

Al-Wakalah and Customers' Preferences toward It: A Case Study of Two *Takaful* Companies in Malaysia*

Hairul Azlan Annuar

Abstract

The agency system has been the main distribution channel for insurers. However, Syarikat Takaful Malaysia Berhad (STMB) does not implement it, while Takaful Nasional Sendirian Berhad (TNSB) does. This has a lot to do with juristic opinions (*ikhtilaf*) on whether a *takaful* company (*mudarib*) can use part of the participants' capital (*rabb al-mal*) to pay for management expenses. An exploratory survey was undertaken to ascertain the respondents' perception on the importance of agents. My study showed that customers prefer the agency system (*al-wakalah*) and that this system can generate greater benefits (*manfa'at*) to both parties.

Introduction

In Malaysia, the main sales and distribution channel of insurers has always been that of insurance sales agents. Figures derived from the Insurance

Hairul Azlan Annuar is a lecturer in accounting at the International Islamic University Malaysia (IIUM). He received his BA (Hons) in accounting and finance from the University of East London and his MBA, with specialization in Islamic accounting, banking, and finance from IIUM. Currently, he is pursuing his Ph.D. at Cardiff University, where he is examining the evolution and effectiveness of corporate governance mechanisms in Malaysian companies. This paper derives from results obtained by him in researching his MBA dissertation.

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Annual Report 2000, compiled and released by the Central Bank of Malaysia, showed that there were 128,608 registered insurance agents, an increase of 1,958 agents from the previous year, 87,375 of whom were life insurance agents.¹ In terms of revenues collected and new policies issued, the top two life insurance performers for 2000 were Great Eastern, a company constituted in Malaysia, and the American International Assurance (AIA), a company constituted outside Malaysia.² Examining the insurance reports of other years would show similar results, namely, an increase in the number of agents and the companies utilizing the agency system, such as Great Eastern and AIA, enjoying high numbers in terms of profitability and market share.

Reasons for these are straightforward. Insurance agents who sell policies are not employees of the insurance companies. Rather, they work on a commission basis and thus are motivated by the volume of sales made. They reduce overhead costs, and the companies are able to expand markets without setting up subsidiaries and branches. Furthermore, sales agents can achieve greater market penetration due to their wider coverage and mobility.

However, Malaysia's first Islamic insurance (*takaful*) company, Syarikat Takaful Malaysia Berhad (STMB), does not use agents. This has a lot to do with juristic rulings (*ikhtilaf*) on whether a *takaful* company (*mudarib*) can use part of the participants' capital (*rabb al-mal*), provided through their monthly premium or contribution installments, to pay for management expenses. In contrast, Takaful Nasional Sendirian Berhad (TNSB) uses the agency system, since it holds a different view of the management expenses related to the *al-wakalah* contract. It is, therefore, interesting to see whether the effect of the different interpretation of the Shari'ah, which resulted in a different strategy, is consistent with what customers want.

This paper explores current and potential customers' channel preferences in buying *takaful* coverage in order to determine which strategy is favored. The choice of strategy should not be based solely on the opinion of a particular legal school without considering the customers' buying behavior and the end benefits attributable to them. It is crucial to determine the effectiveness of *takaful* operations, so that it will benefit (*manfa'at*) both the customers and the companies in line with the Shari'ah precept of enjoining good deeds (*ma'ruf*). A Qur'anic verse testifies this obligation: "You are the best of peoples, evolved for humanity, enjoining what is right, forbidding what is wrong, and believing in Allah" (Qur'an 3:110).

It is also fascinating to study the *takaful* industry in Malaysia, since the country is a global leader in this field, accounting for approximately 27 percent of the global market. This makes it the single largest and lucrative market outside of the Arab region.³ With an annual rate of growth at 60 percent per annum, it is estimated that Malaysia's total *takaful* premium could be in the region of US\$1.2 billion by the year 2015.⁴ Currently, STMB is believed to have a larger market share than TNSB, in terms of volume and membership, and due to the fact that it was established earlier and has the firm backing of its banking parent company. However, exact figures are not available.

This paper, which examines a strategy within Malaysian *takaful* companies and analyzes how customers perceive it is structured in the following manner: An introduction to the two above-mentioned *takaful* companies precedes a brief discussion on the concept of *takaful* and how it works in Malaysia. The following sections then introduce the concept of agency and explore the *ikhtilaf* issue that caused the particular strategy to be chosen; present the approach and results of the customer preferences survey; and discuss how to eliminate and/or minimize the problems associated with the use of sales agents. The paper ends with a conclusion.

The Background of STMB and TNSB

This study was conducted at a time when two companies were competing in the *takaful* business. The first, STMB, is a publicly listed company and the industry's pioneer. It was established in 1984 with the objective of providing the highest level of efficient and professional *takaful* services to all Muslims and to the general public. The other company, TNSB, is unlisted and was set up with a similar objective approximately 9 years later, with the birth of Malaysian National Insurance (MNI) Takaful Sdn Bhd.⁵ In particular, it provides the industry with the desired level of competition and with an alternative that potential customers can use to fulfill their *takaful* needs.

The principal activities of both companies are the provision of *takaful keluarga* (life insurance in the conventional sense) and general *takaful* (equivalent to conventional general insurance plans), with Malaysian Muslims being the main target initially.⁶ Apart from having the same principal activities, objectives, and niche market, the companies mirror one another almost exactly in terms of products and benefits, the external envi-

ronmental factors with which they interact,⁷ and internal organizational structures. The internal governance structure of *takaful* companies includes an independent body, namely, the Shari'ah Advisory Council, which is responsible for ensuring that business operations conform to the relevant Shari'ah precepts. In other words, potential customers are not able to tell the difference between these two competitors, other than the fact that STMB has been in the market for a longer period of time.

Nonetheless, there is a very distinctive difference in the two companies' mode of operation, particularly in the area of attracting and servicing *takaful* customers. This distinguishing feature is the result of STMB's decision not to use *takaful* sales agents to sell and market its *takaful* products. STMB expects interested potential customers to come to its counters to buy either one or a combination of its product(s) or plan(s). TNSB, on the other hand, utilizes agents in a way similar to that found in most conventional insurance companies. The decision of whether to use agents or not, is not influenced by management intuition and judgment, but rather by the company's adherence to the previously mentioned different juristic views. Before this juristic issue is examined further, a brief overview of the *takaful* business in Malaysia will be presented.

The Concept of *Takaful* and the Malaysian Model

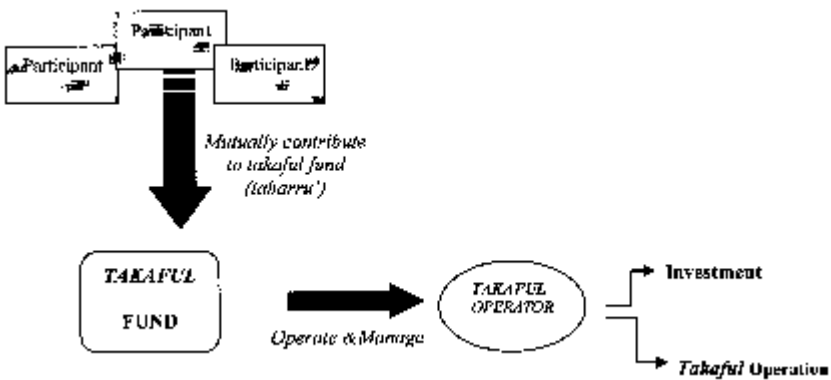
Stemming from the Arabic verb *kafal*, which literally means "to take care of one's needs," *takaful* is a concept of which the Shari'ah approves. Section 2 of the Malaysian Takaful Act defines *takaful* as "a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose."⁸ Its basic objective is to pay for a defined loss from a defined fund.⁹ This concept was practiced at the time of Prophet Muhammad (pbuh). Then, members of the community contributed to a fund, known as *al-kanz*, to help a member of the community who had to pay blood money (*diyah*) for a specific crime.¹⁰ Based on analogy (*qiyas*), this practice of paying *diyah* is transformed to *takaful*, as currently practiced. *Takaful* is different from conventional insurance in that the premium (contribution) paid by each participant should be made with the intention of giving a donation, gift, or contribution (*tabarru`*) and not of an exchange of goods, because if *tabarru`* is involved, the Shari'ah considers the transaction to be permissible. Yusuf al-Qaradawi has aptly summed up the jurists' position:

Our observation that the modern form of insurance companies and their current practices are objectionable Islamically does not mean that Islam is against the concept of insurance itself: not in the least – it only opposes the means and methods. If other insurance practices are employed which do not conflict with Islamic forms of business transactions, Islam will welcome them.¹¹

Takaful, which is meant to foster Islamic brotherhood, stresses the importance of solidarity among those participants who have agreed to bear each other’s specified loss, such as death or disasters that befall a member, especially by donating part of the contributions made. Self-interest motivated by material gain has no place in the Islamic insurance system.¹²

In Malaysia, the *modus operandi* of the *takaful* system, which is based on the limited partnership (*mudarabah*) model, is presented in figure 1.¹³ The resulting contract has a two-tier relationship that is external in nature to the *takaful* company. The first tier, the one among the participants, is based on *tabarru`*. The second tier is the one among the participants as one entity (i.e., the fund) and the *takaful* company. A certain proportion of the participants’ contributions are reallocated in order to pay his/her fellow participants who experience a loss. This portion is placed in the Special Participant Account, while the balance of the contributions is placed in the Participant Account for savings.¹⁴ These conditions are clearly mentioned in both STMB’s and TNSB’s proposal forms, and thus become the basis of the contract.

Figure 1. Illustration of the *Takaful* System.



A slight amendment to figure 1 is needed when one considers TNSB's operation, taking into account the agency system in use. This additional entity is located between the participants and the *takaful* fund, as agents act as intermediaries. Although agents present a new entity, the external second tier relationship, as opposed to a new tier relationship, still prevails, for agents act only on the company's behalf. However, there is still an internal relationship between the agents and the company (the principal) through the agency contract. The next section explores the agency system in more detail.

The Theory and Concept of *al-Wakalah*

Derived from the Arabic word *wakala*, which appears in the Qur'an,¹⁵ *al-wakalah* is another practice of which the Shari'ah approves. Based on the work of Napiah,¹⁶ its legitimacy stems from both the Qur'an and the Sunnah of Prophet Muhammad (pbuh). The most significant verse in this regard is the following:

Now, send one of you with your money to the town. Let him find out which is the best food (to be had) and bring some to you, that (you may) satisfy your hunger therewith. (Qur'an 18:19)

This verse relates to the Companions of the Cave, one of whom was appointed to go out and buy food from the city with their silver coin. Another verse that some jurists use as a referral point is the one in which Prophet Joseph tells his brothers:

Take my shirt and cast it over my father's face, (and) he will come to see (clearly). Then return to me with all of your family. (Qur'an 12:93)

This system was a common practice in the early period of Islam. In fact, Prophet Muhammad, (pbuh) was directly and indirectly involved in *al-wakalah* and encouraged its proliferation. A hadith reported by Abu Dawud, al-Bayhaqi, al-Daraqutni, and al-San'ani provides further proof of the Prophet's (pbuh) approval of this practice¹⁷: The Prophet (pbuh) asked Jabir ibn Abdullah, who was about to go to Khybar: "If you meet my agent, take or ask from him fifteen *wasq*."¹⁸ Moreover, the Prophet (pbuh) commonly appointed agents to perform certain duties on his behalf. One such duty was collecting zakat (alms). According to a hadith narrated by Abu Hurayrah, the Prophet (pbuh) sent 'Umar to collect these alms. In all of these instances, the Prophet's chosen assistants carried out their instructions in the form of *al-wakalah*.¹⁹

This idea of agency was established, in its complete and comprehensive form in Islamic law with the birth of Shari`ah, in contrast to the West, which only derived the complete form later on and in stages.²⁰ This is consistent with other concepts or contracts pertaining to Islamic commercial law and transactions, whereby all regulations and rules of law must be derived from the Qur'an and the Sunnah. Al-Sanhuri, a prominent Islamic jurist, illustrated how definitive Islamic law is in this field when he wrote:

Islamic jurisprudence is extremely cautious and can be distinguished from Western jurisprudence by its advancement in promoting the idea of deputation (agency²¹) in the formulating of contracts. It excelled over the Roman jurisprudence, which was known for its scarcity in this field, as has been seen.²²

From the above, any doubt as to the legitimacy of *al-wakalah* is erased by evidence derived from Qur'anic texts, the traditions of the Prophet (pbuh), the practices of the rightly guided caliphs, and, lastly, from the unanimous affirmative opinions of all Muslim jurists. As the system is legitimate, it is, therefore, not the issue that surrounds STMB's decision to avoid it. Rather, the decision is based on a related issue that is created by implementing the system (i.e., paying the agents' commission), which forms part of a company's management expenses. A significant indication of STMB's decision is derived from a working paper presented by the company's CEO at a seminar on *takaful*. It has since been published in a book used to train *takaful* branch counters' administrators:

According to the *Encyclopedia on the Theory and Practice of Islamic Banking (Al-Mawsu'ah al-'Ilmiyah wa al-Amaliyah li al-Bunuk al-Islamiyah)*, published by the International Association of Islamic Banks, it is prohibited to deduct management expenses from the *al-mudarabah* capital or its realized profit. The *takaful* contribution is the *mudarabah* capital provided by the participant, therefore the capital or its investment profit cannot be used to pay for financing the agency system (*al-wakalah*) in view of the fact that agency cost is a component of the management expenses which should be borne by the operator.²³

STMB argues that because of the prevailing *mudarabah* contract governing the relationship between the company and the policies' participants, it cannot use the capital or the profits made by investing it to remunerate the agents. Hence, by following a certain juridical interpretation (or ruling)

governing management expenses, STMB decided not to implement the system. This is a classic example whereby a company's operating strategy is constrained by adhering to a particular legal school's ruling.²⁴ Comparatively, this would mean that TNSB, in employing the agency system, complies with the ruling of another legal school with regards to agency costs.

In a discussion with a member of the Shar'iah Advisory Council of one of the companies, it was made clear that Sunni Muslim jurists are divided on the issue of management expenses incurred while doing business. Al-Shafi'i writes that covering such expenses from the *mudarabah* capital or its realized profits leads to *gharar* (uncertainty), the presence of which voids a contract. Clearly, STMB's concept of management expenses is based on this view. The other Sunni legal schools hold the view that expenses can be deducted from the business account or realized profit, depending on the nature of the expenses. Therefore, it could be said that TNSB concurs with them.

Interestingly enough, even if STMB continues with *mudarabah* and simultaneously implements the system, it can still adhere to the encyclopedia's definition, because the issue of non-permissibility arises only if the payment to the agents (perceived as a management cost) is taken from the capital or deducted from the gross profit. Should the payment be taken from the *mudarib*'s share of the profit (i.e., the company's share after paying the profit share attributable to participants), the issue is no longer relevant. Putting it in a form of a question, if STMB cannot deduct the particular expenses from the capital or gross profit, why not deduct the expenses from its share of the profit? If there is no profit, the company can cover the expenses by utilizing the shareholders' fund. This means that the management expenses will always be borne by the company or the operator, which is, in fact, consistent with the last line of the definition.

Due to the availability of various methods for conducting jurisprudence, as well as the jurists' experience, there will be situations when more than one opinion could exist. The different treatment of management expenses depicted above is an example of this. However, it must be noted that such differences are unavoidable, due to the nature of *ijtihad*. Furthermore, the difference lies in how the Shari'ah is applied, not in its roots. Hence, both STMB and TNSB are right, from the Shari'ah's viewpoint, with regard to their treatment of agency costs.

The question now is: If STMB is correct in not employing sales agents, why should it consider changing its strategy? The answer is that, in deciding

its strategy, it has to consider the customers' buying behavior as well, especially the methods of purchasing that they are willing to use. Ignoring these preferences would result in negative implications, such as lost revenue, inefficient cost management, and depressed profits. The next section discusses the approach and results of a customer preference survey with regard to the use of sales agents.

A Survey on Customers Perception

Understanding customers' (participants') buying behavior is an important aspect of marketing-based companies, such as *takaful* companies. Successful organizations continually monitor both present and potential customers' buying patterns.²⁵ One characteristic of the insurance and *takaful* product is its intangibility, where the service will only be rendered in relation to some future events. This is why it is often said that insurance or *takaful* is often sold and not bought.²⁶

Both TNSB and STMB sell their respective *takaful* plans using two vastly different channels. TNSB utilizes appointed agents to acquire new customers, while STMB depends on its counters, made up of branches and *takaful* desks, to cater to walk-in customers. These different points of contact with customers provide not only the medium of exchange through which the buying and selling of such plans take place, but extend into other vital areas that are profoundly fundamental in marketing activities: the quality of services provided, the convenience of customers, and the efficiency rendered, all of which point to one single objective: enhancing customer satisfaction.

A simple and exploratory survey using convenient sampling was conducted by distributing short and direct questionnaires designed to elicit basic feedback from current and potential customers on either systems' ability to satisfy their needs for *takaful* coverage. In other words, the survey sought to gauge each respondent's basic perceptions with regard to his or her preferences of either purchasing the *takaful* plans through agents (TNSB) or directly from the company (STMB).

Note that business-to-business transactions and a detailed discussion of Islamic doctrines are outside the scope of this survey. Since the results are presented through a descriptive analysis, an in-depth analysis, such as factor analysis or analyses of mean scores, are not covered.

The Research Method

The samples for the study are Malaysian Muslim lecturers and assistant lecturers from a number of different faculty (*kulliyah*) of the International Islamic University Malaysia (IIUM). This includes the *kuliyahs* of Economics and Management Sciences (EMS), Law (LAW), Islamic Revealed Knowledge and Human Sciences (IRKHS), Architecture and Environmental Design (KAED), Engineering (ENGINE), and Education (EDUC).²⁷ Since the lecturers come from all over Malaysia and have different educational backgrounds, they represent a good sample of the nation's Muslim lecturers. Malaysian Muslim lecturers represent a certain portion of the consumer market, customers and potential customers of *takaful* companies, and agents of change who would be able to influence a larger student population throughout the country.²⁸ Since IIUM lecturers work in an Islamic environment, they are more aware of any products based on Shari'ah precepts, which include *takaful* products.

My original intention was to sample 200 respondents; however, due to unavoidable circumstances,²⁹ only 65 questionnaires were collected and subsequently used for this study. The questionnaires were distributed and collected with the assistance of the respective *kulliyah* general offices' personnel. Also, depending on the situation, I took the initiative to personally meet the lecturers. The group of respondents consisted of 16 lecturers from EMS, 8 from LAW, 12 from IRKHS, 22 from KAED, 2 from ENGINE, and 5 lecturers from EDUC.

The data required for this study were acquired through a simple but carefully constructed questionnaire, which was made up of one section consisting of five questions designed to elicit the respondents' basic buying behavior when deciding to buy *takaful* plans. Three of the questions, namely, numbers 1, 4, and 5, require either a "Yes" or a "No" answer. Question number 2 requires the respondents to indicate the type of *takaful* plan(s) purchased (if they already own any), while question number 3 asked the respondents who own *takaful* plans to indicate how they had purchased the plans.

Results and Discussion

The data were processed using Microsoft's Excel Statistical Package software, and the following information was compiled.

Table 1. Question 1: Do you own a *takaful* plan?

	YES	%	NO	%	TOTAL	%
EMS	8	37	10	53	18	100
LAW	4	50	4	50	8	100
IRKHS	8	65	4	34	12	100
KAED	7	32	16	68	22	100
ENGINE	2	100	0	0	2	100
EDUC	3	60	2	40	5	100
TOTAL	30	46	34	54	65	100

This question examines the distribution of *takaful* plan ownership among the respondents. The results show that a majority of them do not own any *takaful* plan. This means that there is a high potential and an opportunity for *takaful* companies to penetrate the market and enlarge their respective market share. Only 30 (46 percent) respondents stated that they own a *takaful* plan or coverage. Eight of them were from IRKHS. They represent the highest number of IUM lecturers, in the sample chosen, with *takaful* coverage. In terms of percentage, ENGINE, with only two respondents, had a 100 percent coverage rate, as both of them own a *takaful* plan. Thirty-five (54 percent) of respondents have no *takaful* coverage. Fifteen KAED lecturers, representing 68 percent of the sample taken from that *kulliyah*, have no *takaful* coverage. This represents the highest number of uninsured lectures. EMS also has one of the highest number of lecturers without any *takaful* coverage.

Table 2. Question 2: Type of *takaful*.

	FAMILY	AUTO	HEALTH	FIRE	TOTAL
EMS	3	1	1	1	6
LAW	2	3	1	0	6
IRKHS	3	3	3	0	9
KAED	7	0	1	0	8
ENGINE	0	1	1	0	2
EDUC	3	2	1	1	7
TOTAL	18	10	6	2	36
%	47	28	21	6	100

This question reveals the type of plans purchased by the *takaful* owners. The 30 respondents who already owned *takaful* plans purchased either a single plan coverage or a combination of plans consisting of family, auto,

health, and fire, respectively. The total number of plans purchased was 38, with the family plan proving to be the most popular, with nearly half of the total (i.e., 47 percent), while the fire plan was the least purchased. This also reveals that the family or life *takaful* plan has gained a strong foothold, and that the *takaful* companies must ensure its continued acceptance. The advantages that *takaful* could bring (e.g., being in line with the Shari`ah, as well as the concept of *tabarru`*, which stresses goodwill and cooperation, and the opportunity to share in the profits through *mudarabah*) must be communicated to and understood by all potential customers. This marketing strategy should be done simultaneously with the general plans, which are still not very popular, as indicated above, in order to ensure that a full package of Shari`ah-approved insurance policies are always available and will be able to withstand the competition from conventional insurance companies.

Table 3. Question 3: Presently covered with [the current policy (policies)].

	STMB	%	TNSB	%	TOTAL	%
EMS	3	60	3	50	6	100
LAW	2	40	3	60	5	100
IRKHS	4	60	4	50	8	100
KAED	2	29	5	71	7	100
ENGINE	1	50	1	50	2	100
EDUC	2	67	1	33	3	100
TOTAL	14	45	17	55	31	100

Out of the 30 respondents who already own at least one coverage plan, one of them (from LAW) had purchased a policy from both STMB and TNSB. Overall, 14 of them had gone to STMB counters to purchase the plans, a figure that represents 45 percent of those who already owned a plan. However, this was lower as compared to those who had purchased a plan from TNSB. Seventeen (55 percent) of respondents had used TNSB agents to purchase the plans. KAED lecturers were the ones who had the most dealings with agents.

This result shows that a majority of *takaful* owners chose agents as their preferred channel in purchasing *takaful* plans, and also indicates the agents' ability to help the company to improve its performance. Through the sale agents' mobility and proximity to the public, their level of penetration into various segments of the public will be high. Also, due to their direct contact with the public, they are more aware of public perceptions and expectations, a fact that enables them to react to changes in the envi-

ronment and relay vital feedback to the company. Through regular and decisive training,³⁰ agents can only get better at discharging their duties, maintaining or even exceeding their quality of service, and, consequently, raising the company’s image to new and greater heights. Question 1 revealed that there is a large potential in expanding the *takaful* market. This expansion will effectively be brought about through the use of sales agents.

Table 4. Question 4: Would you like to purchase *takaful* plans for people who do not yet own one, and other plan(s) for those who already own one?

	YES	%	NO	%	TOTAL	%
EMS	15	94	1	5	16	100
LAW	3	38	5	63	8	100
IRKHS	11	92	1	8	12	100
KAED	14	64	8	36	22	100
ENGINE	2	100	0	0	2	100
EDUC	3	60	2	40	5	100
TOTAL	48	74	17	26	65	100

The response to this question was overwhelmingly positive. Forty-eight respondents (74 percent) would like either to add new plans to the plan(s) they already own, or purchase a plan for the first time. Individually, LAW recorded the lowest number of respondents who would like to purchase a plan. EMS and IRKHS both had a favorable response of over 90 percent. ENGINE, with its 2 respondents, both of whom wanted to add to the plans they already owned, had a 100 percent favorable response.

Again the result here points to the fact that *takaful* has been well received and accepted by the participating Muslim lecturers as the alternative to conventional insurance policies and as a means to satisfy their coverage needs.

Table 5. Question 5: Would you like to purchase the plans from an agent instead of personally going to the counters?

	YES	%	NO	%	TOTAL	%
EMS	11	69	5	31	16	100
LAW	2	25	6	75	8	100
IRKHS	9	75	3	25	12	100
KAED	11	50	11	50	22	100
ENGINE	2	100	0	0	2	100
EDUC	2	40	3	60	5	100
TOTAL	37	57	28	43	65	100

Respondents were asked if they would like to personally use the agents' assistance in purchasing *takaful* plans. This question was also asked to those respondents who had indicated that they did not want to purchase any plans (i.e., the 17 respondents from question 4), in order to get the overall perception to this question. Consistent with their stand of not wanting to purchase, all 17 indicated that they would not use agents. Going back to table 5, there were more respondents who want to use agents (37 [57 percent]) as compared to those who do not want to (28 [43 percent]). More of the LAW and EDUC respondents preferred to go to the counters themselves, while KAED recorded split preferences.

Of the remaining *kulliyah* whose respondents would like to use agents, IRKHS recorded the highest of numbers; ENGINE, through its 2 respondents, recorded the highest percentage. Now, if the 17 respondents who had decided not to purchase and not to use agents were removed from the equation, only 11 respondents would want to purchase plans, but not through agents. This would give a new percentage distribution of 37 (77 percent) for those preferring agents, and only 11 (23 percent) for those preferring to go directly to the counters. This result confirms the fact that the agency system is the customers' most preferred channel in dealing with a *takaful* company.

With that, the results of the survey's 5 basic questions have been presented. From these, the impact of agents and *al-wakalah* can be evaluated further by deducing additional results through combining some of the basic questions given above. Although many results could be deduced by using this method, I will present only four in this paper. They are discussed next.

Table 6. Deduced Result 1: Types of *takaful* plans purchased and the channels used to purchase.

	FAMILY	AUTO	HEALTH	FIRE	TOTAL	STMB (Counters)	%	TNSB (Agents)	%
EMS	3	1	1	1	6	3	50	3	50
LAW	2	3	1	0	6	3	50	3	50
IRKHS	3	3	3	0	9	5	56	4	44
KAED	7	0	1	0	8	2	25	6	75
ENGINE	0	1	1	0	2	1	50	1	50
EDUC	3	2	1	1	7	4	57	3	43
TOTAL	18	10	8	2	38	18	47	20	53

This question combines questions 2 and 3. The total number of plans purchased was 38: 18 purchased directly from the counters (47 percent of all plans purchased), and 20 (53 percent) purchased through TNSB agents.

Individually, KAED respondents purchased more plans from agents, while more IRKHS and EDUC respondents went to the counters. Overall, the owners preferred agents.

Table 7. Deduced Result 2: Respondents already owning a plan and who would like to purchase others, and their purchase preference

	OWNING	YES	NO	TOTAL	TNSB (Agents)	%	STMB (Counters)	%
EMS	6	6	0	6	6	100	0	0
LAW	4	2	2	4	2	100	0	0
IRKHS	8	8	0	8	7	88	1	13
KAED	7	7	0	7	5	71	2	29
ENGINE	2	2	0	2	2	100	0	0
EDUC	3	2	1	3	2	100	0	0
TOTAL	30	27	3	30	24	89	3	11

This question combines questions 1, 3, 4, and 5. Out of the 30 respondents who already owned at least one *takaful* plan, 27 would like to add other plans, while 3 (2 from LAW and 1 from EDUC) would not. Out of these 27 respondents, 24 (8 percent) preferred to use agents, compared to only 3 (11 percent), who would rather go to the counters themselves. Referring to questions 3 and 4 above, out of these 30 respondents, about 45 percent had purchased their plans from STMB (i.e., at the counters), and 55 percent from the TNSB agents. Now in purchasing their next plan, most STMB customers seemed to prefer the agents, resulting in a large decrease from 45 percent to 11 percent for STMB. This finding is illustrated in table 8 below.

Table 8. Deduced Result 3: Current and future preferred channel.

	OWNING	STMB (Counters)	%	TNSB (Agents)	%	TOTAL	STMB (Counters)	%	TNSB (Agents)	%
EMS	6	3	50	3	0.50	6	0	0	6	100
LAW	4	2	50	3	0.75	5	0	0	2	50
IRKHS	8	4	50	4	0.50	8	1	13	7	88
KAED	7	2	29	5	0.71	7	2	29	5	71
ENGINE	2	1	50	1	0.50	2	0	0	2	100
EDUC	3	2	67	1	0.33	3	0	0	2	67
TOTAL	30	14	45	17	0.55	31	3	11	24	89

Recall that one respondent from LAW had purchased a policy from both companies.

Table 9, presented on the following page, combines questions 1, 4, and 5. Thirty-five respondents stated that they do not own any *takaful* plans. Out of this, 21 respondents indicated that they would like to purchase at least one plan, and 14 wanted to remain uninsured. Again, the channel most preferred among the 21 interested respondents was the use of agents: 62 percent preferred agents, as compared to 38 percent who did not.

Table 9. Deduced Result 4: Non-owning respondents who would like to purchase a plan, and their purchasing preferences.

	NOT OWN	YES	NO	TOTALS	TNSB (Agents)	%	STMB (Counters)	%
EMS	10	9	1	10	5	50	4	44
LAW	4	1	3	4	0	0	1	100
IRKHS	4	3	1	4	2	67	1	33
KAED	15	7	8	15	6	86	1	14
ENGINE	0	0	0	0	0	0	0	0
EDUC	2	1	1	2	0	0	1	100
TOTAL	35	21	14	35	13	62	8	38

The survey's results conclusively show that IIUM Malaysian Muslim lecturers' current and potential *takaful* participants prefer to use agents in their dealings with *takaful* companies. All of the results derived from questions that exclusively pitted TNSB agents against STMB counters (branches and *takaful* desks) showed favorable results for TNSB by clearly revealing the current and potential buyers' preferred buying behavior. This sample represents Malaysia's Muslim lecturers, who represent a large segment of the *takaful* market.

It is advisable that STMB should consider this situation by understanding and appreciating the customers' preferences in the method of purchasing, because only then will it be able to satisfy its customers' needs. Since all marketing strategies are formulated and implemented with a focus on customers, only learning and identifying the customers' views will ensure that the company will achieve both its short- and long-term objectives, which include, among others, better company performance (measured in terms of profitability and efficiency). It has been revealed here that the agency system is vital to a *takaful* company's successful performance and, hence, long-term survival in the face of impending accelerated competition, both globally and domestically.

Problems Related to Sales Agents

In an earlier section of this paper, it was ascertained that *al-wakalah* is permissible according to Islamic law. Taken together with the results of the survey, it can be concluded that this practice will make a positive contribution to society by spreading the concepts of mutual assistance, cooperation, and goodwill among the general public. The system brings good and promotes public interests and values that are consistent with the Shari`ah objectives.

However, it is almost impossible to find a system that is free from problems or defects, especially one that interacts openly with its environment. This is even truer when the system depends to a large extent on human interventions, which are subject to a variety of human emotions and judgments, as is the case with the agency system. In order to identify the problems that plague the system, as well as the ways to minimize or eliminate them, I conducted e-mail correspondence with the director of TNSB's agency department. He indicated that three major problems (detailed below) constitute about 85 percent of all problems. These problems are not only specific to TNSB, but are associated with companies implementing the agency system. It must be stressed here that the system as a whole (macro level) does not cause these problems; rather, they are the consequences of the agents' action, which is the human aspect and an element of the system (micro level).

These three problems comprise three different areas of an agent's job, which I termed as the "agency supply chain," namely, procuring *takaful* applications, collecting contributions from participants, and delivering *takaful* certificate plans to them. TNSB rigorously monitors the situation and has devised ways to control these problems. When procuring *takaful* applications (selling *takaful* plans), agents utilize different means to reach their targeted potential participants. These include, among others, individual and company-wide presentations, convention booths, advertisements, and special publications. Lately, agents have become IT savvy so that they can advertise their services through personal web pages.

The problem is not so much in the means, but rather in the content of the information dispersed to the public. Sometimes agents produce their own version of information concerning the services and plans offered, in contrast to standard company coverage and offerings. This misleads participants. TNSB takes this matter very seriously, for it impedes the basic agreement and understanding between the principal and the agents. Once TNSB receives any complaint or relevant information pertaining to the issue, an in-

depth investigation is conducted, and those agents who have misled the public find their contracts terminated immediately by the company. Apart from this, the company undertakes to produce enough brochures of its products and plans for free distribution to the public. It also has taken steps to ensure that agents do not produce their own version of publications through constant reminders, such as training and in-house bulletins.

Collecting the contributions, the next node on the agency supply chain, is the second problem area. According to TNSB, some of its agents do not hand over the collected money immediately to the company, although the company gives them a reasonable time to do so. TNSB views this as a serious problem, for it could lead to the contributions being misappropriated. Such a practice infringes on the contract between the principal and the agents and, if proven guilty, the agents' services are terminated.

In addition to continuously reminding its agents through various means, TNSB has implemented another controlling mechanism to minimize and eliminate this problem: It directly notifies participants by producing either a renewal notice or a lapse notice, as well as a periodic collection statement. In this way, participants are informed of whether the company received their contributions or not. In the event that differences occur between the amount paid and the amount received by the company, participants either can inform the company or confront the agents. Ultimately, this will prevent the misappropriation of contributions.

The third problem is that of delivering the *takaful* certificate, for some agents fail to fulfill this responsibility after the participant joins a specific plan. This amounts to poor after-sales service, for not only have the agents failed in their responsibilities, but the company's image is tarnished. TNSB decided to mail the certificates directly to the participants in order to prevent this problem in the future.

The Advantages of Sales Agents

Although there are negative reports about the conduct of certain agents, particularly about misrepresentation and negligence,³¹ these incidents are few and far between. Moreover, defaulters are dealt with accordingly. My study shows, however, that the benefit of using agents far outweighs any cost, financial or otherwise, to the *takaful* industry. These benefits will eventually spur *takaful* companies to compete competitively and aggressively against their conventional counterparts, who already enjoy the fruits of their agents' labor.

From a socioeconomic viewpoint, agents serve the nation by helping to reduce the number of people who depend on charity and public relief.³² This spirit of helping one another can also be seen in other economic areas of society, such as the *takaful* program itself, which is based on brotherhood, solidarity, and mutual assistance. The *takaful* industry needs agents to fully explain the concept of *takaful* to the public, the majority of whom remain unaware of the need to insure themselves against possible tragedy.

More importantly, agents play a vital role in explaining the beauty of *tabarru`* in *takaful*, which differentiates it from conventional insurance, for this principle Islamizes insurance and brings it into compliance with the Shari`ah. Given that *takaful* is meant for everyone at every time, not just for Muslims and at this moment in time, there is no other viable way of spreading these messages to the public other than through agents. Agents also provide many advantages to the company in terms of improving its performance.

In return, the *takaful* industry provides the avenue for agents to hone their entrepreneurial skills by building a sort of a mini-business³³ on which they can capitalize. It also provides the means for them to accumulate personal income and wealth by receiving a commission on their sales. By employing agents, *takaful* companies help reduce the prevailing unemployment rate in a developing country, such as Malaysia. Both the symbiotic interactions between the industry and the agents contribute positively to the country's development, especially by mobilizing and distributing wealth, both of which are vital for economic prosperity.

Conclusion and Implications

The emergence of the concept of agency is vital to all people, as it is practiced on a large scale in their daily activities. Various trading activities, such as investment activity, share trading, and capital investment, as well as marketing activities, depend to a large extent on the skills and expertise of intermediaries. Their qualifications are essential when it comes to securing the safety of the capital invested and protecting the rights of individuals from being undermined.

The results obtained from my survey of sampled IIUM lecturers indicate that they preferred to purchase their *takaful* plans coverage from agents. The results not only showed the customers' buying behavior, which leads to customer satisfaction, but also reflect and support the results

obtained from a comparative financial analysis of the two companies.³⁴ Hence, the agency system and its agents are vital factors to a company's performance and its long-term survival in the face of increased competition. Consequently, STMB should reconsider its policy of not employing agents. There are no barriers to its implementation, either from the Shari`ah or from other perspectives. It should also rethink its current policy of opening up new branches and *takaful* desks, and instead use its current branches and desks to facilitate the agency system.

The above results, however, are just indicative and definitely not conclusive. This research provides the basis for future research, where further empirical evidence is required to examine which *takaful* sales and marketing channels will be the most preferred by current and potential customers. A larger sample size and extended questionnaires regarding customer perception could be used to further enhance these preliminary findings. Apart from this, other samples (e.g., a sample of professionals in business firms) could be added to improve the generalizability of the above results. Future research could also be extended to include interviews with each company's managing director and thereby reveal further reasons for following the chosen strategy.

Endnotes

1. Bank Negara Malaysia, *Insurance Annual Report 2000* (Kuala Lumpur: Bank Negara Malaysia, 2000), 2.
2. Ibid., B6-B35.
3. A. Bhatti, "Takaful Industry: Global Profile and Trends," *New Horizon* (2001): 10-11.
4. "Takaful," www.salaam.co.uk/themeofthefmonth/november02_index.php. Retrieved December 9, 2004.
5. MNI Takaful changed its name to Takaful Nasional Sdn. Bhd. on December 8, 1998.
6. Non-Muslims can also benefit from the services of *takaful*.
7. Although STMB ventured into the overseas market, the size of its investment is negligible.
8. Bank Negara Malaysia, *Takaful Act 1984 and Regulations* (Kuala Lumpur: MDC Sdn. Bhd., 1985), 78.
9. S. Rosly, *Islamic Insurance: Takaful* (Kuala Lumpur: The Sun, 1996).
10. *Diyat* is a system of blood money payments practiced in pre-Islamic Arabia. It was later adopted and refined by Islam. See M. Musleh-Ud-Din, *Insurance and Islamic Law* (New Delhi: Adam Publishers and Distributors, 1982), 16-26.

11. Y. Qaradawi, *The Lawful and the Prohibited in Islam* (Malaysian ed.) (Petaling Jaya: Islamic Book Trust, 1995), 276.
12. T. Nordin, *Collection of Articles on Takaful* (Kuala Lumpur: Malaysian Insurance Institute, 2000).
13. This model was derived after helpful advice and insights from Tardmizi Nordin, formerly of the Malaysian Institute of Insurance, and Norayu Omar, a *takaful* agent for TNSB.
14. For the purpose of investments, both accounts will be combined and the returns from investments will be shared using the agreed-upon *mudarabah* profit sharing ratio between the companies and the participants.
15. Although *wakala* appears in several places, they are all used to indicate “a representation of a person on behalf of another person in certain dispositions.” It could mean *hifz* (to preserve or defend, as in Qur’an 3:173 and 4:132), *tafwid* (to entrust, as in Qur’an 3:160 and 12:67), or to be responsible for arranging one’s affair (Qur’an 6:66 and 6:107).
16. M. Napiiah, *The Theory of the Contract of Agency (al-wakalah) in Islamic Law* (Ph.D. diss., Glasgow: University of Glasgow, 1995).
17. Ibid.
18. Ibid.
19. Ibid.
20. Ibid.
21. Added by author.
22. Napiiah, *The Theory of the Contract of Agency*.
23. M. F. Yusof, *Takaful – Concept and Operational System: From The Practitioner’s Perspectives* (Kuala Lumpur: BIMB Institute of Research and Training Sdn. Bhd., 1996), 20.
24. There are four Sunni legal schools (*madhahib*), corresponding to different methods of conducting jurisprudence: the Hanafi, Maliki, Shafi’i and Hanbali.
25. F. David, *Strategic Management Concept and Cases* (8th ed.) (New Jersey: Prentice Hall International, 2001).
26. T. Nordin, *Collection of Articles on Takaful*.
27. The abbreviations follow what IIUM personnel would normally use when referring to the respective kulliyah.
28. H. Jantan, *Consumer Financing: A Study on the Perception of Education Officers towards Interest Free Financing* (master’s thesis, International Islamic University Malaysia, 1997).
29. Among the circumstances was that the survey was conducted during a busy period, for the lecturers were preparing for the semester’s final examination.
30. The agents’ training, which is very rigorous, is divided into two stages: training before and training after the license has been granted. This training is usually conducted in-house. Before receiving the license, all prospective agents must study many modules and topics that prepare them for the agent’s examination. After the license is granted, they undergo more training designed to

further instill in them the positive values of becoming dedicated, committed, and successful Islamic agents. Apart from this training and coursework, agents are also sent to various seminars and conventions conducted by such professional bodies as the Malaysian Insurance Institute.

31. The *Bank Negara Malaysia Takaful Annual Report 2000* stated that 31 written complaints were filed against takaful companies for the year 2000.. Most of them were related to delays in settlement claims and in replies to correspondence, repudiation of claims, or disputes about the claim's amount. The report went on to record that the complaints were resolved.
32. National Association of Malaysian Life Insurance Agents, *Life Practitioners Council: Module IS1 – Personal Insurance Marketing* (Kuala Lumpur: National Association of Malaysian Life Insurance Agents, 1997).
33. Prophet Muhammad (pbuh) is reported to have encouraged Muslims to take a serious interest in business: "I encourage you to take part in business, for in it is nine out of ten parts of your sustenance."
34. H. A. Annuar, S. Rosly, and H. M. Rashid, "The Impact of Al Wakalah on the Performance of Takaful Business in Malaysia" (paper presented at the International Islamic Banking Conference, Italy, 2003).