

Motivating Factors in Contributing to Socio-Economic Objectives during the Pandemic of COVID-19: The Case of Malaysian Takaful Operators

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ABSTRACT

Malaysian takaful businesses have established their legitimacy with notable gains in market structure and net contribution income. Takaful is one of the most important financial products for wealth protection. Despite its significance, less than 50% of Malaysians as a whole have access to takaful. Takaful operators are governed by pertinent laws in addition to adhering to Shariah standards because they are professional organisations with the authority to operate in providing Shariah-compliant protection coverage to society. The Life Insurance and Family Takaful Framework initiative is one of the approaches from a regulatory perspective. Socioeconomic problems are also seen from the perspective of the Takaful operation institution itself. It is definitely intriguing to learn how the two perspectives are combined to provide the desired result for the entire Malaysian community. The main objective of this study is to explore the motivating factors of Takaful Operators in contributing for socio-economic objectives during the pandemic of Covid-19. To achieve the objective, ten takaful operator respondents will be questioned to get their thoughts on the subject. The research objectives also are in keeping with the Value-Based Intermediation for Takaful (VBIT) framework, which was created to provide inclusive protection for disadvantaged or underserved societal sectors and to solve key socioeconomic challenges.

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INTRODUCTION

Takaful is a form of social and moral insurance based on the concepts of *tabarru'*, or communal risk sharing, and *ta'awun*, or collaboration. The idea of takaful is to offer participants financial support in the event of catastrophe based on mutual aid, brotherhood, and solidarity. The Takaful Act (Laws of Malaysia 1984) defines takaful as a system based on fraternity, solidarity, and mutual benefit that provides financial aid to members in need through a procedure where members collectively agree to pay for that purpose (Maduku & Mbeya, 2023).

Takaful is seen as a solution to address socio-economic issues in line with the objectives of Maqasid Al-Shariah, which is to safeguard the fundamentals of faith, life, lineage, intellect, and wealth. The introduction of Value-Based Intermediaries for Takaful (VBIT) back in 2021, provides the plan to support businesses in putting essential initiatives into action that will help the sector develop to its full potential and contribute to a sustainable financial environment while also boosting the penetration of the takaful market in Malaysia. The implementation of VBIT also provides a way to assist Takaful Operators in achieving maqasid shariah in their operations.

Thus, the main objective of this study is to explore the motivating factors of Takaful Operators in contributing to socio-economic objectives during the pandemic of COVID-19. This paper is divided into four main sections. The literature review section discusses Malaysian Takaful Operators, the pandemic of COVID-19 and socio-economic objectives. Section three features the elaboration on the methodology and design of the study involved. Then, section four presents the substantial findings, and the final section contains the concluding comments.

LITERATURE REVIEW

Malaysian Takaful Operators

Muslim communities in Malaysia had a pressing need for a Shariah-acceptable replacement for the existing conventional insurance, which led to the industry's establishment and rapid expansion in the 1980s (Fauzi et al., 2016; Riad et al., 2021). When the Malaysian national Fatwa Committee declared that traditional life insurance violates Shariah principles because it contains elements of uncertainty, interest, and gambling, the necessity for takaful was increased. Since its founding in 1985, the Malaysian takaful sector has seen positive growth. An estimate of the industry's annual growth rate puts it at 20% (Wan Jusoh, 2023).

Despite being in a difficult economic environment because of COVID-19, the Malaysian Takaful (Islamic insurance) market is currently seeing positive development. The infusion of RM8 million into the COVID-19 Test Fund by the Malaysian Takaful Association (MTA), the Life Insurance Association of Malaysia (LIAM), and the *Persatuan Insurans Am Malaysia* (PIAM) is one of the activities that the sector has carried out since 2020 till recently, according to the MTA.

The growth of the Takaful sector in Malaysia has been impressive. Since there was only one Takaful operator in 1984, the Central Bank of Malaysia has continued to grant Takaful licenses to traditional financial institutions. As a result, by 2018, there were a total of 8 Takaful Operators for family and general Takaful businesses, with 3 Takaful Operators still focusing primarily on family Takaful businesses. The table below lists each Malaysian Takaful Operator.

Table 1: Takaful Operator for General Takaful and Family Takaful Business

| No. | Name of Takaful Operator | Year of establishment |
|-----|--------------------------------|--------------------------------|
| 1 | AIA PUBLIC Takaful Bhd | 11 th March 2011 |
| 2 | AmMetLife Takaful Berhad | 30 th April 2014 |
| 3 | Etiqa Family Takaful Berhad | 2007 |
| 4 | Etiqa General Takaful Berhad | 2007 |
| 5 | FWD Takaful Berhad | 2019 |
| 6 | Great Eastern Takaful Berhad | 10 th December 2010 |
| 7 | Hong Leong MSIG Takaful Berhad | 2006 |
| 8 | Prudential BSN Takaful Berhad | 2006 |

| | | |
|----|---|---------------------------------|
| 9 | Sun Life Malaysia Takaful Berhad | January 2013 |
| 10 | Syarikat Takaful Malaysia Am Berhad | 29 th November 1984 |
| 11 | Syarikat Takaful Malaysia Keluarga Berhad | 29 th November 1984 |
| 12 | Takaful Ikhlas Family Berhad | 18 th September 2002 |
| 13 | Takaful Ikhlas General Berhad | 18 th September 2002 |
| 14 | Zurich General Takaful Malaysia Berhad | 2 nd August 2016 |
| 15 | Zurich Takaful Malaysia Berhad | 2 nd August 2016 |

Sources: (BNM, 2023)

Pandemic of COVID-19

The coronavirus disease 2019 (COVID-19), a lethal viral illness brought on by the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), was started globally back in 2019 (Shah et al., 2020; Hashim, 2021). SARS-CoV-2 travels quickly from one person to the next, but it was once thought that animals spread the virus directly from one to the other by contact with a host serving as an intermediary. Transmission of the virus can also occur if infected meat is consumed, whether it is raw or semi-cooked. A zoonotic disease called COVID-19 occurs when an animal virus develops changes that allow it to enter and replicate inside the human body, where it spreads quickly among humans (Elengoe, 2020).

Beginning in early December 2019, this illness quickly spread among Wuhan City, Hubei Province, China people. The fact that cases of pneumonia with an unknown origin were being reported made this situation exceptional. On December 31, 2019, the Chinese government notified the WHO of the virus (Secon et al., 2020; WHO, 2020; WHO, 2019). As the number of cases grew daily, thorough investigations started right away. On January 1, 2020, the WHO established a Management Incident Support Team (MIST) at all three levels of the organisation, placing it on an emergency footing to handle the outbreaks (Gralinski & Menachery, 2020).

To break the COVID-19 chain, the Malaysian government began enforcing a Movement Control Order on March 18, 2020. The hashtag #stayhome was actively promoted by the media. Frontline workers' personal protection equipment was first created by non-governmental organisations and prisoners. Several organisations held fundraising activities to buy supplies, primarily for hospitals. In order to improve the capacities of the Ministry of Health, a temporary hospital was established, collaborations with healthcare service providers were approved, and new laboratories were assigned (Shah et al., 2020).

Socio-economic Objectives

An Islamic economic system would be in accordance with Islamic principles as contained in the Qur'an and Sunnah and discussed within the confined framework of the four Sunni Islamic jurisprudence schools: Hanbali, Shafi'i, Hanafi, and Maliki. According to Furqani (2017), this is the set of principles that govern how the relationship between social behaviour and economics interact within Islamic society. The principles define individuals' and groups' ownership, property, and transaction rights (state or entire community). Furthermore, these principles distinguish work and profit, production and power, offered services (materialistic and moralistic), and serve as the foundation for financial interactions among individuals or between individuals and the community, and thus the economic system is created (Al-Mubarak, 1982).

Makokha (2017) defines Islamic economics as a comprehensive and independent economic theory that accords with Islamic law and considers all aspects of human life: the spiritual, material, social, and political aspects, among others. Efe (2017) elaborated that the basis for

an Islamic economic system can be divided into three significant grounds: (1) philosophical and ideological grounds, (2) morality grounds, and (3) legislative grounds.

The morality grounds served as a humanitarian and noble goal of Islamic socio-economic principles where it considers the community's welfare and happiness with the utility provided. In Islam, the concept of utility is undoubtedly encouraged by the concept of welfare which is built on five basics: life, property, faith, reason, and posterity (Al-Shatibi, 1996). Al-Salih explained that humans are urged to earn and work to fulfil their basic needs and those of their dependents. Suppose individuals cannot earn and fulfil their needs due to mental or physical disability and destitution. In that case, Sharia obliges their fellow beings, such as relatives and neighbours, to support them in satisfying their basic needs. If there is no one to support such people, Islam obliges the state to be responsible for their support. In this purview, the goals of socioeconomic justice and equitable distribution of income and wealth can be achieved and thus lead to the betterment of society.

This is when zakat came in and has central importance in Islamic society. Everybody is permitted to accumulate wealth left over after meeting one's legitimate and reasonable commitments and giving a percentage of one's income to charity (Makokha, 2017). Franzoni and Ait (2018) also mentioned that Islamic economics is supported by legislative principles that regulate financial relations, identify rights, and enforce obligations that will guide humans and awaken inside them their consciences and responsibility toward their financial duties.

RESEARCH METHODOLOGY

This study adopts a qualitative approach as the research methodology. To acquire detailed information, in-depth interviews were conducted as the primary technique. This is due to the reason that in-depth interviews could provide an easy means to get comprehensive information on the current challenges faced by practitioners. Ten (10) Takaful Operators were employed in the execution of this qualitative investigation. The list of Takaful Operators participating in this study is displayed in Table 2 below.

Table 2: List of Takaful Operators in this study

| No. | Name of Takaful Operator |
|------------|--|
| 1 | AIA PUBLIC Takaful Bhd |
| 2 | AmMetLife Takaful Berhad |
| 3 | Etiqa Family Takaful Berhad |
| 4 | Etiqa General Takaful Berhad |
| 5 | FWD Takaful Berhad |
| 6 | Great Eastern Takaful Berhad |
| 7 | Takaful Ikhlas Family Berhad |
| 8 | Takaful Ikhlas General Berhad |
| 9 | Zurich General Takaful Malaysia Berhad |
| 10 | Zurich Takaful Malaysia Berhad |

Sources: Author (2023)

Semi-structured interview questions were used in ten (10) interviews. The strategy employed was targeted sampling. Our respondents are Product Development Officers and Shariah Officers who are directly or indirectly associated with the operations of Takaful products. Table 3 below lists the respondents' details.

Table 3: Details of Respondents

| Interviewees | Gender | Highest Qualification | Role | Years of Experience in the Industry |
|---------------------|---------------|------------------------------|-----------------------------|--|
| Respondent A | Male | Bachelor degree | Shariah Officer | 16-20 years |
| Respondent B | Male | Bachelor degree | Shariah Officer | 16-20 years |
| Respondent C | Male | Bachelor degree | Shariah Officer | 6-10 years |
| Respondent D | Male | Bachelor degree | Head Shariah Officer | 16-20 years |
| Respondent E | Female | Master degree | Product Development Officer | 11-15 years |
| Respondent F | Male | Bachelor degree | Product Development Officer | 11-15 years |
| Respondent G | Female | Bachelor degree | Product Development Officer | 11-15 years |
| Respondent H | Female | Bachelor degree | Product Development Officer | 11-15 years |
| Respondent I | Male | Bachelor degree | VP of Shariah Department | 11-15 years |
| Respondent J | Female | Bachelor degree | Product Development Officer | 11-15 years |

Sources: Researcher (2023)

During the interviews, the platform was online. Participants filled out a quick questionnaire to give anonymous demographic data before each semi-structured interview. Each interview was recorded, followed by a full transcription. The participants in the semi-structured interview that was employed for this study all gave a sense of being at ease and having a thorough understanding of the organisational history and current operating procedures. Since semi-structured interviews provide more diversity and useful data gathering, the following three tactics have been used in the interviews: relationship-building, provocative comments, and critical event analysis (Pathak & Intratat, 2012).

Field notes were also recorded during the focus group and interview sessions to document the important ideas that emerged from the conversation. To triangulate the analysis, semi-structured interviews and field notes were both used. To ensure the accuracy of the data, each participant received a copy of the interview transcript. After the data had been initially classified using key themes relevant to the core study objectives (Patton, 2002), the second research team member cross-checked the transcribed data from the interviews under Patton's direction. During the analysis phase, researchers looked at a number of subjects that provided additional interpretations for the data beyond summaries of particular transcripts. Each subject has been supported by actual participant quotes that best depict it.

FINDING AND ANALYSIS

There are three themes derived from the analysis. Following are the themes that contain the motivating factors in contributing to socio-economic objectives during the pandemic COVID-19:

1. Initiative by the regulator
2. Government enforcement
3. Direction of the Takaful Operator

Initiative by the Regulator

The first motivating factor for the contribution is the initiative by the regulator. The COVID-19 pandemic caused considerable economic disruption, and actions were taken to stop it from spreading. In response, the Bank developed a wide range of measures to assist businesses and individuals during this challenging time. The measures are meant to support the economy through severe, brief shocks, preventing longer-term economic harm from developing as a result. However, it is still crucial to prevent the pandemic from turning into a financial crisis to guarantee a quick and solid economic recovery.

Due to that, Bank Negara Malaysia as the regulator have introduced measures in the insurance and Takaful sector. The main objective is to assist insurance policyholders and Takaful participants who faced financial constraints arising from the COVID-19 pandemic. These measures helped to alleviate cash flow issues while avoiding a loss of insurance and Takaful protection. Among the initiatives in the measures include of an option to defer payment of their life insurance premiums and family Takaful contributions for a period of three months, rolled out assistance to affected policyholders and Takaful participants by granting options to restructure their insurance policies and Takaful certificates, with flexibility provided on payment terms for premiums and contributions, waived exclusions, co-payments and waiting periods, and expedited processing of insurance and Takaful claims related to COVID-19.

Other than that, regulatory and supervisory measures were also extended to Takaful Operators to support their efforts in managing and responding to the impact of COVID-19. Among these were bringing forward planned enhancements to improve the risk capture and overall consistency of the risk-based capital frameworks for Takaful Operators. Further details of the relief measures are provided in Figure 1.

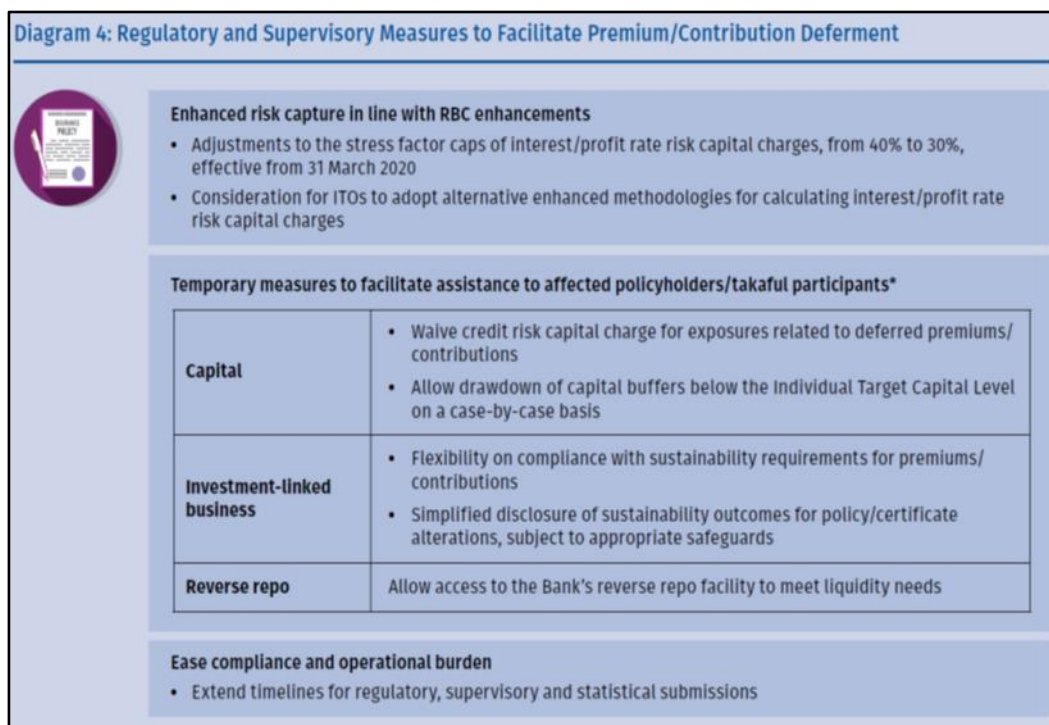


Figure 1: Relief measures by Bank Negara Malaysia

Based on the analysis of the data, most of the respondents agree that due to the initiative made by the regulators, they feel encouraged to contribute to society in the COVID-19 pandemic era. These are among the responses from the respondents regarding the implementation of the relief measures:

“yes, we participate in the relief measure..we allow for deferment..” (R1)

“Sure. We participate in the relief measures. There are two types of measures..the first one is the deferment.. the second of we provide contribution from the shareholder’s fund...” (R2)

“...yes... one of the measures that we participate for example, for our customer which financially affected, when he/she admit to the hospital, normally there will be an additional expense incurred. So, for this type of client, we waived their payment, and we pay for them using our Takaful Operator fund...” (R3)

“...there are certain measures that we have. Subsidy for covid-19 test. We also give 3 months deferment of contribution payment...this one for family Takaful industry...” (R5)

“the relief measure under BNM is the deferment of 3 months for one year, starting from January until December...BNM did monitor, as we provided them reporting, almost every week, many clients comes and asks us on this deferment...” (R6)

“Yes..we participate in BNM/MTA initiatives – extended the Covid-19 relief programe on deferment of Takaful contribution for participant who are financially affected by the Covid-19 pandemic for 3 months..(R8)

Based on the analysis, it is proved that all Takaful Operators did implement the relief measures during the pandemic COVID-19. These relief measures have a positive impact and benefits to the participants as well as to the community. Among the benefits include easing the burden of the participants, improving the Takaful market penetration, and ensuring the sustainability of Takaful Operators. Most Takaful Operators agreed with these statements and the following are their opinion:

“ We have actually received 2- 3 feedbacks from the customers which said that this relief measure is too short, however, it helps them so much... maybe based on their expectations they wanted to have more..longer period.. (R6)

“ For this relief measure, actually, Bank Negara is helping the TO. Considering we are helping the participants, that’s why I guess they have thought for us.. TO... all these are being regulated by Bank Negara. They reduced profit rates, capital charges, from 40% to 30%. This means, it will help capital allocation...which will not drop too much, because of this issue basically. Ermm...the issue of liquidity...so when they come out with this, it give some sort of relaxing for TO basically...” (R9)

“This relief measure has positive impact. Because we can see the improvement in term of the awareness.. For example, in the year 2000, the business for industry grow 7% compared to conventional insurance. Now we can see the conventional market is declining. So we can say that by this relief measure , it contributes to the Takaful market indirectly..” (R2)

“ For this relief measure, we are more concerned about how it will burden our participants in the future. Because some of them are not opted for the deferment ..because if there is any lapse in their payment, they cannot get any coverage in the future..” (R10)

Enforcement by the Government

Another motivating factor was due to the enforcement by the government which initially started before the pandemic of covid -19. The enforcement includes promoting micro business for Takaful which is known as *”perlindungan tenang”*. However, the pandemic of COVID-19 gives a strong reason for Takaful Operators to implement this enforcement. These are among the statements made by the respondents during the interview session:

“ Perlindungan tenang was part of it...the enforcement that we have to follow..” (R8)

“Because it is a mandate from the government..yes we have to follow...” (R3)

“ All TO have their own product under perlindungan tenang...” (R5)

“yes..we are part of it..as it is an enforcement...” (R4)

Based on the answers from the respondents, it is proved that Takaful Operators will respond to any enforcement made by the government. In this case, the enforcement was the encouragement for micro-Takaful product. Micro Takaful provides Takaful services to the poor in poor and developing countries (Mukhtar, 2013; Pinto, 2015). Micro-Takaful specifically targets perils that affect low-income households. In addition, micro-Takaful is a protection scheme that can provide protection to low-income households consisting of traders and farmers to access liquidity after a disaster. At the same time, it is able to protect the life of this group and build a new life if there is any disaster that befalls this group (Mukhtar, 2013).

According to Kamal et al. (2022), there are two target groups for the offer of micro-Takaful. The first target group is the poor and low-income people. This is because low-income groups are excluded from Takaful policies in the market because the price is high, and they cannot afford to pay the premium. This low-cost Takaful product is to fulfill the needs of low-income participants by providing a fair service to all levels of society for them to manage the risks that should be offered by Takaful companies. In addition, micro-Takaful is a protection scheme that can provide protection to low-income households consisting of traders and farmers to access liquidity if there is a hazard. This is to protect the lives of this group and assist them to build a new life.

The second target group is the informal sector. Micro-Takaful schemes focus on workers in the informal sector who are mostly unprotected (Ahmed,2016). On the same ground, micro-Takaful is also one of the effective financial risk management instruments that can help the informal sector reduce the risk of disaster and poverty. The informal sector consists of farmers, small business owners, and micro-entrepreneurs. In addition, micro-Takaful offers Takaful in the form of health to low- and middle-income countries to achieve health coverage broadly for workers in the informal sector. Based on the study conducted by Muttaqien et.al. (2021), there was more than 90% of the respondents were identified as working in the informal sector who are excluded from getting health Takaful coverage and apparently, they are also heads of households who have a role in making decisions related to health care for the family.

Micro-Takaful aims to help and not to make a profit. Micro Takaful is also a risk management tool that bears the policyholder's loss against certain risks in a certain period as an example of microcredit serves to protect households from the liquidity of assets to pay refinance the loan. Therefore, micro-Takaful works as a humanitarian, business, and both mechanisms (Yore & Walker, 2019). For Malaysian cases, it targets B40 income earners. In the pandemic era, this scheme was helpful for those who are affected by Covid-19, especially for low-income earners. The study by Kamal et al. (2022) indicated that enforcement from the government is essential in ensuring the success of every plan.

Direction of Takaful Operator

The third theme derived from the analysis is the direction of the Takaful Operator. The directions of Takaful Operators include their mission and vision. Most of the respondents are of the opinion that the mission and vision of the Takaful Operators play a significant role as the motivating factor for them to contribute to the socio-economic objective. The mission of an organization tells us why it exists, which is not only in the competitive struggle for greater profits, but also in accepting the role of social responsibility and developing social innovation (Collins & Porras, 2008). The vision describes the situation and the value of the organization in the future. Mission and vision statements are critical to a company's success both from a company's long-term goals and appearance to potential customers.

For this study, the directions of Takaful Operators relate to Corporate Social Responsibility (CSR) and Value-Based Intermediaries for Takaful (VBIT) because this is the programme which is associated with the socio-economic objective. These are among the replies of the respondents:

"..yes..our VBI/CSR is embedded with our vision..." (R1)

"..We are focusing more on VBIT currently...as it is the direction of our TO based on the new direction of BNM...we formulate the programme as a group initiative because we are under group..when the group focusing on sustainability, it actually serves for VBIT..." (R2)

" In terms of our mission and vision...our aspiration is really to make Takaful accessible to cover everyone...when it comes to CSR, it is quite challenging to provide Takaful coverage through CSR. So for us, it is not directly aligned with the mission and vision, but it is aligned in the sense that we want to help people out there.." (R3)

" Yes..we do have CSR Programme which aligned with our objectives..we target the programme that can give high impacts to our beneficiaries, ensuring sustainability of the programmes and the visibility of Etiqa's brand..." (R5)

"definitely... It involves our mission and vision because our programme are also more towards participation of the public at large..." (R6)

"We always plan our CSR Programme aligned with our purpose which is helping Malaysia lives healthier, longer and better live..We also will map our wide range solution from health and wealth perspective.." (R7)

"We embrace the diversity of our local communities by initiating programme that will help the society as a whole especially children..we also want to become one of the most sustainable companies where CSR programme action will be on climate change-beach cleaning, planting tree, encourage healthy lifestyle to employees through steps competition and etc.." (R8)

Based on the above statements made by the respondents, it is confirmed that the directions of the Takaful Operator would become among the motives of their contributions to society. Thus, it is very important for the Takaful Operators to have clear directions and not focusing on profit motive only. In achieving the main objective of VBIT which is to encourage industry players towards achieving growth that is sustainable and meaningful for all stakeholders, the current efforts are a good start for the industry.

Some of the respondents did describe the activity which relates to the VBIT or CSR as following:

“Our vision is to changing the way people feel about Takaful...so based on that vision, we try to penetrate market.” (R1)

“We conduct financial literacy program for B40..and it is actually align with the national strategy for financial literacy 2019,2023..”. (R1)

“ our VBIT activity revolve in the 5 pillar which include education, health, economy, community and environment..and most importantly it is something which can sustain...For example, we give laptop and we will observe the long term effect, we assists in term of the education to the students. We have collaborated with MARA and we support their B40 students which consists of form 1 to form 5 students...” (R2)

“ Our targeted group for CSR is definitely those lower B40, the lower income group. We rarely do CSR outside the B40 segment, but last year was an exception because due to Covid-19, not only B0 was affected, that is why we give contribution to Zoo Negara as well...” (R3)

“ our programme is on yearly basis, and usually we will collaborate with Islamic aid Malaysia..Every year, during the opening of the school, we will identify few schools over the country, and we will allocate for 100 pupils of the school their school bag and stationery and that kind of thing...”(R5)

RECOMMENDATION AND CONCLUSION

The findings of this study indicate that there are three motivating factors for Takaful Operators in contributing to socio-economic objectives during the pandemic of COVID-19 namely: initiative by the regulator, government enforcement, and the direction of the Takaful Operator itself. These three factors have become the boost for Takaful Operators to continuously provide contributions whether in the pandemic era or not.

Malaysian Takaful Operators are very optimistic about their contributions as Takaful Operators and follow suit all the available guidelines. This is proven by looking at the efforts of the Takaful Operator which can be seen in how they implement the enforcement made by the government and support the initiative by the regulator. However, a few suggestions could be made for Takaful Operators to ensure they consistently contributes to society which includes;(i) planning the proper project for VBIT; (ii) focusing more on maqasid shariah; (iii) providing more micro-Takaful product and services for (iii) management should direct the organizations properly by taking into considerations the objective of the establishment of Takaful operators.

As with most other empirical studies, there are also some limitations of this study. First, this research has a limitation in term of the number of samples as this study only reflects the practice of a few Takaful operators. Secondly, the scope of the study is limited to the practice during the pandemic of COVID-19. Although this study comes with limitations, the findings provide significant contributions to the theory of socio-economic objectives. The limitations of the study also provide the opportunity for future research. Future research could explore the practice of Takaful Operator post-COVID-19 to make the necessary comparison. Despite

all the limitations, the analysis of the study is important in enhancing the current product and services provided by Takaful Operators, especially in achieving the aim of VBIT.

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