

THE INFLUENCE OF INNOVATION ATTRIBUTES ON LOYALTY IN FAMILY TAKAFUL: A CONCEPTUAL STUDY

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ABSTRACT

The family Takaful industry has experienced a significant development in Malaysia. It is considered as one of the substantial components in the Islamic finance system that continues to play an important role in supporting economic and social development of this country. Besides, it is evidenced that the performance of Takaful industry in Malaysia has strongly contributed by family Takaful business rather than general Takaful business. This can be concluded that family Takaful business remained the major income generator for Takaful industry in Malaysia. Although macro-level aspects such as the nation's economy, gross domestic products and so forth may lead to this result; other micro-level aspects at the individual level make contributions as well. Thus, the main objective of this study is to examine the influence of innovation attributes on loyalty in family Takaful. The study expected that perceived innovation attributes, namely, relative advantage, compatibility, simplicity, trialability and observability will influence the participants' loyalty in family Takaful. The findings will also contribute to the existing literature to both theoretical and managerial approaches to better understand the pattern of customer behaviour especially in Takaful industry settings.

Keywords: Innovation Attributes, Loyalty, Family Takaful and Malaysia.

INTRODUCTION

Over the past two decades, the Takaful industry has established itself worldwide, both in Muslim and non-Muslim countries. Based on the Global Takaful Report (2017), the total global Takaful contributions were estimated at US\$14.9 billion in 2015, representing a double digit growth rate of 14% in 2015. This is based on Takaful contributions in the following markets such as South East Asia: Malaysia, Indonesia and Brunei; Gulf Corporation Council (GCC): Kuwait, Oman, Qatar, United Arab Emirates and Saudi Arabia; Africa: Sudan, Egypt, Kenya, Gambia and Tunisia; and others: Pakistan, Turkey, Sri Lanka, Syria, Yemen, and Jordan. By region, the total Takaful industry in the GCC markets grew by a compound annual growth rate (CAGR) (2012-2015) of 18%, whereas South East Asia markets decreased by a CAGR of (4%) in the same period due to the depreciation of local currencies relative to the US dollar witnessed in recent years. However, there continues to be positive growth in the South East Asia markets in local currencies terms. Besides, based on these reports, the GCC continues to dominate the global Takaful market with a 77% market share (predominantly general Takaful business), followed by South East Asia at 15% (predominantly family Takaful business). Meanwhile, Africa and the other remaining countries are relatively new to the Takaful market and their gross written contributions (GWC) is small at US\$0.7 billion and US\$ 0.5 billion, respectively (for example, 5% and 3% of global Takaful market share, respectively).

South East Asia is dominated with family Takaful business particularly Malaysia and Indonesia, with 57% of the global family Takaful market share. Between 2012 and 2015, the region recorded a CAGR of (4%) with GWC of US\$15 billion for its family Takaful business. In 2015, the GCC region, with a 27% of global market share, recorded a GWC of less than half of that observed in South East Asia at US\$0.7 billion, but demonstrated a higher CAGR of 13% in the same period. From the report, it is disclosed that Malaysia has the largest family Takaful market globally with 33% of the market share and GWC of US\$0.8 billion in 2015. Due to this, Malaysia represents a growth rate of 16% in 2015. This is followed by Indonesia with GWC of US\$0.6 billion and a growth rate of (11%) in 2015. In addition to this, according to Monthly Highlights and Statistics Report (2018) the growth of Malaysia Takaful businesses can be seen through its businesses performance in terms of gross contribution over the last 5 years as shown in the Table 1 below. This can be concluded that the performance of Takaful industry in Malaysia has strongly contributed by family Takaful business rather than general Takaful business which finally remained the major income generator for the Takaful industry in Malaysia. Besides, through the pattern of gross contribution presented below (Table 1) it seems to indicate that family Takaful has become a form of savings instrument that is popular especially among Malaysian Muslims in general and has its appeal due to its *shari'ah* compliant attributes (Rahman et al., 2008).

Even though Malaysia has been dominated by the family Takaful business in terms of their contribution, but the untapped market still exists and does not meet the potential market. This showed that the market penetration rate in family Takaful is still relatively low and presenting a huge business opportunity (Kadir, 2011; Hashim, 2012; OSK research report, 2012). It is disclosed that the market penetration rate of Malaysia's family Takaful sector is only at 14.5% in 2014 compared with the life insurance's market penetration which is at 41.2% (Malaysian Takaful Dynamics, 2015). It also stated that the slower rate of Takaful penetration in Malaysia is due to the increasing number of family Takaful participants who surrendering their policies (Salleh, et al., 2013). This is supported that the surrenders of life insurance and family Takaful policies have increased in recent years (Financial Stability and Payment Systems Report, 2016). It has been evidenced that there were always the number of family Takaful participants who surrendered their policies by each year (Monthly Statistical Bulletin, 2018). It is observed within five (5) years; between 2013 to 2017 there is an inconsistency as the highest number was recorded in 2013 in which approximately

314,036 participants surrendered their family Takaful policies excluding death and maturity. This can be argued that the Takaful providers are facing a problem of retaining its existing participants. Hence, it is imperative for Takaful providers assume strategies to maintain their participants' loyalty.

Table 1: Takaful Business Performance in 2013 to 2017

Year	Family Takaful		General Takaful		Total	
	RM million	Growth	RM Million	Growth	RM million	Growth
2013	4,807	5.1%	1,390	8.4%	6,197	13.5%
2014	4,787	-0.42%	1,467	5.5%	6,254	5.15%
2015	5,104	6.6%	1,671	13.9%	6,775	20.5%
2016	5,744	12.5%	1,778	6.4%	7,520	18.9%
2017	6,353	10.6%	1,864	4.8%	8,217	15.4%

Source: Monthly Highlights and Statistics (2018), Bank Negara Malaysia

LITERATURE REVIEW

A significant study is done by Lam and Burton (2006) suggests that the loyal customers tend to have higher likelihood of repurchasing from a supplier than non-loyal customers. They further suggested that loyal customers significantly contribute to market share growth. It is believed that customer loyalty can create competitive advantage, increase market share and profit in the long term as well as can reduce the cost of marketing among other promotional costs (Utami, 2015). This is corresponds with the past researchers that stated the relationship between the increase in the number of loyal customers and sales can be used as an indicator of corporate performance as well as improves its level of profitability (Reichheld & Teal, 1996; Eakuru & Mat, 2008; Rasheed & Abadi, 2014; Abtin & Pouramiri, 2016). Besides, the customer loyalty also can be used as a surrogate for market penetration (Oliver, 1997; Torres & Tribo, 2011). Since the market penetration rate of Malaysia's family Takaful sector is still relatively low, it is crucial to maintain present participants which can help to increase the market penetration rate in the Takaful industry. This is due to the expense of gaining new customers may cost companies to spend five times more than to keep an existing ones (Wills, 2009; Singh & Imran, 2012). It is supported by Hamilton et al. (2017) that most companies often invest in expensive features to design their products and services without adequately understanding how these features attract new customers may differ from those that will retain existing ones.

Based on this situation, it is vital for Takaful industry in Malaysia to focus on participant's retention by understanding the loyalty tendencies. It is extremely important for Takaful providers as well as their marketers in extending the range of innovation for family Takaful products in terms of its features and qualities. This is supported with Rambocas and Arjoon (2012) and Nhepera (2017) that the qualities of innovation will helped easy and fast spread and consider in relation to customers's loyal factors. According to the Global Consumer Insurance Survey in Ernst and Young Report (2012), 51% of the respondents agree that improved offers on existing products would encourage a repeat sale and 47% that improved service may make them reconsider switching which finally can help to increase their loyalty. Besides, a survey conducted by Mohamed and Alhabshi (2015b) found that majority of the Takaful Managers agreed by extending the range of innovation on Takaful products and services can help to increase more people to participate in Takāful. In addition, by realizing on the importance of innovation, the Takaful providers should introduced new and enhanced innovative products and services with competitive pricing and service excellence to better serve it customers (Syarikat Takaful Malaysia Berhad Annual Report, 2017). Furthermore, the Islamic Fund and Wealth Management Blueprint recommendations are focused on providing enabling frameworks to support innovation in Islamic markets to ensure the regulatory framework facilitates innovation and fosters the emergence of new market segments, products and services (Securities Commission Malaysia, 2017). This is also in line with Takaful because it is considered as one of the financial providers in Islamic finance industry.

Grounded in the sociology, Innovation Diffusion Theory (IDT) has been used since the 1960s to study a variety of innovation ranging from agricultural tools to organizational innovation (Tornatzky & Klien, 1982). An innovation is "an idea, practice, or object that is perceived as new by an individual or another unit of adoption" (Rogers, 1995). Diffusion, on the other hand, is "the process by which an innovation is communicated through certain channels over time among the members of a social system" (Rogers, 1995). The IDT argues that "potential users make decisions to adopt or reject an innovation based on beliefs that they form about the innovation" (Agarwal, 2000). As these innovations are communicated to individuals, each individual will perceive the innovation differently. Rogers (1995) proposed five attributes of an innovation in IDT namely, relative advantage, compatibility, complexity (simplicity), trialability, and observability.

This attributes are instrumental in explaining the adoption of innovations as well as for the decision-making process (Rogers, 1995; Agarwal & Prasad, 1997; Karahanna et al., 1999; Plouffe et al., 2001). In spite of that, the innovation attributes frequently highlighted on customers' perception, acceptance, behavior prediction, user acceptance and innovation adoption behavior (Liao & Lu, 2008, Kim & Park, 2011, Hameed et al., 2012; Jamshidi & Rezaei, 2012). These innovation attributes have also been used

in different framework solely and or incorporation with other variables or models as important indicators in multiple areas including online shopping intention (Zendehdel et al., 2015; Ahmad et al., 2016; Chen & Wang, 2016), internet banking acceptance (Nor et al., 2010; Rambocas & Arjoon, 2012; Ajam & Nor, 2013; Suki, 2010; Mohamed, 2013; Sabi, 2014), mobile banking adoption (Hanafizadeh et al., 2014; Ghazali et al., 2015; Audi et al., 2016), E-learning adoption (Liao & Lu, 2008; Lee et al., 2011), and smart phone adoption (Chen et al., 2009). Besides, based on the previous research, it seem there are many past studies that used the innovation attributes in explaining the adoption as well as the behavioral intention in the context of Islamic finance providers (Echchabi & Aziz, 2012; Thambiah et al., 2013; Amin et al., 2013; Echchabi et al., 2014; Obied & Kaabachi, 2016; Mahdzan et al., 2017; Ali & Puaah, 2017).

Despite the wide interest in adoption, very little is known about how the family Takaful participants' interest and enthusiasm can be maintained. Thus, for the purpose of this study, all core dimensions of innovation attributes under IDT will be used into this current framework to examine the participants' loyalty in family Takaful. It examines the qualities of an innovation help easy and rapid spread and is theoretical significance in connection to customers' loyal tendencies. Since the attributes of innovation are crucial factors in explaining customers' behavior prediction it is necessary for the institutions and providers use their best strategies to move customers' interest beyond trial and infrequent adoption, to continue and prolonged use. Moreover, to the best of researcher's knowledge, there is limited study regarding the impact of innovation attributes in explaining the family Takaful loyalty. There is still available gap to be explored whether innovation attributes would add and contribute to the existing body of knowledge. Therefore, in order to fill the research gap, this study proposed a conceptual framework that focused on the innovation attributes to the loyalty in family Takaful. In order to make the study easier to understand the research objective are stated as below:

- To investigate the level of innovation attributes and loyalty in family Takaful.
- To examine the influence of innovation attributes on loyalty in family Takaful.

THE CONCEPTUAL FRAMEWORK

This conceptual model was designed based on the IDT. There are five (5) dimensions of innovation attributes as proposed by Rogers (1994) in IDT such as relative advantage (RA), compatibility (CO), simplicity (SP), trialability (TR) and observability (OB) fall into exogenous constructs, meanwhile, participants loyalty (LO) is taken as endogenous construct. This model is illustrated in Figure 1 below. The following discussion is organized based on the previous literatures which related into the context of study.

Relative Advantage (RA): Rogers (1995) defines relative advantage of an innovation as the degree to which the innovation is perceived as better than the idea it supersedes. For the purpose of this study, the relative advantage refers to the capacity of the product to better compete when compared with conventional life insurance. The previous study by Solomon et al., (2013) confirms that relative advantage affects attitude of using internet banking. Based on the past studies, relative advantage has a positive influence on the usage of Islamic banking services (Aziz et al., 2015; Mahdzan et al., 2017; Ali & Puaah, 2017). Accordingly, this paper would hypothesize that:

H1: There is significant influence of relative advantage on Loyalty in family Takaful.

Compatibility (CO): Rogers (1995) defines compatibility as the degree to which an innovation is perceived as consistent with the existing values, past experiences and needs of potential adopters. For the purpose of this study, compatibility is refers to the extent of the product that is consistent and compatible with consumers' need, beliefs, values, experiences, and habits. Prior studies noted that compatibility has a positive and significant relationship on attitude toward adoption of Islamic banking (Thambiah et al., 2013; Aziz et al., 2015; Husin et al., 2015; Latip et al., 2017; Mahdzan et al., 2017; Ali & Puaah, 2017). Accordingly, this paper would hypothesize that:

H2: There is significant influence of compatibility on Loyalty in family Takaful.

Simplicity (SP): According to Kolodinsky et al. (2004) simplicity viewed as the extent to which consumers perceived a new innovation as easy to understand or use. This is supported with the previous studies such as Hamid and Nordin (2001), Liu and Li (2010) and Amin et al. (2013) that simplicity of innovation fosters greater certainty for acceptance and survival. Therefore, for the purpose of this study, simplicity was defined to the extent to which the features of family Takaful was viewed as easy to understand. Simplicity has been found to be an important factor in the patronage of Islamic banking (Abdul-Hamid & Mohd-Nordin, 2001). Olatokun and Igbinedion (2009) discovered that simplicity is instrumental in explaining one's attitude towards a banking facility thus extends its generalizability to Islamic home financing. Liu and Li (2010) found that simplicity has a significant impact on the use of the mobile internet. On the other hand, Amin et al. (2013) also found that simplicity has positive significant on the Islamic financing adoption. Hence, on the basis of above discussion this study would consider the following hypothesis to be tested:

H3: There is significant influence of simplicity on Loyalty in family Takaful.

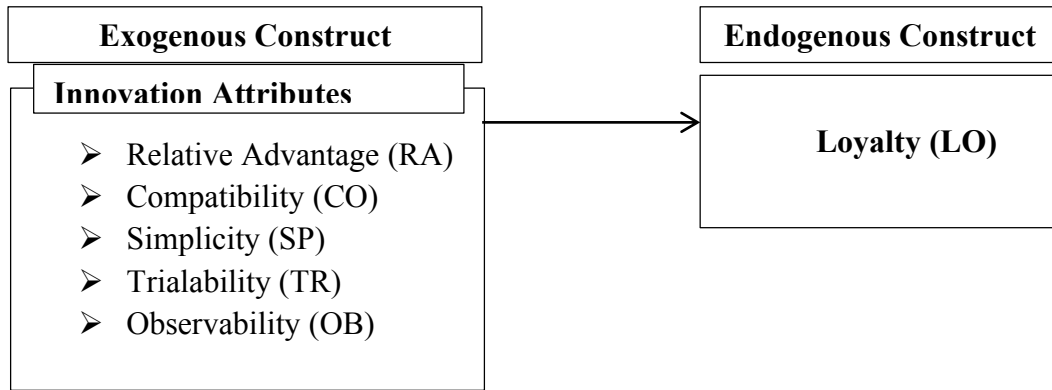
Trialability (TR): Rogers (1995) defines trialability as the degree to which an innovation could be tried out by people on a limited basis. Trialability would create a chance for customers to evaluate an innovation benefits (Kolodinsky & Hogarth, 2001). For the purpose of this study, the trialability refers to the degree to which the family Takaful may be experimented with on a limited basis. Stevens et al. (2000) found that trialability had a significant effect on using and adopting the Internet for employees in a non-profit organisation. Meanwhile Yunus (2014) found that trialability has influence on bank's customer intention. This is supported with Ali and Puaah (2017) that trialability has significant effect on Islamic banking. Thus, this paper would propose that:

H4: There is significant influence of trialability on Loyalty in family Takaful.

Observability (OB): Rogers (1995) defines observability as the degree to which outcome of an innovation could be visible to others. For the purpose of this study, the observability refers to the degree to which the results or benefits of having family Takaful is visible to others. It is found that observability is positively influence Islamic banking adoption (Latip et al., 2017; Ali & Puah, 2017). Accordingly, this paper would hypothesize that:

H5: There is significant influence of observability on Loyalty in family Takaful

Figure 1: Conceptual Model



RESEARCH METHODOLOGY

This study used primary data by means of a questionnaire for collection of data. The question items were adapted from previous studies with appropriate changes to make the items more relevant to the present study. A set of questionnaire was reviewed and validated by a panel of experts from Takaful industry and an academician in the related field. Their constructive comments provided a basis for refinement to the construct measures. Responses to these items were made on a ten-point likert scale.

The population in this study is assumed to be the Malaysian Takaful participants. This study specifies the participants who are participating in the family Takaful for more than a year would be the target sample. Hair et al. (2010) and Awang (2012) provide the following suggestion for minimum sample size depending on the model of complexity and basic measurement model of characteristics as shown in the Table 2 below. The table suggests that the minimum appropriate number of samples to be 100. However, for the purpose of this study, the data were gathered from 200 participants of family Takaful in Malaysia after taking into consideration that 100% returnable and completion of questionnaires was highly unlikely (Hair et al., 2010). A total 200 questionnaires were distributed to the respondents via four (4) Takaful operators in Malaysia, namely, Etiqa Takaful Berhad, Syarikat Takaful Malaysia Berhad, Takaful Ikhlas Sdn Bhd, and Prudential BSN Takaful Berhad. The stratified random sampling and simple random sampling were used in this study in order to select the respondents.

As for data analysis, there were two stages of analysis involved. First, the descriptive analysis and second, the structural equation modelling (SEM). The first stage describe the profiling of the respondents together with the level of innovation attributes and participants’ loyalty in family Takaful. Meanwhile, second stage answers the objectives of this research which is to examine the influence innovation attributes on the participants’ loyalty in family Takaful.

Table 2: The Minimum Sample Required by Structural Equation Modeling

Model Characteristics	Item Commonality	Minimum Sample Required
(Number of model constructs and items)		
1. Five or less latent constructs. Each latent construct has more than three items	0.6 or Higher	100 samples
2. Seven or less latent constructs. Each construct has more than three items.	0.5 or Higher	150 samples
3. Seven or less latent constructs. Some construct have less than three items (just identified model)	0.45 or Higher	300 samples
4. More than seven latent constructs. Some constructs hve less than three items (just identified model).	0.45 or Higher	500 samples

Source: Hair et al. (2010) and Awang (2012)

CONCLUSION

In conclusion, this study has proposed innovation diffusion theory in the consumer behavior context and provide a further understanding into the participants' possible perceptions about the family Takaful products and services. It is expected that five innovation characteristics could be important determinants of participants' loyalty in family Takaful. Theoretically, this study explains the effects of innovation characteristics on participants' loyalty in family Takaful. Meanwhile, for practical purposes, the results of this study will be beneficial to Takaful operators as useful guidance to formulate the best strategies in future.

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