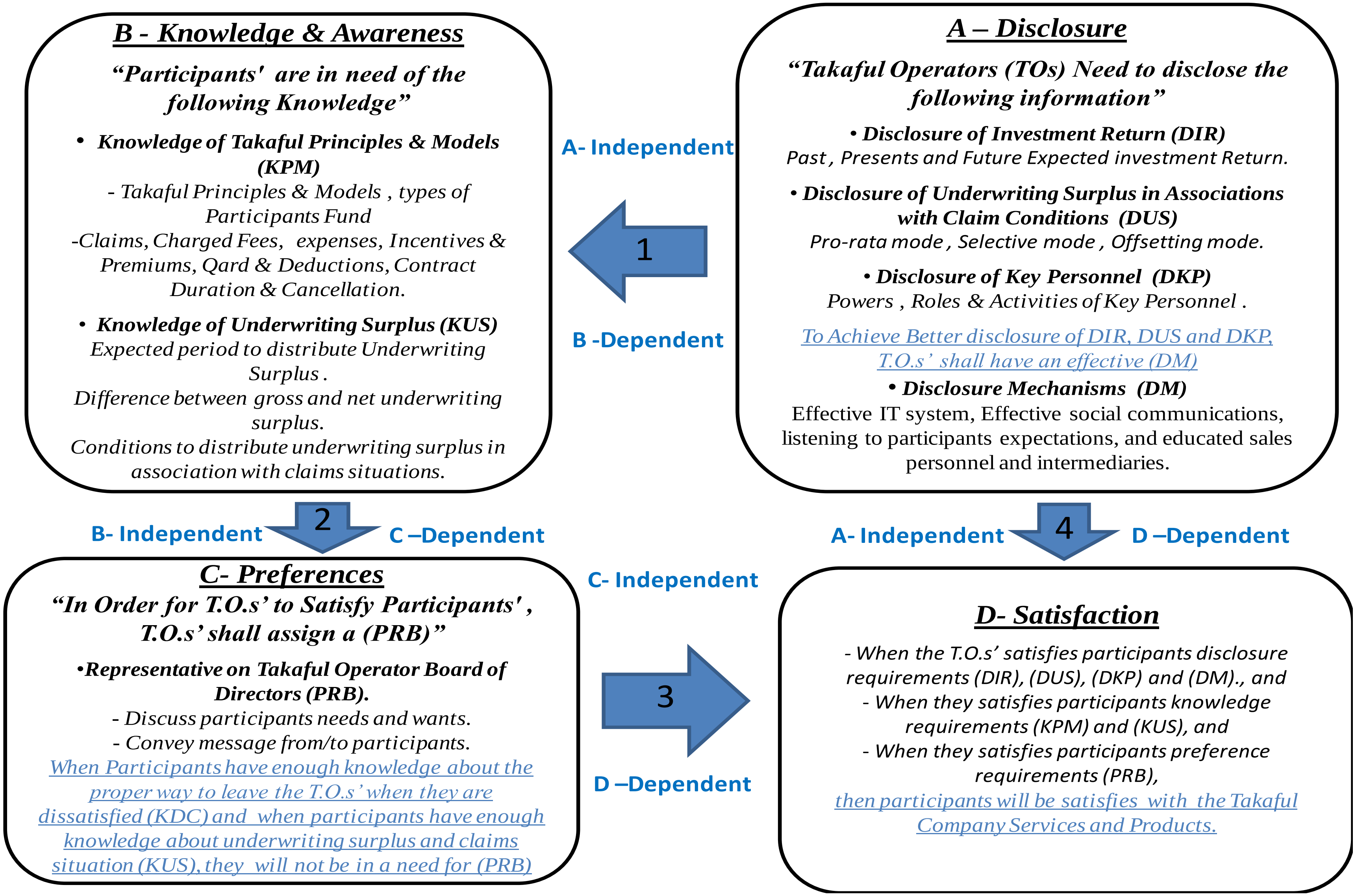
I. Disclose enough information about *takaful* fund investment returns, and company key personnel power and activities.
II. Educate participants about the conditions that let them share underwriting surplus with other participants in association for a claim that has been made.

Finally, the above discussion indicates that in order for TOs to satisfy their participants, they need to disclose more information about *takaful* fund investment returns (DIR), more information about the company key personnel power and activities (DKP). However, TOs need to disclose more information about underwriting surplus and claim conditions (DUS), as this information was one type of knowledge that was required by participants. In case of TOs' shortfalls in disclosing enough information for participant, then a representative (PRB) is needed, to represent participants' rights and obligations. However, when participants possess enough information then they will not be in a need to have a representative, as they will have enough knowledge to leave the company when they are dissatisfied with the company services (KDC).

In short, in order for the TOs to satisfy their participants, they need to disclose more detailed information about different sorts of financial returns (investment return and underwriting surplus), as participants are financially motivated and there is no effect at all for religious motivation.

As there is an existing positive relationship between TOs' disclosure systems, participants' knowledge and participants' preferences, then TOs should have an effective disclosure mechanism with proper tools (effective IT system, effective social communications, listening to participants expectations, and educated sales personnel and intermediaries) to disseminate the required information to participants. Finally, as has been indicated in the research methodology chapter the inductive research approach will end up with a theory or general preposition that might be derived from the observations of human behavioural analysis. Therefore, it is highly recommended if TOs follow the obtained theory or model below as per Figure 12.1, to achieve the required participants' protections and satisfactions, which will eventually lead to participants' loyalty and better retention value for the *takaful* operators.

Figure 13.1: Proposed Participants' Satisfaction Cycling Model for the *Takaful* Industry



13.3 IMPLICATIONS FOR THE SAUDI ARABIAN INSURANCE REGULATOR

This section presents recommendations for the Saudi insurance regulatory authority or Saudi Arabian Monetary Agency (SAMA). The recommendations are derived by comparing SAMA's implemented directives and the standards and directives of the international insurance and *takaful* bodies.

As has been mentioned earlier, all SAMA directives address the cooperatives insurance companies only. SAMA has not issued a single directive that deals with *takaful* insurance. As TOs consist of a hybrid of mutual and proprietary, based on the principles of *taawun*, *tabarru* and the avoidance of *riba*, it is recommended that SAMA assign separate directive laws that address the *takaful* insurance, and the principles of the *Shari'ah* laws. However, upon issuing specialized *takaful* directives, it is very important for SAMA to enhance their employees' knowledge about the principles and products of the *takaful* model. SAMA employees should understand different implications between conventional and *takaful* insurance. SAMA should rely on the already-established standards as per AAOIFI, IFSB and similar standards as per IAIS to regulate the *takaful* insurance in Saudi Arabia.

Since TOs in Saudi Arabia are following SAMA directives there is a need to modify the existing directives to suit the TOs operational principles which will eventually serve the interests of *takaful* participants.

13.3.1 Corporate Governance

SAMA in its directives has not put in place an obligatory directive to structure a corporate governance framework. Accordingly, it is highly recommended that SAMA assign a directive to make it obligatory for the TOs to structure a corporate governance framework.

The framework should be structured in accordance with the economic and political situations surrounding the Saudi financial market, and it should specify the strategic, operational roles, responsibilities, functions of all organs of the firms including but not limited to the Board of Directors and its committees, the management, *Shari'ah* governance function. The framework should identify TOs' methods of conducting activities in accordance with the *Shari'ah* principles by identifying the construction form of the *Shari'ah* Supervisory Board (SSB) with their roles and responsibilities as well as the roles and responsibilities of the Internal *Shari'ah* audit and compliance department and their relationships with the SSB members. The *takaful* model used should be identified in this framework (*i.e.*, *wakalah*, *mudaraba,* or a hybrid of *wakalah* and *mudaraba*). The operational scheme of the model should follow the operational structures of the *takaful* international organizations such as IFSB or AAOIFI.

The actuarial roles should be identified in this framework as well. The actuary and the SSB shall be in charge of finding proper investment contracts to run participants' fund (either by *mudaraba*, *wakala*, appointing *wakala* fees for investments management or any other combination) and they should set and advise the fee structure and the profit-sharing ratio on the investment management between participants and the operator.

The percentage of the distributed underwriting surplus among participants should be identified as per AAOIFI *Shari'ah* standard, that the *takaful* surplus purely belongs to participants as the distribution of surplus will be based on the participant's donation percentage share, and the surplus cannot be taken by the TOs. The framework should also identify the best approach to allocate underwriting surplus among participants as per an appropriate AAOIFI standard, *i.e.* pro-rata mode, selective mode, or offsetting mode.

Contributing more than regular contributions to pay back shareholders' loans can cause dissatisfaction among participants. Hence, the framework should identify possible scenarios to pay back the shareholders loans: is it by increasing participants' future contributions to the fund, or by preventing participants to get any future underwriting surplus or investment return. Accordingly, TOs should disclose their investment objectives and assets allocation rationale with the content of the assets instruments and their weight in the investments portfolio, and whether they are suitable to match short-term or long-term liabilities. It also recommended if the TOs follows the Islamic banking sectors strategies by letting the shareholders to minimize their equity as much as they can to mobilize Investment Account Holders (IAH) funds to benefit from generated profits.

Fees and expenses can be one of the main reasons to encounter a deficit in the *takaful* fund. Therefore, the framework should identify different types of expenses and management fees that are going to be deducted from the participants' fund, as these might cause future deficits which will prevent participants' rights in receiving underwriting surplus.

Another reason that can prevent participants to gain the required financial benefits is shareholders power and activities. The framework should specify the limitations and the power of the shareholders in participants' funds as per AAOIFI and IFSB acceptable practices, which allow shareholders to use the *takaful* fund underwriting surplus and the investment return. Hence, to reduce shareholders power on the *takaful* fund, the framework should clearly indicate assets separation in the family *takaful* between Participant Risk Fund (PRF) and those of the Participant Investment Fund (PIF), as well as between the assets of the *takaful* fund and those of the shareholders' funds.

For assets validity, the framework should identify types and percentage weights of the assets which comply with Islamic laws. The framework should also adopt an assets-liabilities matching procedures that can withstand assets volatilities in the Saudi insurance market.

13.3.2 Market Conduct and Disclosure

As market conduct identifies the way insurers deal with policyholders either directly or through intermediaries, SAMA should put in place a proper market conduct framework that can suit the *takaful* industry with an adequate observation system that can be periodically conducted to monitor the compliance with this code and to effectively address any undesirable behaviour.

SAMA's suggested market conduct framework should encourage and monitor correct and positive ethical behaviour, to treat participants fairly by assigning certain obligatory principles for better achievement of customer interests, better communications with customers, and quick conflicts resolutions. The framework should also encourage directors and senior managers to listen to the opinions of other executives before making a decision and *shura* members would include, as far as possible, representative of shareholders, employees, suppliers, and participants.

Accordingly, SAMA should also conduct a research study among participants to find out their preferences to have a representative on the TOs management as has been suggested by IFSB.

The framework should also ensure that a proper code of ethics is properly delivered by whoever promotes or advertises the *takaful* products, such as a conventional bank with a *takaful* window, intermediaries, agents, actuaries, representatives, *etc*. In terms of investment activities TOs should strictly adhere to Islamic ethical codes.

The intermediaries should also be included in the market conduct framework and they should be licensed and qualified with the necessary knowledge on different aspects of *takaful* and *Shari'ah* principles. The intermediaries shall be trained to take into consideration the element of human action/intervention when delivering the service. SAMA should also set up fair amounts of commissions and remunerations for intermediaries by comparing the domestic commissions with the international advanced insurance market to provide good service quality to participants.

Resolving a dispute between the TOs and the participants is another vital subject of market conduct. Hence, the framework should identify the dispute-resolving options such as litigation, arbitration and Grievances Court. SAMA should also introduce the role of ombudsman as another option to mitigate an insurance dispute and, for better disputes judgment; the arbitration service should work independently from the Grievances Court for judgment diversifications.

SAMA's suggested market conduct and corporate governance framework should be run by the best available IT system to properly disseminate information to the public and to the current participants. The IT system should support the adoption of a sophisticated service quality model and participants' satisfactions scoring electronic card to measure customer satisfaction levels, by assessing how well customers' needs, expectations and perceptions are being met or exceeded the company's offering. As a way of ensuring participants' satisfactions, SAMA should have access to the insurance company's participant's satisfaction scoring card, for quick and adequate intrusions timing.

Finally, customer orientation and education about their rights and obligations is an important issue in the market conduct subject. It is considered a responsibility of the regulators to examine consumer education to achieve better public awareness and better policyholder protection. Accordingly, SAMA should launch a participant's education programme especially with those who possess a life family *takaful* policy as they have long-term contractual agreements with the insurance company, which entitles them to receive periodic financial benefits.

13.4 LIMITATIONS OF THE STUDY

There was some limitations and challenges that restricted a robust outcome. Most of the limitations are related to the sampling approach as this research involved a market survey. Some of these limitations are:

1. This research faced the limitations of targeting the supply side of the *takaful* products, *i.e.* meeting with the TOs' board of directors and senior management level, due to SAMA's new implemented regulations, which caused TOs to stop taking new customers and retaining the existing ones that have been with them for more than 20 years. Some of these new regulations demand the segregation between the insurance company from its main mother company (bank affiliation) which requires a separate capital and separate BoDs. Accordingly, reviewing the Saudi insurance regulatory directives and laws was the alternative available option to cover the shortage in reaching the supply side.

2. Due to time and funding constraints, this research is limited to the sample from the TOs located in Jeddah. The study results would be more rigorous if more time was allocated to increase the sample size to include other TOs located in other cities in Saudi Arabia. In addition, the study will be more representative if the sample had included participants from other TOs, as recently a number of new TOs came into existence.

3. Due to sampling technique limitations, which has been mentioned before, this study is unable to use the parametric statistical tools which are more robust and powerful statistical tools in analyzing the data.

4. Due to limitations in word-count for the thesis, it was not possible to include Solvency and Capital Adequacy topics. However, including these topics is considered an important benchmark for better market conduct approach.

13.5 Suggestions for Future Research

Besides the afore-mentioned limitations, a number of suggestions and recommendations based on this study for future research can be made. Some suggestions that can further be researched and can be basis for new and similar studies for other financial services or institutions are identified below:

1. Future study may expand the scope of the sample by including the TOs' views on the services they offer their participants. Hence, a proper semi-structured interview, or a survey questionnaire can organized to be conducted with the TOs' senior management level. However, it is highly recommended that such a study can be conducted in relation with SAMA as it has the authority to advise the TOs to be cooperative enough with the researchers and to present the required information within the allowable and ethical information exposures. SAMA can also advise which TO satisfies the required conditions to be legally operated in the Kingdom.

2. After SAMA's new restricted and compulsory regulations on Corporate Governance and Market Conduct and Disclosure, it is highly expected that the TOs will disclose more information to public. More importantly, it is expected that the TOs will disclose separate information for shareholders and participants funds, which will make it much easier for future researchers to come up with quick conclusions of the current financial situations of the Saudi TOs. Accordingly, new researchers can use this information as secondary data, to support the collected primary data from the TOs senior management.

3. In accordance with the second suggestion, future research may also be undertaken concurrently with time-series data analysis in addition to the cross-setion survey questionnaire used in this study. Using panel data (cross-section and time series) can provide rich analysis of the actual behaviour of the participants towards certain financial

variables over time (such as rate of investment return, rate of underwriting surplus) as participants in the current research showed more motivations toward the financial return other than religious motivation factors.

4. The study can also be extended to include other participants from other cities in Saudi Arabia, such as Riyadh and Dhahran, which is considered the biggest city after Jeddah in possessing *takaful* participants.

5. As the TOs in Saudi uses the *wakala* model, it would be interesting to do comparative empirical work of the *wakala* model used in other countries and also with the *mudarabah* model. To find out the best model that can provide the required protection for participants.

6. Studies can also include Solvency and Capital Adequacy, as one of the topic that TOs should adhere to for better market conduct approach. Accordingly, future researchers can generate important questionnaires to be forwarded to the TOs to figure out their backup procedures for ultimate protection of the participants.

13.6 EPILOGUE

This research set out to explore and analyze the perceptions, knowledge and preferences of the participants who contributed to the *takaful* funds located in Saudi Arabia. The efforts and dedications put into this research especially during the data collection and analysis have yielded significant and meaningful results related to critical factor in the takaful industry. As the theoretical and empirical chapters indicate, this study has fulfilled its research aims and objectives laid out in first chapter. It is hoped and expected that at least some, if not all, parts of the suggested recommendations will be used and applied by the *Takaful* Operators in Saudi Arabia and by others worldwide. It is also hoped that the recommendations related to regulatory standards will be used and applied by the insurance regulatory authority in Saudi Arabia.

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Appendices

APPENDISES

Appendix A

Table A.1: Differences between *Takaful* & Conventional Insurance

Compared Items	*Takaful*	Conventional
Contract	Participants in principle own the insurance funds, managed by the company. Participants give up individual rights to gain collective rights over contributions and benefits.	Insurance is a buy-sell contract. Policies are sold and buyers are the policyholders.
Guarantees	No contractual guarantees are given by the company. Joint indemnity between participants is a prerequisite of participating in a *takaful* scheme.	The company guarantees certain benefits, especially death benefits.
Company	Company acts as a trustee and entrepreneur.	Relationship between the company and the policyholders on a one to one basis.
Insurer	*Takaful* operator acts as an agent, they expected to provide *quard-hassan* in case of deficit.	Insurer is liable to pay the insurance benefits as promised from its assets.
Fund	Funds belong to the participants on a collective basis and are managed by the company for a fee.	Fund belongs to the company, thought separation of assets is maintained between share-holders and policyholders.
Contribution/Premiums	Cover paid based on donation, the money called 'Contributions'. Contribution is belongs to the takaful fund. It can be donated either in full or partial installment to the takaful fund. There is no interest charge in delaying the payment of donation.	Money paid to buy cover called 'premiums'. Premiums are owned by the insurer. Interest will be charged in delaying the payment of the premiums.
Underwriting loss	The *takaful* fund is owned by participants who bear the underwriting risk.	The shareholders bear the underwriting risks.
Profits	Insurance surplus belongs to the participants. Shareholders returns come out of margins in management fees for the insurance and investment activities of the *takaful* fund.	Legally, insurance surplus belongs to shareholders.
Surplus & Reserves	Underwriting surplus owned by participants collectively through *takaful* fund.	Reserves and surplus owned by insurer.
Sales distribution	Sales normally through salaried staff are preferred.	Sales on both commission and salaried basis.
Regulation	Statutory with Islamic principles through a Sharia'ah committee.	Statutory only.
Investment	Invested in accordance to *Shari'ah* guidelines. Investment returns must not be driven by interest and by unethical commercial activities.	Invested freely in interest-based assets and other activities prohibited under the *Shari'ah*.
Accounting	Cash accounting is mostly preferred. One balance sheet and two income statements.	Cash, deferred, embedded values, etc. one balance sheet and one income statement.

Table A.2: Differences between Mutual & Conventional Insurance

Compared Items	Takaful	Mutual
Contract	Participants in principle own the insurance funds, managed by the company. Participants give up individual rights to gain collective rights over contributions and benefits.	A risk contract between individuals insured and the pool of insurance.
Contibution / Premiums	Premium owned by policyholders, but operating seeking profit from insurance business.	Premium owned by policyholders, no other party demanding a share of the profit.
Company Responsibility	Pay claims with underwriting fund, interest free loans in case of shortfall.	Pay claims with underwriting fund.
Purpose of Establishing company	The takaful operating company establishes to maximize profits for shareholders except the Sudanese Model.	Establish to provide policyholders with low-cost insurance and not to making profit.
Control of the company	Board of directors is elected by shareholders who own the company. While participants own the fund, thus participants don’t have the right to change board of directors.	Board of directors is elected by policyholders who own the company. Policyholders have the right to change the company board of directors.
Participants Responsibility	Pay contributions.	Pay contributions.
Capital Utilised	Participants fund.	Participant’s capital.
Investment Consideration	Sharia’h compliant.	No restrictions except prudential.

Appendix B

ALJazira *Takaful Ta'awuni* Development

Bank ALJazira was the first banking institution in the Kingdom to introduce its own protection and savings insurance products in 2001 as a fully-fledged *Shari'ah*-compliant alternative to conventional life insurance products. The Bank ALJazira *takful* model is based on the *Taawun* concept and *Wakalah* contract (ALJazira, 2010). Since then, *Takaful Ta'awuni* has assumed the leading position in the life insurance market, in terms of volumes of policies sold, and has undergone rapid growth in order to satisfy increasing demand for *Shari'ah*-compliant life insurance in the Kingdom, with 11 *Takaful* sales offices distributed among the Kingdom (ALJazira, 2010). Hence, ALJazira *Takaful* has accounted for around 28% of the Protection & Savings sector (life insurance) in the Kingdom (SAMA, 2009). As required by the insurance laws of Saudi Arabia, progress has been made to segregate the operations of the *takaful* insurance divisions from banking. Hence the Bank has decided to spin off its insurance business in a separate entity, with key developments to enhance the existing products and services by focusing on the infrastructure readiness of the new company to support operational performance after issuance of the insurance license by SAMA. One of the major components of this infrastructure development was the significant upgrade to the core life application system which will improve operational efficiency manifold (ALJazira, 2009). *Takaful Ta'awuni* has focused on reengineering several insurance issues such as improving the existing TTD[107] strategy, and the improvement of several *takaful* products with the main intention of complying with SAMA regulatory requirements, of which the Individual retirement contract is further aligned to customers' needs (ALJazira, 2009). By March 2010 ALJazira *takaful* had received SAMA approval to be legally licensed to operate as an insurance company in Saudi Arabia, with an agreed capital of SAR 348.75 million (E & Y, 2011). Accordingly, as a part of divisional segregation to comply with SAMA regulations, the *Takaful Ta'awuni*, has become a key part of Aljazira Financial Group which includes Aljazira Capital and *Takaful Ta'awuni*, where the Bank and AlJazira Capital Company possess 35% of the shares of the new insurance company, with the remaining shares being held by the other founding shareholders and other shares being offered to the public by way of the Initial Public Offering. As a result of the new transactions process, the assets, liabilities and the operations of the insurance business has been transferred to the new insurance company (Aljazira, 2010). However, it has been noticed during the transitions period, that the fee income from the *Takaful* business line was lower by SAR 9 million, mainly due to lower business activity during the year and due to *Takaful*'s conversion to an independent public listed entity that will result in a spin-off of its activities from the Bank and its formation as a separate corporate entity. The *wakala* fee has also shown a great decline in its value which goes from SAR 112,919 million in 2008, to SAR 52,875 million in 2009, to much deeper decline in 2010 to reach SAR 38,883 million (Aljazira, 2010).

[107] This level of disability reflects an injury that has rendered the employee completely unable to perform any job functions on a temporary basis. The employee is expected to make a full recovery and return to work. In the interim, compensation paid is usually a percentage of weekly wages until the worker returns to the job (Rubin, 2000).

Appendix C

Table C.1: Tests of Normality

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
TPS	.280	183	.000	.775	183	.000
SDM	.229	183	.000	.835	183	.000
SIR	.337	183	.000	.720	183	.000
SUS	.353	183	.000	.685	183	.000
SSC	.420	183	.000	.628	183	.000
SCI	.289	183	.000	.783	183	.000
SFDQ	.357	183	.000	.712	183	.000
SSP	.374	183	.000	.676	183	.000

Appendix D

Table D.1: Mann-Whitney and Kruskal-Wallis for Non-Parametric Data Analysis

Total Participants Satisfactions

Mann-Whitney Test for Participants' Gender.					
Satisfactions	Gender	N	Mean Rank	*z*	Asymp Sig. (p)
TPS	Male	286	148.14	*z* = -0.387	0.699
	Female	10	158.80		
	Total	296			
Kruskal-Wallis Test for Participants' Age in Years (Yrs).					
Satisfactions	(Yrs)	N	Mean Rank	x^2	Asymp Sig. (p)
TPS	Age (21-30) Yrs	27	156.20	x^2 = 3.688	0.297
	Age (31-40) Yrs	127	145.76		
	Age (41-50) Yrs	106	140.90		
	Age > 51 Yrs	35	171.31		
	Total	295			
Kruskal-Wallis Test for participants' Educational level.					
Satisfactions	Education	N	Mean Rank	x^2	Asymp Sig. (p)
TPS	Doctorate	5	148.90	x^2 = 6.005	0.199
	Master	24	112.75		
	Bachelor	175	151.42		
	Diploma	33	137.95		
	High school / lower	59	160.25		
	Total	296			
Kruskal-Wallis Test for monthly premiums paid in Saudi Riyals (S.R).					
Satisfaction	Premium (S.R)	N	Mean Rank	x^2	Asymp Sig. (p)
TPS	(100 – 1000) S.R	182	142.07	x^2 = 3.403	0.334
	(1001 – 2000) S.R	61	130.62		
	(2001 – 3000) S.R	31	160.47		
	Prem. > 3000 S.R	7	117.29		
	Total	281			
Kruskal-Wallis Test for Number of Members included in the *takaful* policy.(Including main Participants')					
Satisfactions	Members	N	Mean Rank	x^2	Asymp Sig. (p)
TPS	1	83	139.52	x^2 = 7.038	0.317
	2	32	132.14		
	3	43	166.10		
	4	50	144.98		
	5	35	122.34		
	6	30	148.75		
	Members ≥7	13	161.27		
	Total	286			

Kruskal-Wallis Test for *takaful* contract durations in Years (Yrs).					
Satisfactions	Durations	N	Mean Rank	x^2	Asymp Sig. (p)
TPS	(0 – 5)Yrs	137	144.57	x^2 = 0.660	0.956
	(6 -10) Yrs	85	141.16		
	(11 – 15) Yrs	16	144.78		
	(16 – 20) Yrs	17	129.44		
	Duration > 20 Yrs	30	147.75		
	Total	285			
Kruskal-Wallis Test for participants Jobs Categories.					
Satisfactions	Job	N	Mean Rank	x^2	Asymp Sig. (p)
TPS	Managerial	112	129.05	x^2 = 18.231	0.011
	Academicians	48	151.41		
	Retirees	38	155.08		
	Technical's	35	145.11		
	Merchants	26	165.67		
	Professionals	22	172.41		
	Security	11	195.05		
	Students	4	254.13		
	Total	296			
Kruskal-Wallis Test for names of the company.					
Satisfactions	Company	N	Mean Rank	x^2	Asymp Sig. (p)
TPS	A	243	147.05	x^2 = 0.395	0.821
	B	45	154.79		
	C	8	157.19		
	Total	296			

Table D.2: Satisfactions with the TOs Disclosure Mechanisms.

Mann-Whitney Test for Participants' Gender.					
Satisfactions	Gender	N	Mean Rank	z	Asymp Sig. (p)
SDM	Male	283	145.53	z = 1000	0.258
	Female	9	176.89		
	Total	292			
Kruskal-Wallis Test for Participants' Age in Years (Yrs).					
Satisfactions	(Yrs)	N	Mean Rank	x^2	Asymp Sig. (p)
SDM	Age (21-30) Yrs	27	155.98	x^2 = 2.960	0.398
	Age (31-40) Yrs	126	143.62		
	Age (41-50) Yrs	104	140.01		
	Age > 51 Yrs	34	165.21		
	Total	291			
Kruskal-Wallis Test for participants' Educational level.					
Satisfactions	Education	N	Mean Rank	x^2	Asymp Sig. (p)
SDM	Doctorate	5	164.50	x^2 = 5.256	0.262
	Master	24	114.58		
	Bachelor	172	146.43		
	Diploma	32	145.14		
	High school / lower	59	158.90		
	Total	292			
Kruskal-Wallis Test for monthly premiums paid in Saudi Riyals (S.R).					
Satisfaction	Premium (S.R)	N	Mean Rank	x^2	Asymp Sig. (p)
SDM	(100 – 1000) S.R	177	137.95	x^2 = 4.055	0.256
	(1001 – 2000) S.R	62	128.78		
	(2001 – 3000) S.R	31	159.66		
	Prem. > 3000 S.R	7	164.57		
	Total	277			
Kruskal-Wallis Test for Number of Members included in the *takaful*policy.					
Satisfactions	Members	N	Mean Rank	x^2	Asymp Sig. (p)
SDM	1	81	135.61	x^2 = 5.364	0.498
	2	32	136.17		
	3	42	160.20		
	4	50	156.71		
	5	35	136.87		
	6	29	149.86		
	Members ≥7	18	126.97		
	Total	287			

Satisfactions with the TOs Disclosure Mechanisms Continue.

Kruskal-Wallis Test for *takaful* contract durations in Years (Yrs).					
Satisfactions	Durations	N	Mean Rank	x^2	Asymp Sig. (p)
SDM	(0 – 5)Yrs	132	146.25	$x^2 = 1.757$	0.78
	(6 -10) Yrs	86	133.83		
	(11 – 15) Yrs	16	132.53		
	(16 – 20) Yrs	17	150.06		
	Duration > 20 Yrs	30	137.82		
	Total	281			
Kruskal-Wallis Test for participants Jobs Categories.					
Satisfactions	Job	N	Mean Rank	x^2	Asymp Sig. (p)
SDM	Managerial	110	130.70	$x^2 = 17.740$	0.013
	Academicians	48	153.00		
	Retirees	38	153.47		
	Technical's	34	132.69		
	Merchants	26	149.56		
	Professionals	21	173.48		
	Security	11	207.64		
	Students	4	224.50		
	Total	292			
Kruskal-Wallis Test for names of the company.					
Satisfactions	Company	N	Mean Rank	x^2	Asymp Sig. (p)
SDM	A	240	145.53	$x^2 = 0.357$	0.836
	B	45	149.13		
	C	7	162.79		
	Total	292			

Table D.3: Satisfactions with the TOs Investments Return

Mann-Whitney Test for Participants' Gender.					
Satisfactions	Gender	N	Mean Rank	*z*	Asymp Sig. (p)
SIR	Male	261	134.24	z = 846.5	0.035
	Female	10	181.85		
	Total	271			
Kruskal-Wallis Test for Participants' Age in Years (Yrs).					
Satisfactions	(Yrs)	N	Mean Rank	x^2	Asymp Sig. (p)
SIR	Age (21-30) Yrs	25	138.60	x^2 = 4.790	0.188
	Age (31-40) Yrs	116	141.75		
	Age (41-50) Yrs	98	123.50		
	Age > 51 Yrs	31	147.56		
	Total	270			
Kruskal-Wallis Test for participants' Educational level.					
Satisfactions	Education	N	Mean Rank	x^2	Asymp Sig. (p)
SIR	Doctorate	4	180.88	x^2 = 1.671	0.796
	Master	23	134.43		
	Bachelor	158	135.26		
	Diploma	29	135.47		
	High school / lower	57	135.80		
	Total	271			
Kruskal-Wallis Test for monthly premiums paid in Saudi Riyals (S.R).					
Satisfaction	Premium (S.R)	N	Mean Rank	x^2	Asymp Sig. (p)
SIR	(100 – 1000) S.R	166	132.09	x^2 = 2.686	0.443
	(1001 – 2000) S.R	58	118.80		
	(2001 – 3000) S.R	30	141.18		
	Prem. > 3000 S.R	5	123.40		
	Total	259			
Kruskal-Wallis Test for Number of Members included in the *takaful*policy.					
Satisfactions	Members	N	Mean Rank	x^2	Asymp Sig. (p)
SIR	1	72	137.89	x^2 = 5.783	0.448
	2	33	118.71		
	3	38	152.55		
	4	46	131.98		
	5	34	122.03		
	6	27	132.61		
	Members ≥7	16	129.25		
	Total	266			

<u>Satisfactions with the TOs Investments Return Continue.</u>

Kruskal-Wallis Test for *takaful* contract durations in Years (Yrs).					
Satisfactions	Durations	N	Mean Rank	x^2	Asymp Sig. (p)
SIR	(0 – 5)Yrs	116	135.75	x^2 = 4.061	0.398
	(6 -10) Yrs	82	121.91		
	(11 – 15) Yrs	16	123.72		
	(16 – 20) Yrs	17	118.44		
	Duration > 20 Yrs	29	144.59		
	Total	260			
Kruskal-Wallis Test for participants Jobs Categories.					
Satisfactions	Job	N	Mean Rank	x^2	Asymp Sig. (p)
SIR	Managerial	102	122.31	x^2 = 10.313	0.172
	Academicians	44	137.95		
	Retirees	35	145.81		
	Technical's	32	133.66		
	Merchants	23	153.43		
	Professionals	20	144.10		
	Security	11	157.82		
	Students	4	195.75		
	Total	271			
Kruskal-Wallis Test for names of the company.					
Satisfactions	Company	N	Mean Rank	x^2	Asymp Sig. (p)
SIR	A	223	136.77	x^2 = 1.922	0.382
	B	43	127.84		
	C	5	171.90		
	Total	271			

<u>Table D.4: Satisfactions with the TOs Underwriting Surplus</u>

Mann-Whitney Test for Participants' Gender.					
Satisfactions	Gender	N	Mean Rank	*z*	Asymp Sig. (p)
SUS	Male	256	131.62	*z* = 798	0.585
	Female	7	146.00		
	Total	263			

Kruskal-Wallis Test for Participants' Age in Years (Yrs).					
Satisfactions	(Yrs)	N	Mean Rank	x^2	Asymp Sig. (p)
SUS	Age (21-30) Yrs	25	135.64	x^2 = 2.3	0.512
	Age (31-40) Yrs	110	127.10		
	Age (41-50) Yrs	94	130.07		
	Age > 51 Yrs	33	147.11		
	Total	262			

Kruskal-Wallis Test for participants' Educational level.					
Satisfactions	Education	N	Mean Rank	x^2	Asymp Sig. (p)
SUS	Doctorate	4	126.00	x^2 = 4.658	0.324
	Master	22	101.95		
	Bachelor	155	134.84		
	Diploma	30	134.13		
	High school / lower	52	135.48		
	Total	263			

Kruskal-Wallis Test for monthly premiums paid in Saudi Riyals (S.R).					
Satisfaction	Premium (S.R)	N	Mean Rank	x^2	Asymp Sig. (p)
SUS	(100 – 1000) S.R	152	121.51	x^2 = 4.052	0.256
	(1001 – 2000) S.R	61	127.73		
	(2001 – 3000) S.R	30	143.02		
	Prem.> 3000 S.R	6	95.58		
	Total	249			

Kruskal-Wallis Test for Number of Members included in the *takaful*policy.					
Satisfactions	Members	N	Mean Rank	x^2	Asymp Sig. (p)
SUS	1	70	128.14	x^2 = 3.090	0.797
	2	28	130.41		
	3	40	132.29		
	4	43	140.03		
	5	32	114.06		
	6	27	133.74		
	Members ≥7	18	123.11		
	Total	258			

Satisfactions with the TOs Underwriting Surplus Continue

Kruskal-Wallis Test for *takaful* contract durations in Years (Yrs).					
Satisfactions	Durations	N	Mean Rank	x^2	Asymp Sig. (p)
SUS	(0 – 5)Yrs	120	122.93	x^2 = 3.061	0.548
	(6 -10) Yrs	76	126.48		
	(11 – 15) Yrs	15	150.07		
	(16 – 20) Yrs	17	117.62		
	Duration > 20 Yrs	24	136.00		
	Total	252			
Kruskal-Wallis Test for participants Jobs Categories.					
Satisfactions	Job	N	Mean Rank	x^2	Asymp Sig. (p)
SUS	Managerial	102	114.50	x^2 = 17.742	0.013
	Academicians	43	145.67		
	Retirees	33	139.09		
	Technical's	30	122.57		
	Merchants	22	152.00		
	Professionals	20	157.95		
	Security	9	134.11		
	Students	4	199.00		
	Total	263			
Kruskal-Wallis Test for names of the company.					
Satisfactions	Company	N	Mean Rank	x^2	Asymp Sig. (p)
SUS	A	214	131.78	x^2 = 0.033	0.984
	B	42	132.38		
	C	7	136.43		
	Total	263			

Table D.5: Satisfactions with the TOs *Sharia'h* complying system,

Mann-Whitney Test for Participants' Gender.					
Satisfactions	Gender	N	Mean Rank	z	Asymp Sig. (p)
SSC	Male	242	126.54	z = 959	0.459
	Female	9	111.56		
	Total	251			
Kruskal-Wallis Test for Participants' Age in Years (Yrs).					
Satisfactions	(Yrs)	N	Mean Rank	x^2	Asymp Sig. (p)
SSC	Age (21-30) Yrs	25	121.14	x^2 = 0.967	0.809
	Age (31-40) Yrs	103	128.01		
	Age (41-50) Yrs	89	121.75		
	Age > 51 Yrs	33	131.06		
	Total	250			
Kruskal-Wallis Test for participants' Educational level.					
Satisfactions	Education	N	Mean Rank	x^2	Asymp Sig. (p)
SSC	Doctorate	4	130.38	x^2 = 0.788	0.94
	Master	20	115.00		
	Bachelor	148	126.42		
	Diploma	25	126.80		
	High school / lower	54	128.22		
	Total	251			
Kruskal-Wallis Test for monthly premiums paid in Saudi Riyals (S.R).					
Satisfaction	Premium (S.R)	N	Mean Rank	x^2	Asymp Sig. (p)
SSC	(100 – 1000) S.R	152	125.17	x^2 = 5.916	0.116
	(1001 – 2000) S.R	54	105.94		
	(2001 – 3000) S.R	26	120.23		
	Prem.> 3000 S.R	6	94.83		
	Total	238			
Kruskal-Wallis Test for Number of Members included in the *takaful*policy.					
Satisfactions	Members	N	Mean Rank	x^2	Asymp Sig. (p)
SSC	1	74	131.57	x^2 = 10.946	0.09
	2	25	127.92		
	3	33	134.39		
	4	45	120.42		
	5	29	92.74		
	6	25	125.40		
	Members ≥7	16	125.97		
	Total	247			

Satisfactions with the TOs *Sharia'h* complying system Continue,

Kruskal-Wallis Test for *takaful* contract durations in Years (Yrs).					
Satisfactions	Durations	N	Mean Rank	x^2	Asymp Sig. (p)
SSC	(0 – 5)Yrs	113	123.34	x^2 = 1.253	0.869
	(6 -10) Yrs	75	122.91		
	(11 – 15) Yrs	12	105.79		
	(16 – 20) Yrs	16	121.59		
	Duration > 20 Yrs	26	116.63		
	Total	242			
Kruskal-Wallis Test for participants Jobs Categories.					
Satisfactions	Job	N	Mean Rank	x^2	Asymp Sig. (p)
SSC	Managerial	94	122.17	x^2 = 8.919	0.259
	Academicians	41	109.72		
	Retirees	31	129.06		
	Technical's	30	136.75		
	Merchants	22	135.43		
	Professionals	20	125.25		
	Security	9	154.61		
	Students	4	166.00		
	Total	251			
Kruskal-Wallis Test for names of the company.					
Satisfactions	Company	N	Mean Rank	x^2	Asymp Sig. (p)
SSC	A	206	127.55	x^2 = 0.889	0.641
	B	37	120.26		
	C	8	112.56		
	Total	251			

Table D.6: Satisfactions with the TOs claims and indemnities procedures,

Mann-Whitney Test for Participants' Gender.					
Satisfactions	Gender	N	Mean Rank	z	Asymp Sig. (p)
SCI	Male	283	146.14	z = 1171	0.327
	Female	10	171.40		
	Total	293			
Kruskal-Wallis Test for Participants' Age in Years (Yrs).					
Satisfactions	(Yrs)	N	Mean Rank	x^2	Asymp Sig. (p)
SCI	Age (21-30) Yrs	27	154.52	x^2 = 5.111	0.164
	Age (31-40) Yrs	125	143.26		
	Age (41-50) Yrs	106	139.67		
	Age > 51 Yrs	34	173.34		
	Total	292			
Kruskal-Wallis Test for participants' Educational level.					
Satisfactions	Education	N	Mean Rank	x^2	Asymp Sig. (p)
SCI	Doctorate	5	161.70	x^2 = 8.207	0.084
	Master	24	106.92		
	Bachelor	174	151.74		
	Diploma	33	134.58		
	High school / lower	57	155.30		
	Total	293			
Kruskal-Wallis Test for monthly premiums paid in Saudi Riyals (S.R).					
Satisfaction	Premium (S.R)	N	Mean Rank	x^2	Asymp Sig. (p)
SCI	(100 – 1000) S.R	178	141.18	x^2 = 5.041	0.169
	(1001 – 2000) S.R	62	131.03		
	(2001 – 3000) S.R	31	157.11		
	Prem. > 3000 S.R	7	93.86		
	Total	278			
Kruskal-Wallis Test for Number of Members included in the *takaful*policy.					
Satisfactions	Members	N	Mean Rank	x^2	Asymp Sig. (p)
SCI	1	82	140.30	x^2 = 6.645	0.355
	2	32	146.86		
	3	43	166.47		
	4	50	129.39		
	5	34	138.50		
	6	30	157.88		
	Members ≥7	17	137.59		
	Total	288			

Satisfactions with the TOs claims and indemnities continue,

Kruskal-Wallis Test for *takaful* contract durations in Years (Yrs).					
Satisfactions	Durations	N	Mean Rank	x^2	Asymp Sig. (p)
SCI	(0 – 5)Yrs	133	144.56	x^2 = 2.003	0.735
	(6 -10) Yrs	86	141.49		
	(11 – 15) Yrs	16	147.75		
	(16 – 20) Yrs	17	117.56		
	Duration > 20 Yrs	30	138.20		
	Total	282			
Kruskal-Wallis Test for participants Jobs Categories.					
Satisfactions	Job	N	Mean Rank	x^2	Asymp Sig. (p)
SCI	Managerial	111	132.42	x^2 = 14.426	0.044
	Academicians	48	156.22		
	Retirees	38	141.92		
	Technical's	35	136.53		
	Merchants	26	161.54		
	Professionals	20	185.30		
	Security	11	179.91		
	Students	4	204.38		
	Total	293			
Kruskal-Wallis Test for names of the company.					
Satisfactions	Company	N	Mean Rank	x^2	Asymp Sig. (p)
SCI	A	240	143.70	x^2 = 3.375	0.185
	B	45	166.84		
	C	8	134.31		
	Total	293			

Table D.7: Satisfactions with the TOs deficits and *qard* loan procedures,

Mann-Whitney Test for Participants' Gender.					
Satisfactions	Gender	N	Mean Rank	*z*	Asymp Sig. (p)
SFDQ	Male	270	140.60	*z* = 1053	0.438
	Female	9	122.00		
	Total	279			
Kruskal-Wallis Test for Participants' Age in Years (Yrs).					
Satisfactions	(Yrs)	N	Mean Rank	x^2	Asymp Sig. (p)
SFDQ	Age (21-30) Yrs	24	152.67	x^2 = 8.567	0.036
	Age (31-40) Yrs	119	126.03		
	Age (41-50) Yrs	101	147.58		
	Age > 51 Yrs	35	156.91		
	Total	279			
Kruskal-Wallis Test for participants' Educational level.					
Satisfactions	Education	N	Mean Rank	x^2	Asymp Sig. (p)
SFDQ	Doctorate	5	106.80	x^2 = 3.967	0.41
	Master	22	127.91		
	Bachelor	161	139.75		
	Diploma	33	132.24		
	High school / lower	58	152.55		
	Total	279			
Kruskal-Wallis Test for monthly premiums paid in Saudi Riyals (S.R).					
Satisfaction	Premium (S.R)	N	Mean Rank	x^2	Asymp Sig. (p)
SFDQ	(100 – 1000) S.R	171	132.63	x^2 = 2.425	0.489
	(1001 – 2000) S.R	60	130.79		
	(2001 – 3000) S.R	28	149.75		
	Prem. > 3000 S.R	7	113.07		
	Total	266			
Kruskal-Wallis Test for Number of Members included in the *takaful*policy.					
Satisfactions	Members	N	Mean Rank	x^2	Asymp Sig. (p)
SFDQ	1	78	143.88	x^2 = 3.817	0.701
	2	31	121.58		
	3	40	133.95		
	4	48	137.31		
	5	32	132.81		
	6	29	141.67		
	Members ≥7	17	155.91		
	Total	275			

Satisfactions with the TOs deficits and *qard* loan procedures continue,

Kruskal-Wallis Test for *takaful* contract durations in Years (Yrs).					
Satisfactions	Durations	N	Mean Rank	x^2	Asymp Sig. (p)
SFDQ	(0 – 5)Yrs	128	136.71	x^2 = 2.611	0.625
	(6 -10) Yrs	82	139.16		
	(11 – 15) Yrs	16	133.66		
	(16 – 20) Yrs	16	109.50		
	Duration > 20 Yrs	28	135.16		
	Total	270			
Kruskal-Wallis Test for participants Jobs Categories.					
Satisfactions	Job	N	Mean Rank	x^2	Asymp Sig. (p)
SFDQ	Managerial	102	128.02	x^2 =13.702	0.057
	Academicians	46	129.74		
	Retirees	36	148.72		
	Technical's	33	135.70		
	Merchants	26	153.85		
	Professionals	22	179.45		
	Security	10	157.80		
	Students	4	169.00		
	Total	279			
Kruskal-Wallis Test for names of the company.					
Satisfactions	Company	N	Mean Rank	x^2	Asymp Sig. (p)
SDQ	A	228	137.83	x^2 = 1.26	0.533
	B	44	148.50		
	C	7	157.14		
	Total	279			

Table D.8: Satisfactions with the TOs shareholders power and activities,

Mann-Whitney Test for Participants' Gender.					
Satisfactions	Gender	N	Mean Rank	z	Asymp Sig. (p)
SSP	Male	249	130.22	z = 1191	0.79
	Female	10	124.60		
	Total	259			
Kruskal-Wallis Test for Participants' Age in Years (Yrs).					
Satisfactions	(Yrs)	N	Mean Rank	x^2	Asymp Sig. (p)
SSP	Age (21-30) Yrs	25	116.72	x^2 = 1.926	0.588
	Age (31-40) Yrs	110	133.86		
	Age (41-50) Yrs	91	130.42		
	Age > 51 Yrs	32	121.88		
	Total	258			
Kruskal-Wallis Test for participants' Educational level.					
Satisfactions	Education	N	Mean Rank	x^2	Asymp Sig. (p)
SSP	Doctorate	3	134.17	x^2 = 4.919	0.296
	Master	21	118.62		
	Bachelor	154	131.16		
	Diploma	31	111.69		
	High school / lower	50	142.32		
	Total	259			
Kruskal-Wallis Test for monthly premiums paid in Saudi Riyals (S.R).					
Satisfaction	Premium (S.R)	N	Mean Rank	x^2	Asymp Sig. (p)
SSP	(100 – 1000) S.R	157	123.17	x^2 = 5.524	0.137
	(1001 – 2000) S.R	54	122.24		
	(2001 – 3000) S.R	29	133.72		
	Prem.> 3000 S.R	5	63.60		
	Total	245			
Kruskal-Wallis Test for Number of Members included in the *takaful*policy.					
Satisfactions	Members	N	Mean Rank	x^2	Asymp Sig. (p)
SSP	1	68	111.63	x^2 = 13.194	0.04
	2	29	120.24		
	3	39	148.17		
	4	47	142.60		
	5	31	133.03		
	6	25	111.00		
	Members ≥7	15	128.53		
	Total	254			

Satisfactions with the TOs shareholders power and activities continue,

Kruskal-Wallis Test for *takaful* contract durations in Years (Yrs).					
Satisfactions	Durations	N	Mean Rank	x^2	Asymp Sig. (p)
SSP	(0 – 5)Yrs	114	117.60	x^2 = 4.238	0.375
	(6 -10) Yrs	77	134.29		
	(11 – 15) Yrs	13	136.58		
	(16 – 20) Yrs	17	114.09		
	Duration > 20 Yrs	27	126.46		
	Total	248			
Kruskal-Wallis Test for participants Jobs Categories.					
Satisfactions	Job	N	Mean Rank	x^2	Asymp Sig. (p)
SSP	Managerial	100	126.54	x^2 = 5.696	0.576
	Academicians	43	129.81		
	Retirees	33	139.27		
	Technical's	30	118.92		
	Merchants	22	141.07		
	Professionals	19	119.50		
	Security	9	150.11		
	Students	3	182.00		
	Total	259			
Kruskal-Wallis Test for names of the company.					
Satisfactions	Company	N	Mean Rank	x^2	Asymp Sig. (p)
SSP	A	209	129.42	x^2 = 0.125	0.939
	B	42	133.23		
	C	8	128.19		
	Total	259			

Appendix E
Multinomial Regression Analysis

Table E.1: TPS vs Disclosure Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	613.953			
Final	400.455	213.498	174	.022

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	356.690	336	.210
Deviance	365.562	336	.128

Pseudo R-Square

Cox and Snell	.509
Nagelkerke	.574
McFadden	.327

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	534.995	134.541	128	.329
DKP	407.724	7.270	4	.122
DIR	427.077	26.623	10	.003
DUS	420.849	20.394	8	.009
DFDQ	407.259	6.804	6	.339
DCI	403.338	2.884	2	.236
DSCl	417.940	17.486	10	.064

Table E.2: SDM vs Disclosure Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	1091.579			
Final	512.137	579.442	528	.060

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	9902.196	978	.000
Deviance	471.699	978	1.000

Pseudo R-Square

Cox and Snell	.863
Nagelkerke	.881
McFadden	.510

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	842.967[a]	330.829	384	.977
DIR	1825.440[a]	1313.302	30	.000
DUS	585.178[b]	15.397	24	.909
DSC	526.253[a]	14.116	30	.994
DCI	3784.071[a]	3271.933	6	.000
DFDQ	546.709[a]	34.571	18	.011
DKP	584.185[b]	14.405	12	.276

Table E.3: SIR vs Disclosure Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	562.281			
Final	287.581	274.700	172	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	263.766	298	.924
Deviance	258.338	298	.953

Pseudo R-Square

Cox and Snell	.637
Nagelkerke	.717
McFadden	.461

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	439.744	152.163	124	.044
DIR	315.341	27.760	10	.002
DUS	291.302	3.721	8	.881
DSC	294.888	7.306	10	.696
DCI	288.900	1.319	2	.517
DFDQ	289.057	1.476	6	.961
DKP	298.429	10.848	4	.028

Table E.4: SUS vs Disclosure Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	556.840			
Final	295.988	260.852	170	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	283.568	292	.627
Deviance	277.156	292	.725

Pseudo R-Square

Cox and Snell	.629
Nagelkerke	.708
McFadden	.451

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	438.204	142.216	122	.102
DIR	307.799	11.810	10	.298
DUS	302.460	6.472	6	.372
DSC	312.924	16.936	10	.076
DCI	300.862	4.874	2	.087
DFDQ	299.907	3.918	6	.688
DKP	301.176	5.188	4	.269

Table E.5: SSC vs Disclosure Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	538.216			
Final	212.071	326.145	162	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	360.624	278	.001
Deviance	199.358	278	1.000

Pseudo R-Square

Cox and Snell	.727
Nagelkerke	.818
McFadden	.591

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	343.370	131.300	116	.157
DIR	240.838	28.767	10	.001
DUS	234.048	21.977	8	.005
DSC	243.929	31.858	10	.000
DCI	214.960	2.889	2	.236
DFDQ	224.225	12.154	6	.059
DKP	232.593	20.522	4	.000

Table E.6: SCI vs Disclosure Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	1096.046			
Final	437.077	658.969	522	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	614.334	990	1.000
Deviance	397.790	990	1.000

Pseudo R-Square

Cox and Snell	.894
Nagelkerke	.913
McFadden	.578

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	747.328[a]	310.250	384	.998
DIR	495.115[a]	58.037	30	.002
DUS	453.106[a]	16.029	18	.591
DSC	479.919[a]	42.841	30	.061
DCI	455.810[a]	18.732	6	.005
DFDQ	456.428[a]	19.351	18	.371
DKP	467.509[a]	30.432	12	.002

Table E.7: SFDQ vs Disclosure Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	576.511			
Final	245.238	331.273	172	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	388.709	308	.001
Deviance	212.071	308	1.000

Pseudo R-Square

Cox and Snell	.695
Nagelkerke	.782
McFadden	.540

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	407.194	161.956	126	.017
DIR	285.827	40.589	10	.000
DUS	262.781	17.543	8	.025
DSC	259.503	14.265	10	.161
DCI	250.550[a]	5.312	2	.070
DFDQ	252.845	7.607	6	.268
DKP	260.544	15.306	4	.004

Table E.8: SKP vs Disclosure Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	540.309			
Final	255.819	284.490	166	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	257.349	282	.851
Deviance	228.772	282	.991

Pseudo R-Square

Cox and Snell	.667
Nagelkerke	.750
McFadden	.500

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	382.706	126.888	120	.316
DIR	270.234[a]	14.415	10	.155
DUS	257.916	2.097	6	.911
DSC	266.637	10.818	10	.372
DCI	265.261[a]	9.442	2	.009
DFDQ	266.588	10.769	6	.096
DKP	268.361[a]	12.543	4	.014

Table E.9: Total Participants Satisfaction – Knowledge

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	334.669			
Final	257.165	77.504	42	.001

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	158.435	140	.136
Deviance	163.056	140	.089

Pseudo R-Square

Cox and Snell	.228
Nagelkerke	.256
McFadden	.118

Likelihood Ratio Tests

	Model Fitting Criteria	Likelihood Ratio Tests		
Effect	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
KPM	293.292	36.127	14	.001
KIR	257.420	.255	2	.880
KUS	269.305	12.140	6	.059
KSC	257.597	.431	2	.806
KFDQ	269.833	12.668	10	.243
KKP	2.572E2	.000	0	.
KDC	268.126	10.961	6	.090

Table E.10: SDM vs Knowledge Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	674.753			
Final	431.264	243.489	126	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	362.700	414	.967
Deviance	259.957	414	1.000

Pseudo R-Square

Cox and Snell	.566
Nagelkerke	.577
McFadden	.214

Likelihood Ratio Tests

ffect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
KPM	465.136[a]	33.872	42	.810
KIR	435.279[a]	4.015	6	.675
KUS	453.744[a]	22.480	24	.551
KSC	434.668[a]	3.404	6	.757
KFDQ	3510.098[a]	3078.834	24	.000
KKP	431.264[b]	.000	0	.990
KDC	456.150[a]	24.885	18	.128

Table E.11: SIR vs Knowledge Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	323.374			
Final	208.764	114.610	42	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	123.589	132	.687
Deviance	121.871	132	.725

Pseudo R-Square

Cox and Snell	.345
Nagelkerke	.388
McFadden	.192

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
KPM	229.429	20.665	14	.111
KIR	209.435	.671	2	.715
KUS	223.493	14.728	8	.065
KSC	210.056	1.292	2	.524
KFDQ	213.909	5.145	8	.742
KKP	208.764[a]	.000	0	.
KDC	212.918	4.154	6	.656

Table E.12: SUS vs Knowledge Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	333.065			
Final	185.845	147.221	42	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	100.435	120	.902
Deviance	106.482	120	.806

Pseudo R-Square

Cox and Snell	.429
Nagelkerke	.482
McFadden	.255

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
KPM	219.329	33.484	14	.002
KIR	186.284	.439	2	.803
KUS	197.499	11.655	8	.167
KSC	189.095	3.250	2	.197
KFDQ	195.596	9.751	8	.283
KKP	185.845[a]	.000	0	.
KDC	192.625	6.780	6	.342

Table E.13: SSC vs Knowledge Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	395.022			
Final	201.685	193.337	44	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	145.409	122	.073
Deviance	136.270	122	.178

Pseudo R-Square

Cox and Snell	.537
Nagelkerke	.604
McFadden	.351

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
KPM	224.374	22.689	14	.066
KIR	205.046	3.361	2	.186
KUS	219.261	17.576	8	.025
KSC	202.283	.598	2	.742
KFDQ	206.796	5.111	10	.884
KKP	201.685[a]	.000	0	.
KDC	209.548	7.863	6	.248

Table E.14: SCI vs Knowledge Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	754.156			
Final	394.345	359.811	132	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	279.374	408	1.000
Deviance	254.268	408	1.000

Pseudo R-Square

Cox and Snell	.707
Nagelkerke	.722
McFadden	.316

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
KPM	454.203[a]	59.858	42	.036
KIR	402.873[a]	8.528	6	.202
KUS	425.820[a]	31.474	24	.141
KSC	396.132[a]	1.787	6	.938
KFDQ	422.804[a]	28.458	30	.546
KKP	394.345[b]	.000	0	.
KDC	409.521[a]	15.176	18	.650

Table E.15: SFDQ vs Knowledge Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	341.668			
Final	199.282	142.386	42	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	116.272	130	.800
Deviance	120.783	130	.707

Pseudo R-Square

Cox and Snell	.400
Nagelkerke	.450
McFadden	.232

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
KPM	225.821	26.539	14	.022
KIR	206.451	7.169	2	.028
KUS	210.282	11.000	8	.202
KSC	203.147	3.866	2	.145
KFDQ	213.958	14.676	8	.066
KKP	199.282[a]	.000	0	.
KDC	200.949	1.667	6	.948

Table E.16: SDC vs Knowledge Independent Variables

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	355.038			
Final	183.476	171.562	44	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	111.302	114	.554
Deviance	116.361	114	.421

Pseudo R-Square

Cox and Snell	.484
Nagelkerke	.545
McFadden	.301

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
KPM	213.877	30.401	14	.007
KIR	184.509	1.033	2	.597
KUS	209.249	25.773	8	.001
KSC	184.132	.656	2	.720
KFDQ	199.147	15.670	10	.109
KKP	183.476[a]	.000	0	.
KDCl	189.851	6.375	6	.383

Table E.17: Total Satisfaction – Preferences

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	169.273			
Final	139.123	30.150	20	.067

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	62.838	54	.192
Deviance	71.485	54	.056

Pseudo R-Square

Cox and Snell	.157
Nagelkerke	.176
McFadden	.078

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
PSC	140.832	1.709	4	.789
PRB	144.549	5.426	2	.066
PSA	141.012	1.889	2	.389
PRU	151.545	12.422	6	.053
PCI	141.122	1.999	4	.736

Knowledge – Disclosure
Table E.18: Total Knowledge – Disclosure

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	411.729			
Final	106.510	305.219	88	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	158.872	168	.681
Deviance	102.351	168	1.000

Pseudo R-Square

Cox and Snell	.638
Nagelkerke	.851
McFadden	.734

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	171.218	64.707	64	.452
DIR	110.692	4.182	5	.524
DUS	112.570	6.060	4	.195
DSC	113.334	6.824	5	.234
DCI	108.782	2.272	1	.132
DFDQ	111.211	4.701	3	.195
DKP	117.168	10.658	2	.005

Table E.19: KPM - Disclosure

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	1.210E3			
Final	277.233	932.766	616	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	240.635	1176	1.000
Deviance	241.765	1176	1.000

Pseudo R-Square

Cox and Snell	.955
Nagelkerke	.971
McFadden	.748

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	5.091E2	231.825	448	1.000
DIR	3.418E2	64.560	35	.002
DUS	3.028E2	25.558	28	.597
DSC	2.994E2	22.148	35	.955
DCI	2.821E2	4.831	7	.681
DFDQ	2.910E2	13.768	21	.879
DKP	2.809E2	3.623	14	.997

Table E.207: KIR – Disclosure

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	385.965			
Final	211.997	173.969	88	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	216.606	168	.007
Deviance	183.695	168	.193

Pseudo R-Square

Cox and Snell	.440
Nagelkerke	.587
McFadden	.418

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	289.556	77.559	64	.119
DIR	221.411	9.414	5	.094
DUS	213.850	1.854	4	.763
DSC	216.561	4.565	5	.471
DCI	216.012	4.015	1	.045
DFDQ	212.919	.923	3	.820
DKP	219.088	7.091	2	.029

Table E.21: KUS – Disclosure

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	817.103			
Final	128.976	688.127	264	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	136.067	504	1.000
Deviance	115.924	504	1.000

Pseudo R-Square

Cox and Snell	.899
Nagelkerke	.959
McFadden	.827

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	2.660E2	137.046	192	.999
DIR	1.717E2	42.770	15	.000
DUS	1.455E2	16.557	12	.167
DSC	1.430E2	14.051	15	.522
DCI	1.304E2	1.408	3	.704
DFDQ	1.377E2	8.680	9	.467
DKP	1.505E2	21.502	6	.001

Table E.229: KSC – Disclosure

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	412.305			
Final	45.273	367.032	88	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	55.422	168	1.000
Deviance	42.265	168	1.000

Pseudo R-Square

Cox and Snell	.706
Nagelkerke	.941
McFadden	.883

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	109.571	64.298	64	.466
DIR	55.511[a]	10.238	5	.069
DUS	51.093	5.819	4	.213
DSC	59.077	13.804	5	.017
DCI	47.187[a]	1.914	1	.167
DFDQ	54.230	8.956	3	.030
DKP	52.617	7.344	2	.025

Table E.23: KFDQ – Disclosure

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	1.062E3			
Final	102.953	958.815	440	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	120.233	840	1.000
Deviance	91.288	840	1.000

Pseudo R-Square

Cox and Snell	.959
Nagelkerke	.986
McFadden	.892

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	6.100E2	354.262	320	.091
DIR	3.774E2	121.592	25	.000
DUS	2.744E2	18.607	20	.547
DSC	2.984E2	42.658	25	.015
DCI	2.348E2	1.643	5	.896
DFDQ	2.958E2	39.972	15	.000
DKP	2.293E2	.280	10	1.000

Table E.24: KKP – Disclosure

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	415.888			
Final	.000	415.888	88	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	.000	168	1.000
Deviance	.000	168	1.000

Pseudo R-Square

Cox and Snell	.750
Nagelkerke	1.000
McFadden	1.000

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	.000[a]	.	64	.
DIR	.000[a]	.000	5	1.000
DUS	.000[a]	.000	4	1.000
DSC	.000[a]	.000	5	1.000
DCI	.000[a]	.000	1	1.000
DFDQl	.000[a]	.000	3	1.000
DKP	.000[a]	.000	2	1.000

Table E.25: KDC – Disclosure

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	794.686			
Final	375.730	418.956	264	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	415.313	504	.998
Deviance	342.459	504	1.000

Pseudo R-Square

Cox and Snell	.753
Nagelkerke	.803
McFadden	.504

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
DM	5.759E2	200.210	192	.327
DIR	3.913E2	15.568	15	.411
DUS	385.854	10.123	12	.605
DSC	405.159	29.428	15	.014
DCI	378.167	2.437	3	.487
DFDQ	383.190	7.459	9	.589
DKP	402.456	26.725	6	.000

Table E.26: Preference – Knowledge

Model Fitting Information

Model	Model Fitting Criteria -2 Log Likelihood	Likelihood Ratio Tests Chi-Square	df	Sig.
Null	416.732			
Final	176.022	240.710	42	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	87.646	140	1.000
Deviance	110.181	140	.970

Pseudo R-Square

Cox and Snell	.552
Nagelkerke	.621
McFadden	.365

Likelihood Ratio Tests

Effect	Model Fitting Criteria -2 Log Likelihood of Reduced Model	Likelihood Ratio Tests Chi-Square	df	Sig.
KPM	201.919	25.897	14	.027
KIR	178.696	2.674	2	.263
KUS	178.526	2.504	6	.868
KSC	176.181	.159	2	.924
KFDQ	181.292	5.270	10	.872
KKP	1.760E2	.000	0	.
KDC	177.897	1.875	6	.931

Table E.27: PSC – Knowledge

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	379.391			
Final	151.553	227.837	42	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	102.258	120	.878
Deviance	97.834	120	.931

Pseudo R-Square

Cox and Snell	.615
Nagelkerke	.691
McFadden	.434

Likelihood Ratio Tests

	Model Fitting Criteria	Likelihood Ratio Tests		
Effect	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
KPM	168.003	16.449	14	.287
KIR	154.846	3.293	2	.193
KUS	158.684	7.130	6	.309
KSC	151.616	.063	2	.969
KFDQ	166.039	14.486	10	.152
KKP	1.516E2	.000	0	.
KDC	158.829	7.275	6	.296

Table E.28: PRB – Knowledge

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	183.241			
Final	139.869	43.372	21	.003

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	69.221	67	.402
Deviance	81.080	67	.116

Pseudo R-Square

Cox and Snell	.143
Nagelkerke	.191
McFadden	.111

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
KPM	145.085	5.216	7	.634
KIR	139.965	.096	1	.757
KUS	144.410	4.541	3	.209
KSC	139.924	.055	1	.814
KFDQ	144.855	4.985	5	.418
KKP	1.399E2	.000	0	.
KDC	162.105	22.236	3	.000

Table E.29: PKP – Knowledge

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	260.268			
Final	34.783	225.485	21	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	20.825	56	1.000
Deviance	21.033	56	1.000

Pseudo R-Square

Cox and Snell	.648
Nagelkerke	.864
McFadden	.753

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
KPM	38.409	3.626	7	.822
KIR	34.943	.160	1	.689
KUS	35.914	1.130	3	.770
KSC	35.775	.992	1	.319
KFDQ	36.611	1.828	5	.872
KKP	34.783[a]	.000	0	.
KDC	37.162	2.379	3	.498

Table E.30: PRU – Knowledge

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	712.588			
Final	192.338	520.249	84	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	104.057	280	1.000
Deviance	114.251	280	1.000

Pseudo R-Square

Cox and Snell	.823
Nagelkerke	.858
McFadden	.539

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
KPM	2.142E2	21.879	28	.787
KIR	1.936E2	1.275	4	.866
KUS	1.966E2	4.270	12	.978
KSC	1.932E2	.824	4	.935
KFDQ	2.073E2	14.940	20	.780
KKP	1.923E2	.000	0	.
KDC	2.023E2	9.944	12	.621

Table E.31: PCI – Knowledge

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Null	409.352			
Final	187.565	221.788	42	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	130.717	140	.701
Deviance	117.298	140	.919

Pseudo R-Square

Cox and Snell	.523
Nagelkerke	.588
McFadden	.336

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
KPM	218.033	30.468	14	.007
KIR	197.882	10.318	2	.006
KUS	199.082	11.517	6	.074
KSC	188.479	.914	2	.633
KFDQ	199.547	11.982	10	.286
KKP	1.876E2	.000	0	.
KDC	198.703	11.139	6	.084

<u>Appendix F</u>

<u>*Takaful* Participants' Survey</u>

Dear *takaful* participant's, below are a number of questions that aim to enhance the rights and obligations of the *takaful* participants' (policyholders'), as well as bringing good services to the *takaful* participants' .The survey is part of the requirements to fulfill the required conditions to pass my postgraduate study, thus it will be highly appreciated if you could please support my study by answering the survey questions, the estimate time to properly answering the questions goes from 10 – 15 minutes. Your answer will be treated in a high confidential manner, your identity will not be appear to any party, as you are not required to state your name, or policy number at the *takaful* company.

<u>**Very important Noticed**</u>

The following are a brief explanations on some of the terminologies that been used in the questioners, I thought such explanation might facilitate a better understanding of the questioners:

Shareholders': an individual, either a company or person who owes a certain percentage on the company shares, shareholders sometime own more than 10% of the whole shares of the company, accordingly shareholders shares in the company increases as more dominant and control can be exerted from shareholders on the company management decisions.

The Company Actuary: an individual expert who uses statistics to calculate insurance premiums by dealing with the financial impact of risk and uncertainty. Thus, the actuaries suppose to be the point of communication between the *takaful* company and the participants', the actuary also should advice participants of their rights and obligations.

Participants: is an individual who bought a contract in the *takaful* company, while in conventional insurance such an individual called "policyholders".

Participants' Fund: it's the fund that been launch by the *takaful* company out of the participants collected premiums (contributions), the fund is then separated according to a certain percentage into two sections,

The first section: this section is collected for the purpose of covering different **underwriting activities** by the *takaufl* company, such as participant claims, as well as different expenses "direct and indirect" encountered by the *takaful* company, **the surplus** of this account after deducting the mentioned expenses above will be distributed at the end of the contract year among all participants according to the premium paid, however *takaful* company might share on the underwriting surplus as an incentive for them for generating these surplus.

The second section: this section is collected for the purpose of investments that the remaining fund will be invested on behalf of the participants into different investment portfolios in accordance to the *sharia'h* principles, the return of such investments will distributed among participants according to their premium rate, however *takaful* company might share on the investments return as an incentive for them for generating such profits.

Takaful Participants' Survey

The following questions will require an answer by either filling the blank spaces or by marking the appropriate boxes with (x).

- Name of the Takaful Company: ____________________ Date: _________________

- Respondent's Number: _________ Educational Level: __________________

- Age: ________ Gender: ________ Hobbies: ________

- Employment: Government ____ Private Sector ____

Business ____ Student ____

Unemployed ____ Retired ____

A- Participants Perceptions about TOs Disclosure System

I. Disclosure Mechanism Availability

Q	Questions	Y	N
1	The company discloses ways to let me review my benefits at the participants' fund		
2	The company discloses the used approach to distribute investment return among participants		
3	The company often notifies me on different *Fatwas* issued regarding PF, specifically "Investment & surplus distribution"		

II. Disclosure Mechanism Tools

Q	S-Q	Questions	Y	N
4		Which approach does the company use to communicate with me:		
	4-1	The Internet		
	4-2	Letters		
	4-3	Meeting		
	4-4	Seminars		
	4-5	SMS		
	4-6	Phone		
	4-7	Brochures		
	4-8	The company often communicates with me		

III. Disclosure Mechanism *via* Intermediaries

Q	Questions	Y	N
5	Did you buy your policy from intermediaries? If yes, go to question 6, otherwise go to question 8.		
6	Does the intermediary have sufficient knowledge of *Sharia'h?*		
7	Does the intermediary have sufficient knowledge of *takaful* business?		

IV. Communications, Social Involvements and Expectations

SD = Strongly Disagree, D = Disagree, N= Neutral, A= Agree, SA= Strongly Agree

Q	Questions	S.D	D	N	A	S. A
8	The company discusses the Underwriting Surplus I deserved in the participants fund with me					
9	The company discusses the investment return on PF with me					
10	The company discusses my targeted expectations with me					
11	The company communicate the issues relevant to my *takaful* policy with me					

2. Disclosure of Investment Returns (DIR)

Q	Questions	Y	N
12	The company disclosed their policy and procedures for handling participants' investment returns.		
13	The company disclosed a statement of profit and loss in the participants' fund		
14	The company disclosed a performance statement for participants' investment fund		
15	The company disclosed the expected period for distribution of investment returns		
16	The company disclosed the previous investment returns		
17	The company disclosed the composition of participants' fund assets		

3. Disclosure of Underwriting Surplus (DUS)

Q	Questions	Y	N
18	The company disclosed their policy and procedures for handling participants' surplus from underwriting activities.		
19	The company disclosed the methods used to calculate Underwriting Surplus		
20	The company disclosed the conditions that allow them to receive Underwriting Surplus		
21	The company disclosed the uncollected Underwriting Surplus to me.		

4. Disclosure of *Shari'ah* Compliance (DSC)

Q	Questions	Y	N
22	The company disclosed policy and procedures to reflect the obligations of complying with *Shari'ah* laws in the participants' fund.		
23	The company disclosed the *Shari'ah* compliance annual report to participants.		
24	The company disclosed the method and basis of *Shari'ah* methods used to allocate Underwriting Surplus to participants.		
25	The company disclosed the criteria used to scrutinize investment portfolio to participants.		
26	The company disclosed the purifications technique used on the participants fund investment assets		

5. Disclosure of Claims and Indemnities (DCI)

Q	Questions	Y	N
27	The company discloses their policy and procedures for handling participants' claims and indemnities.		

6. Disclosure of Fees, Deficits and *Qard Hasan* (DFDQ)

Q	Questions	Y	N
28	The company disclosed the incentives percentage taken by the company for good performance		
29	The company disclosed the direct and indirect expenses against the participants' fund		
30	The company disclosed the eligibility of participants' fund to receive *Qard Hasan*		
31	The company disclosed whether PIF covers the deficit of PRF		

7. Disclosure of Key Personnel (DKP)

Q	Questions	Y	N
32	Disclosure of investing participant fund into shareholders' equities		
33	Disclosure of shareholders activities on participant underwriting surplus		
34	Disclosure of BoDs decisions regarding PF		

B. Participants Knowledge and Awareness

1. Knowledge of the *Takaful* Model Principles (KPM)

Q	Questions	Y	N
1	Does the company brief you on the principles of *takaful* models		
2	What are the *takaful* models you are participating in		
3	Is there a minimum duration period to cancel the contract		

2. Knowledge of Investment Return (KIR)

Q	Questions	Y	N
4	Do you know the difference between PIF & PRF		

3. Knowledge of Underwriting Surplus (KUS)

Q	Questions	Y	N
5	Do you know the difference between net underwriting surplus and gross underwriting surplus ?		

6- The company distribute underwriting surplus to:

a) All participants without differentiating between claimable and non-claimable accounts □
b) Those participants who have not made any claims for a given financial year □
c) Those participants where the amount of claims is less than the contribution paid □
d) I Don't know

4. Knowledge of *Shari'ah* Compliance (KSC)

Q	Questions	Y	N
7	Do you the know difference between Re-Insurance and *Re-Takaful?*		

5. Knowledge of Expenses, Fees, Deficits and *Qard Hasan* (KFDQ)

8- services provided by the *takaful* company, which of the following fees does the company charge the participants fund account,

a) Up front *wakalah* fee □
b) Investments management fees □
c) I don't know □
d) Other (please specify): ____

9- Under which of the following conditions would you be required by the *takaful* company to pay additional contributions:

a) Recovering Underwriting Deficits □
b) Building-up Reserves □
c) Paying back Shareholders' *Qard* □
d) I don't know □

Q	Questions	Y	N
10	Does the Operator call before to recover participant's fund deficits		

6. Knowledge of the Company's Key Personnel Power and Activities (KKP)

11- Are you aware of the following key governance personnel of the *takaful* company you participating in:

a) "BoDs", Board of Directors □
b) Shareholders □
c) Senior Management □
d) "SSB", *Sharia'h* Supervisory Board □
e) Company Appointed Actuary □
f) Investment Management Team □
g) Outsourced Investment Company □
h) I don't know □

12- Do the shareholders of the company share with participants the,

a) Underwriting Surplus □
b) Investments Return □
c) I don't know □

7. Knowledge of Dissatisfaction Channels (KDC)

13- What options been given by the company in case you are dissatisfied with the company services:

a) Complain to the company □
b) Quit the company and move elsewhere □
c) I don't Know □
d) Other, please specify:________________________________

14- Which of the following you can refer to in case of dispute between you and the company:

a) Arbitration □
b) Court □
c) Ombudsman □
d) I don't Know □
e) Other, *Please specify:*

C. Participants Preferences

1. Participants' Preferences for *Shari'ah* compliance (PSC)

SD = Strongly Disagree, D = Disagree, N= Neutral, A= Agree, SA= Strongly Agree

Q	Questions	S.D	D	N	A	S. A
1	Participants' Fund will be affected because SSB gives less time to judge assets validity.					
2	I would like to have an opportunity to select the SSB					

2. Participants' Preferences for a Representative on the TOs' BoD's (PRB)

SD = Strongly Disagree, D = Disagree, N= Neutral, A= Agree, SA= Strongly Agree

Q	Questions	S.D	D	N	A	S. A
3	I would like to have a representatives who represents all participants on the BoDs					

3. Participants' Preferences on TOs' Key Personnel Power and Activities (PKP)

SD = Strongly Disagree, D = Disagree, N= Neutral, A= Agree, SA= Strongly Agree

Q	Questions	S.D	D	N	A	S. A
4	Participants should have the right to refuse shareholders activities on the participants' fund					

4. Participants' Preferences on the Reason to Use the *Takaful* Policy (PRU)

Q	S-Q	Questions	Y	N
5		Why do you use *takaful* insurance:		
	5-1	To protect myself against financial loss		
	5-2	To make a future plan that can benefit me and my family		
	5-3	To help other participants in their needs		
	5-4	To obey the government mandatory order to carry an insurance policy		
	5-5	Because of *Shari'ah* compliance		

6- Which of the following you prefer,

a) A strict *Sharia'h* compliance with lower investments return □

b) Loose *Sharia'h* compliance with higher investments return □

5. Participants' Preferences for Claims and Underwriting Surplus (PCU)

Q	Questions	Y	N
7	When I make claim I still want to share Underwriting Surplus with other participants		
8	When other participants make a claim, do you think they deserve to share Underwriting Surplus with other participants?		

D. Participants Satisfaction Level

Please mark the appropriate boxes with (x), based on your satisfaction level on the company provided services, where (SnS = Strongly not Satisfied, nS = not Satisfied, N= Neutral, S= Satisfied, SS= strongly Satisfied)

1. Satisfaction with the TOs' Disclosure Mechanisms (SDM)

Q	Questions	SnS	nS	N	S	S.S
1	Are you satisfied with the company disclosure in regards to any changes on the contracts terms?					
2	Are you satisfied with the disclosure mechanisms of informing participants of their rights related to "investment return/underwriting surplus"?					
3	Are you satisfied with the disclosure mechanisms that make participants eligible to receive *qard* loan in cases when their account encounters a financial loss?					
4	Are you satisfied with the *takaful* company in conveying your rights and obligations of receiving benefits?					

2. Satisfaction with the Investment Return (SIR)

Q	Questions	SnS	nS	N	S	S.S
5	Are you satisfied with the income and profits generated from participant's investment accounts?					
6	Are you satisfied with the ways and methods used to distribute investment returns among participants?					

3. Satisfaction with the Underwriting Surplus (SUS)

Q	Questions	SnS	nS	N	S	S.S
7	Are you satisfied with the amount of underwriting surplus distributed by the company?					
8	Are you satisfied with the way and methods used in disclosing and allocating underwriting surplus?					

4. Satisfaction with *Shari'ah* Compliance (SSC)

Q	Questions	SnS	nS	N	S	S.S
9	Are you satisfied with the company *Shari'ah* compliance mechanisms?					
10	Are you satisfied with the way and method used by the *Shari'ah* scholars to allocate underwriting surplus?					

5. Satisfaction with Claims & Indemnities (SCI)

Q	Questions	SnS	nS	N	S	S.S
11	Are you satisfied with the terms and conditions of the required claim notice?					
12	Are you satisfied with the prompt and permanent indemnity payments terms and conditions?					
13	Are you satisfied with the claim settlements procedures indicated in the policy contract?					
14	Are you satisfied with the time giving to participants to indemnify and recover the encountered loss?					

6. Satisfaction with Charged Fees, Deficits and *Qard Hasan* (SFDQ)

Q	Questions	SnS	nS	N	S	S.S
15	Are you satisfied if the operator called on you for additional contribution to recover a deficit on the participant's fund?					
16	Are you satisfied with the amount of incentives that the company is deducting from participants' fund for good performance in generating underwriting surplus and investment return?					

7. Satisfaction with the Company's Key Personnel Power and Activities (SKP)

Q	Questions	SnS	nS	N	S	S.S
17	Are you satisfied to let the operator share underwriting surplus and investment return with you?					
18	Are you satisfied with the shareholders ownership share in company?					

Survey Arabic Translation

<u>إستبيان حملة وثائق التأمين التكافلي</u>

عزيزي حامل وثيقه التامين في شركه التامين التكافلي

السلام عليكم ورحمه الله وبركاته

تجدون ادناه مجموعه من الاسئله التي اتمني ان احصل على إجابات لها من قبلكم حتي اتمكن من إنهاء متطلبات إنهاء البحث الذي انا بصدده وهي إيجاد خدمه افضل لحمله وثائق التامين التكافلي, علما بان وقت إجابه الاسئله قد يستغرق من 10 إلى 15 دقيقه.

اخيرا اؤد ان الفت إنتباهكم ان جميع الاجابات المحصله قد يتم التعامل معها بسريه تامه جدا ولن تكشف هويه المشاركين في الاسئله لشركه التامين التكافلي.

<u>ملاحظه هامه جدا</u>

فيما يلي موجز لشرح بعض المصطلحات التي وردت من ضمن الاسئله والتي قد تسهل الاجابه على نموذج الاستبيان.

المساهمين: هم الذين يملكون اسهم في شركه التامين التكافلي قد تصل حصه المساهم في اسهم الشركه إلي اكثر من 10% من المجموع الاجمالي لاسهم الشركه, المساهم قد يكون بنك اورجل اعمال يمتلك نسبه في اسهم شركه التكافل, وبالتالي إمتلاك اسهم كثيره في الشركه قد يفرض على المساهم السيطره على إداره الشركه والتحكم في قرارات **مجلس إداره** شركه التكافل.

الاكتوارى: هو الشخص الخبير بدراسه وتقدير الاحصاءات للحصول على نسبه الخطر المتوقعه من كل مؤمن وبالتالي فهو الشخص الذي توكل إليه مهمه تقدير مبالغ الاقساط الشهريه للتامين.

حامل وثيقه التامين: هو الفرد الذي يخشي ان يتعرض إلي خسائر ماديه في المستقبل لذلك فهو يحمي نفسه بشراء وثيقه التامين التكافلي لكي يجد الدعم المادي عند وقوع الخسائر.

صندوق مال المؤمنين: هو الصندوق الذي يتم فيه تجميع جميع اقساط التامين من قبل حمله وثائق التامين, ومن ثم تقوم شركه التامين التكافلي بتقسيم صندوق المال إلي **قسمين:**

القسم الاول: يجمع لسد إحتياجات حمله الوثائق عند تعرضهم لاي مخاطر ماليه , كما انه يتم خصم بعض مصاريف شركه التامين التكافلي المباشره وغير المباشره من هذا القسم. اما **فائض هذا القسم** عند نهايه العام وبعد إستقطاع جميع ماورد سابقا فانه يوزع على حمله وثائق التامين كل حسب نسبه القسط الذي يدفعه , ومع ذلك فإن شركه التامين التكافلي قد تشارك حمله الوثائق بهذا الفائض كحافز لهم لجهدهم المبذول للحصول على هذا الفائض.

القسم الثاني: يجمع لغرض الاستثمار في الاصول و المحافظ الاستثماريه التي تتوافق مع الشريعه الاسلاميه, واما عوائد الارباح فيتم توزيعها على حمله الوثائق كل حسب نسبه القسط الذي يدفع , ومع ذلك فإن شركه التامين التكافلي قد تشارك حمله الوثائق بالعوائد والارباح من هذه المحافظ الاستثماريه كحافز لهم لجهدهم المبذول للحصول على هذه الارباح.

تعباء من قبل الباحث

رقم المشاركه:__________________ التاريخ:________________

<u>بدايه الاستبيان</u>

تعباء من قبل حامل وثيقه التامين التكافلي

الرجاء الاجابه علي الاسئله الاتيه:

إسم شركه التامين التكافلي المشترك فيها:__________________ مستوى التعليم:________________

العمر:______________ الجنس: ذكر / انثي

الوظيفه:____

نوع وثيقه التامين: عام: __________ , عائليه: ____________, خطه التامين العائليه:____________

عدد افراد الاسره المضموميين لوثيقه التامين:_____________

القسط الشهري لوثيقه التامين:_____________ , الفتره الزمنيه لوثيقه التامين:________________

هل يوجد شرط جزائي عند إلغاء وثيقه التامين:____

A- Participants Perceptions about TOs Disclosure System

1. Disclosure Mechanism "DM"

I. Disclosure Mechanism Availability

س	السؤال	نعم	لا
1	الشركه قامت بإستعراض الفوائد المستحقه من الصندوق المالي للمؤمنين (كالفائض المالي الناتج من عمليه تشغيل صندوق المؤمنين وعائد إستثمار المحفظه الاستثماريه للمؤمنين.		
2	شركه التامين التكافلي اوضحت لي طريقه توزيع عوائد وارباح المحفظه الاستثماريه علي حمله وثائق التامين التكافلي المشتركيين في نفس صندوق مال المؤمنين.		

س	السؤال	لااوافق بشده	لااوافق	محايد	اوافق	اوافق بشده
3	شركه التامين التكافلي دائما ما تتطلعني على الفتاوي الصادره من مجلس مستشاري اللجنه الشرعيه في كل امر يخص صندوق مال المؤمنين من حيث (طرق توزيع الفائض المتبقي من مختلف نشاطات صندوق مال المؤمنين , الاصول في المحافظ الاستثماريه الخاصه بالمؤمنين , طريقه توزيع الارباح العائده من إستثمار المحفظه , مشاركه المساهمين في صندوق مال المؤمنين, طريقه الحصول على القرض الحسن لسد عجز صندوق مال المؤمنين, وغيرها).					

II. Disclosure Mechanism Tools

4 اى من الوسائل التاليه تستخدم من قبل شركه التامين التكافلي للتواصل معك

الانترنت ( ), رسائل بريديه ( ), إجتماعات خاصه ( ), ندوات تثقيفيه بنظام التكافل ( ), رسائل على الجوال ( )
إتصال هاتفي ( ), شركه التامين التكافلي لاتتواصل معي ( ), لقاءات إجتماعيه لزياده الترابط بين الشركه والمؤمن ( )
إجابه اخرى (وضح ذلك لوسمحت):____________

III. Disclosure Mechanism *via* Intermediaries

لا	نعم	السؤال	س
		هل اشتريت عقد التامين التكافلي عن طريق سمسار /وسيط لشركه التامين الرئسيه, اذا كان الجواب نعم فانتقل لسؤال رقم 6, إذا كان الجواب لا فانتقل لسؤال رقم 8 من فضلك.	5
		هل تعتقد ان السمسار / الوسيط لشركه التامين الرئسيه يمتلك كميه معقوله من المعلومات والخبره بخصوص الشريعه الاسلاميه وتطبيقاتها في التامين التكافلي.	6
		هل تعتقد ان السمسار / الوسيط لشركه التامين الرئسيه يمتلك كميه معقوله من المعلومات العامه عن مختلف المواضيع الخاصه بالتامين التكافلي.	7

IV. Communications, Social Involvements & Expectations

اوافق بشده	اوافق	محايد	لااوافق	لااوافق بشده	السؤال	س
					شركه التامين التكافلي تناقش معي وجهه نظري في النسبه المؤيه التي استحقها من عوائد ارباح المحفظه الاستثماريه الخاصه بحمله وثائق التامين التكافلي.	8
					شركه التامين التكافلي تناقش معي وجهه نظري في النسبه المئويه التي استحقها من الفائض العام لصندوق مال المؤمنين.	9
					شركه التامين التكافلي تناقش معي على الدوام كل مايختص باهدافي المتوقعه من مشاركتي بصندوق مال المؤمنين.	10
					شركه التامين التكافلي دائما علي إتصال بي لمناقشه مختلف القضايا المستجده في عقد وثيقه التامين الخاصه بي وايضا مناقشه كل المستجدات المتعلقه بصندوق مال المؤمنين.	11

2. Disclosure of Investment Returns (DIR)

لا	نعم	السؤال	س
		هل شركه التامين التكافلي اوضحت لك عن السياسات والاجراءات المتبعه بخصوص حقوقك المتعلقه في الصندوق المالي للمؤمنين, من ناحيه العائد المالي من عمليات إستثمار المحافظ الاستثماريه للصندوق المالي للمؤمنين.	12
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح الارباح والخسائر المتعلقه بالصندوق المالي للمؤمنين.	13
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح اداء المحفظه الاستثماريه.	14
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح الوقت المتوقع لتوزيع عوائد الارباح من المحفظه الاستثماريه.	15
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح الارباح السابقه للمحفظه الاستثماريه.	16
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت محتوى وانواع الاصول في المحفظه الاستثماريه.	17

3. Disclosure of Underwriting Surplus (DUS)

لا	نعم	السؤال	س
		هل شركه التامين التكافلي اوضحت لك عن السياسات والاجراءات المتبعه بخصوص حقوقك المتعلقه في الصندوق المالي للمؤمنين, من ناحيه الفايض المالي من عمليات تشغيل الصندوق المالي للمؤمنين.	18
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح طريقه توزيع الفائض المالي من عمليات تشغيل الصندوق المالي للمؤمنين.	19
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح طريقه التصرف بالفائض المالي الغير المستلم من عمليات تشغيل الصندوق المالي للمؤمنين من قبل حمله وثائق التامين التكافلي.	20

		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح الطرق المختلفه لتوزيع الفائض المالي من عمليات تشغيل الصندوق المالي للمؤمنين.	21

4. Disclosure of *Sharia'h* Compliance (DSC)

لا	نعم	السؤال	س
		هل شركه التامين التكافلي اوضحت لك عن السياسات والاجراءات المتبعه بخصوص حقوقك المتعلقه في الصندوق المالي للمؤمنين, من ناحيه التوافق مع الشريعه الاسلاميه.	22
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح التقرير السنوي الصادر عن الهيئه الشرعيه لشركه التامين التكافلي.	23
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح الطريقة الشرعية المطبقة في توزيع فائض الارباح من تشغيل صندوق مال المؤمنين.	24
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح المعايير الشرعيه لتدقيق وفرز الاصول الموجوده في المحافظ الاستثمارية في صندوق مال المؤمنين.	25
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح الطريقه الشرعيه المتبعه لتنقيه الاصول الموجوده في المحافظ الاستثماريه الخاصه بصندوق مال المؤمنين.	26

5. Disclosure of Claims and Indemnities (DCI)

لا	نعم	السؤال	س
		هل شركه التامين التكافلي اوضحت لك عن السياسات والاجراءات المتبعه بخصوص حقوقك المتعلقه في الصندوق المالي للمؤمنين, من ناحيه إستحقاق التعويض في حال وجود خساره ماديه.	27

6. Disclosure of Fees , Deficits and *Qard* (DFDQ)

لا	نعم	السؤال	س
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح نسبة الحوافز التي تتقاضاها الشركة نتيجه الاداء الجيد في تشغيل الصندوق المالي للمؤمنين, وبالتالي الحصول فائض مالي في صندوق المؤمنين والحصول علي عائد مادي نتيجه إداره المحافظ الاستثماريه للمؤمنين.	28
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح مصاريف شركه التامين التكافلي المباشره وغير المباشره والتي تستقطع من الصندوق المالي للمؤمنين.	29
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح حقوق المؤمنين بالحصول علي قرض حسن لسد عجز مالي في الصندوق المالي للمؤمنين.	30
		كمشارك في الصندوق المالي للمؤمنين الشركه قامت بتوضيح ما إذا كان عائد المحافظ الاستثماريه الخاصه بصندوق المومنين يتستخدم لتغطية العجز من صندوق الحمايه من المخاطر وعند الموت.	31

7. Disclosure of Key Personnel (DKP)

لا	نعم	السؤال	س
		كمشارك في الصندوق المالي للمؤمنين , قامت الشركه بتوضيح إستثمار صندوق مال المؤمنين في الاسهم الخاصه بمالكي شركه التامين التكافلي.	32
		كمشارك في الصندوق المالي للمؤمنين , قامت الشركه بتوضيح مختلف الأنشطة التي يقوم بها المساهمين من فائض الارباح من عمليه تشغيل الصندوق المالي للمؤمنين.	33

34	كمشارك في الصندوق المالي للمؤمنين , قامت الشركه بتوضيح مختلف القرارات التي صدرت من قبل مجلس الإدارة في ما يخص الصندوق المالي للمؤمنين.		

B- Participants Knowledge and Awareness

1. Knowledge of the *Takaful* Model Principles (KPM)

س	السؤال	نعم	لا
1	هل شركه التامين التكافلي اعطتك موجز عن اساسيات وطبيعه النموذج التشغيلي للصندوق المالي للمؤمنين الذي تشارك فيه.		
2	هل يوجد فتره معينه لالغاء وثيقه التامين.		

3. ماهو نوع نموذج التكافل التعاوني الذي تشارك فيه:

الوكاله ( ) المضاربه ( ) الوقف ( ) لا اعلم ( ) إجابه اخري (وضح ذلك لوسمحت):________________

2. Knowledge of Investment Return (KIR)

س	السؤال	نعم	لا
4	هل انت على درايه بالفرق مابين صندوق التامين والحمايه من المخاطر وعند الموت و صندوق التوفير الاستثماري العائلي		

3. Knowledge and Awareness of Underwriting Surplus (KUS)

س	السؤال	نعم	لا
5	هل انت على درايه بالفرق مابين الفائض الاجمالي من عمليات تشغيل الصندوق المالي للمؤمنين والفائض الصافي من عمليات تشغيل الصندوق المالي للمؤمنين.		

6.ق مال المومنين على حمله الوثائق شركه التامين التكافلي توزع فائض صندو وفقا للاليه التاليه:
a) يوزع لجميع حمله وثائق التامين بدون تفرقه مابين من تقدم بطلب تعويض عن خساره ماليه او من لم يتقدم بطلب تعويض ( ).
b)يوزع فقط للمومنين الذين لم يطالبو باى تعويض خلال عقد التامين ( ).
c) يوزع للمومنين الذين قامو بطلب تعويضات , لكن هذه التعويضات اقل من قيمه الاقساط الشهريه المدفوعه لشركه التامين ( ).
d) لا اعلم ( ).

4. Knowledge of *Sharia'h* Compliance (KSC)

س	السؤال	نعم	لا
7	هل انت على درايه بالفرق بين إعاده التامين التجاري و إعاده التامين التكافلي.		

5. Knowledge of Expenses, Fees, Deficits and *Qard* (KFDQ)

8. من اجل الخدمه المقدمه من شركه التامين التكافلي, اي الرسوم التاليه تستقطعه شركه التامين من الصندوق المالي للمؤمنين:

a). رسوم تدفع لشركه التامين التكافلي لاداره وتشغيل الصندوق المالي للمشاركيين باستخدام نظام الوكاله ( ).

b). رسوم تدفع لشركه التامين التكافلى لاستثمار المحافظ الاستثماريه المتواجده في الصندوق المالي للمؤمنين ( ).

c). لا اعلم ( ).

d). إجابه اخري (وضح ذلك لوسمحت):______________

9.فى اى الظروف التاليه سوف تكون ملزم امام شركه التامين التكافلي لدفع مبلغ إضافي:

a) لسد عجز مالي في عمليات تشغيل الصندوق المالي للمؤمنين ( ).

b) لرفع مستوى رأس المال المدخر للصندوق المالي للمؤمنين ( ).

c) لدفع دين القرض الحسن المقدم من قبل ملاك شركه التامين التكافلي لسد عجز مالي في الصندوق المالي للمؤمنين ( ).

d) لا اعلم ( ).

e). إجابه اخرى (وضح ذلك لوسمحت):__________

س	السؤال	نعم	لا
10	هل طلبت منك شركه التامين التكافلي من قبل دفع رسوم إضافيه لسد العجز الحاصل في الصندوق المالي للمؤمنين.		

6. Knowledge of the Company's Key Personnel Power and Activities (KKP)

11هل انت علي درايه بالشخصيات القياديه التاليه في شركه التامين التكافلي :

a) مجلس اعضاء مديري إداره شركه التامين التكافلي ( ).

b)ملاك الاسهم الرئيسين لشركه التامين التكافلي ( ).

c)الاداره العليا في شركه التامين التكافلي ( ).

d)مجلس إداره مستشاري اللجنه الشريعيه في شركه التامين التكافلي ( ).

e) إكتواري "الخبير بشؤون التامين" الشركه ( ).

f) الفريق الموكل بإستثمار الصندوق المالي للمؤمنين ( ).

g)شركه الاستثمار الخارجيه (إذا كانت المحافظ الاستثماريه للصندوق المالي للمؤمنين تستثمر عن طريق شركه خارجيه وليس بواسطه شركه التامين التكافلي) ( ).

h) لا اعلم ( ).

12. هل ملاك الاسهم الرئيسين في شركه التامين التكافلي يشاركون المؤمنين في:

a) الفايض المالي العام من عمليات تشغيل الصندوق المالي للمؤمنين ( ).

b) العائد المالي من عمليات إستثمار المحافظ الاستثماريه للصندوق المالي للمؤمنين ( ).

c) لااعلم ( ).

7. **Knowledge of Dissatisfaction & Quitting Options (KDC)**

13. ما الخيارات الممنوحه من قبل شركه التامين التكافلي في حال عدم رضاك عن الخدمه المقدمه منهم:
a) التظلم والشكوى لجهه معنيه في شركه التامين التكافلي ( ).
b) الغي إشتراكي في اى وقت والانتقال إلي شركه تامين اخرى ( ).
c) لم تقدم لي شركه التامين اى خيارات في حال عدم رضائي عن الخدمه المقدمه منهم ( ).
d) لااعلم ( ).
e)إجابه اخرى (وضح ذلك لوسمحت):__________
14. اي من الجهات التاليه يمكن اللجو إليها في حال وجود إختلاف بيني وبين شركه التامين:
a)جهه ثالثه مختصه بعمليه فض النزاعات الحاصله مابين شركات التامين والمؤمنين ( ).
b)محكمه مختصه بفض النزاعات التجاريه والماليه ( ).
c)جهه محققه في الشكاوي ضد شركات التامين ( ).
d) لااعلم ( ).
e) إجابه اخرى (وضح ذلك لوسمحت):__________

C - Participants Preferences

1. **Participants' Preferences for *Sharia'h* compliance (PSC)**

س	السؤال	لااوافق بشده	لااوافق	محايد	اوافق	اوافق بشده
1	مجلس مستشاري اللجنه الشرعيه لايعطون الوقت الكافي لإصدار احكام شرعيه تخص مختلف القضايا التي تتعلق بصندوق مال المؤمنين.					
2	أود أن تتاح لي الفرصة للتصويت لاختيار اعضاء مجلس إداره مستشاري اللجنه الشريعيه في شركه التامين التكافلي.					

2. **Representative & voting rights (PRB)**

س	السؤال	لااوافق بشده	لااوافق	محايد	اوافق	اوافق بشده
3	هل تفضل ان يكون لك مندوب او متحدث بالنيابه عنك وعن جميع المشاركين من حمله وثائق التامين التكافلي, وظيفه المندوب هو ان يحضر جلسات مجلس إداره شركه التامين التكافلي وان يناقش مختلف القضايا التي تختص بصندوق مال المؤمنين.					

3. **Participants' Preferences on T.Os Key Personnel Power and Activities (PKP)**

س	السؤال	لااوافق بشده	لااوافق	محايد	اوافق	اوافق بشده
4	شركه التامين التكافلي يجب ان تعطيني جميع الخيارات والحقوق لرفض تدخل المساهمين في صندوق مال المؤمنين (كالمشاركه في الفائض التشغيلي للصندوق , إستثمار عوائد الارباح من المحفظه الاستثماره لصالحهم, وغيره).					

4. **Participants' Preferences on the Reason for Buying a Takaful Policy (PRU)**

5. لماذا إستخدمت نظام التاميين التكافلي

a) . لحمايه نفسي من عواقب خسائر ماليه ( )

b) . لعمل خطط مستقبليه تضمن مستقبل ورثتي من بعدى ( )

c) . لمساعده شركاء اخرين في نفس صندوق التامين التكافلي في حال تعرضهم لخسائر ماليه ( )

d) . لان الدوله فرضت التاميين الاجباري علي المواطنين والمقيمين ( )

e) . لتوافقه مع الشريعه الاسلاميه ( )

f) .إجابه اخري (وضح ذلك لوسمحت):________________

6. ما هو نوع التاميين الاستثمارى الذى تفضله:

a) . تاميين إسلامي موافق للشريعه الاسلاميه, لكن مع عائد مالي قليل , ومع قسط شهرى عالي نسبيا ( ).

b) . تاميين تجارى غير موافق للشريعه الاسلاميه لكن مع عائد مالي مرتفع , ومع قسط شهرى منخفض نسبيا ( ).

5. **Participants' Preferences for Claims and Underwriting Surplus (PCU)**

لا	نعم	السؤال	س
		بالرغم انك تقدمت بطلب تعويض لشركه التاميين التكافلي عن خسائر ماليه حصلت لك, هل تعتقد انك مازلت تستحق المشاركه في الفائض المالي الناتج من عمليات تشغيل الصندوق المالي للمؤمنين كما انك تستحق المشاركه في الارباح الناتجه من إستثمار المحافظ الاستثماريه الخاصه بالمؤمنين.	7
		عند مطالبه احد المشاركيين في صندوق مال المؤمنين بتعويض مالي من الصندوق نتيجه لخساره ماليه حصلت له , هل تعتقد انه مازال يستحق المشاركه في الفائض العام من صندوق مال المؤمنين.	8

D - Participants Satisfaction Level

1. **Satisfaction with the T.O.s' Disclosure Mechanisms (SDM)**

راض بشده	راض	محائد	غير راض	غير راضي بشده	السؤال	س
					هل أنت راض عن الاليه المستخدمه من اكتوارى شركه التامين التكافلي في نقل متطلباتك إلي شركه التكافل وايضا توضيح حقوقك المستحقه من شركه التامين كالمشاركه في الفائض المتبقي من صندوق مال المؤمنين, والمشاركه في عوائد الارباح من إستثمار المحفظه الاستثماره للمؤمنين.	1
					هل انت راض عن الاليه المستخدمه في توضيح حقوق المؤمنين في الاشتراك في الفائض المتبقي من صندوق مال المؤمنين وفي الاشتراك في عوائد الارباح الناتجه من إستثمار المحافظ الاستثماريه لصندوق مال المؤمنين.	2
					هل انت راض عن الاليه المستخدمه من قبل شركه التامين التكافلي لتوضيح احقيه صندوق مال المؤمنين بالحصول على قرض حسن لسد اى عجز مالي قد يطرا على الصندوق.	3
					هل انت راض عن اليه شركه التامين التكافلي لتوضيح اي مستجدات قد تطراء على شروط وثيقه عقد التامين مابين الشركه والمؤمن.	4

2. Satisfaction with the Investment Return (SIR)

راض بشده	راض	محائد	غير راض	غير راضي بشده	السؤال	س
					هل انت راض عن نسبه العوائد والارباح من تشغيل المحفظه الاستثماريه الخاصه بالمؤمنين.	5
					هل انت راض عن الطريقه المستخدمه لتوزيع وتقسيم عوائد الارباح الناتجه من إستثمار المحافظ الاستثماريه لصندوق مال المؤمنين.	6

3. Satisfaction with the Underwriting Surplus (SUS)

راض بشده	راض	محائد	غير راض	غير راضي بشده	السؤال	س
					هل انت راض علي النسبه او الكميه المعلنه والمقدمه من قبل شركه التامين التكافلي لحمله الوثائق في حال وجود فائض في صندوق مال المؤمنين.	7
					هل انت راض عن الطريقه المستخدمه في توضيح وتوزيع الفائض العام المتبقي من صندوق مال المؤمنين علي حمله الوثائق المستحقين للمشاركه.	8

4. Satisfaction with *Sharia'h* Compliance (SSC)

راض بشده	راض	محايد	غير راض	غير راض بشده	السؤال	س
					هل أنت راض عن الاليه المستخدمه من قبل الهيئه الشرعيه في شركه التامين التكافلي للتوافق وتحكيم مختلف القضايا التي تطرا على صندوق مال المؤمنين وفقا لاحكام الشريعه.	9
					هل انت راض عن الطريقه المستخدمه من قبل مجلس مستشاري اللجنه الشرعيه في تقسيم الفائض الناتج من النشاطات المختلفه لصندوق مال المؤمنين.	10

5. Satisfaction with Claims & Indemnities (SCI)

راض بشده	راض	محايد	غير راض	غير راض بشده	السؤال	س
					هل أنت راض عن الشروط والقيود المنصوص عليها في عقد التامين التكافلي في حال التعويضات المؤقته او التعويضات النهائيه عند تعرض حامل الوثيقه لخسائر ماديه.	11
					هل انت راض عن اليه وخطوات وشروط تعويض الخسائر لحمله الوثائق من قبل شركه التامين التكافلي.	12
					هل انت راض عن الفتره الزمنيه الموضحه في وثيقه عقد التامين لتعويض المؤمنين في حال وجود خسائر بعد إستيفاء جميع شروط التعويض.	13
					هل انت راض عن الشروط والمصطلحات الوارده في عقد وثيقه التامين لتعويض المؤمن في حال وجود خسائر ماديه.	14

6. Satisfaction with Charged Fees, Deficits and *Qard* (SFDQ)

راض بشده	راض	محائد	غير راض	غير راضي بشده	السؤال	س
					هل انت راض إذا طلبت منك شركه التامين التكافلي دفع رسوم إضافيه لسد العجز الحاصل في الصندوق المالي للمؤمنين.	15

16	هل انت راض عن مقدار الحوافز المستقطعه من صندوق مال المؤمنين لمكافاءه إداره شركه التامين التكافلي لجهدهم في الحصول على فائض مالي في صندوق مال المؤمنين وايضا لجهدهم في إيجاد عوائد او ارباح من تشغيل المحافظ الاستثماريه.					

7. Satisfaction with the Company's Key Personnel Power and Activities (SKP)

س	السؤال	غير راض بشده	غير راض	محايد	راض	راض بشده
17	هل انت راض ان تشارك شركه التامين التكافلي مع حمله الوثائق (المؤمنين المشتركين في نفس صندوق مال المؤمنين) في الفائض الناتج من مختلف الانشطه في صندوق مال المؤمنين وايضا ان تشارك في عوائد الارباح الناتجه من إستثمار المحفظه الاستثماريه للمؤمنين.					
18	هل انت راض عن نسبه الاسهم المملوكه لبعض المساهمين في شركه التامين التكافلي.					