Determinants of Islamic Insurance Acceptance: Empirical Evidence from Somalia

2 authors:

Ali Yassin sheikh Ali
SIMAD University
68 PUBLICATIONS **718** CITATIONS

SEE PROFILE

Ahmed Khadar Abdi Jama
University of Somalia
6 PUBLICATIONS **24** CITATIONS

SEE PROFILE

Determinants of Islamic Insurance Acceptance: Empirical Evidence from Somalia

Ali Yassin Sheikh Ali (PhD)- *
Faculty of Economics, SIMAD University

Ahmed Khadar Abdi Jama- PhD Candidate
Faculty of Business & Management science, University of Somalia

Abstract
The current paper investigates the determinants toward Islamic Takaful Insurance acceptance in Somalia, the main objective was to explore knowledge, attitude, perception and awareness of Mogadishu residence toward Takaful Services. the study uses convenient sampling procedure,. The data were collected in February and March 2016 by using questionnaire. A total of 179 respondents were participated to this study. The data was analyzed using SPSS version 20.0 to answer research objectives.
The study found that that attitude, perception, awareness and knowledge are influential predictors of Islamic insurance adoption and acceptance. The study provides an imminent into the understanding of determinants leading to the customers' adoption of Islamic insurance.
Keywords: Knowledge, attitude, perception, awareness , Islamic Insurance, Determinants, Somalia

1. INTRODUCTION
The term "Takaful" originatesfrom Arabic expression which meaning 'joint guarantee and shared cooperation; is Islamic insurance where the risks shared collectively and voluntarily by the group of contributors (Mahmood, 2008).According to Obaidulllah (2005) Takaful is an agreement and understanding between groups of people with general interests and aims to protect and promise each other from certain hardships, disaster such as property damages.In Islamic Insurance contract, members agree to guard and guarantee each other from defined damages and losses by providing financial support to any participant suffering from damage. Takaful companies made possible through establishing of regular pool of funds contributed by the member's resources ad donation to the group.

Republic of Sudan was pioneer of Islamic insurance concept and practice when Faisal Islamic Bank was incorporated in August, 1977; the bank faced difficulties to insuring its assets and operation. According to rules of the Bank, it's not acceptable to deal with conventional insurance companies exist in Sudan that time. The board of bank decided to establish cooperative insurance firm with conforms to Sharia principles in 1978 which started operation later January 1979; this was the birth of the first Islamic insurance in the world (Sulieman, 2013) The bank has to establish an insurance company on the basis of cooperative insurance which is fully conforms with the principles and provisions of Sharia'. Based on that Fatwa, 4 Faisal Islamic Bank (Sudan) established the Islamic Insurance Company in 1978 which started its operations in January 1979 as the first Islamic Insurance Company in the world.

In recent years, Islamic insurancehas attracted the attention of Somali entrepreneurs which led to the opening of private Islamic insurance companies in Somalia. The establishment of insurance companies was considered by many as rebirth of insurance business in Somalia since the outbreak of civil war in 1991. Before 1991, insurance companies were publicly owned enterprises managed by the government of Somalia; Somalia was ruled by communist regime, without adhering to Islamic principles regarding insurance.

Even though insurance is considered as significant indicator of quality life to human being (Kumar &Gautam, 2012), Somalis have very low level insurance culture. Such very low culture can be attributed to the lack of both insurance Act and insurance companies for more than two decades. Somalis still use family interdependency as an alternative to insurance for protecting themselves against potential loss or damage. For instance, Qaaran is Somali traditional costume in which members of family or tribe contributes each other for the loss or damage suffering by a member of the family. This traditional costume is still used in both urban and rural areas which are regarded many people as a major contributing factor to Somali's low level of insurance culture.

Insurance Act has not yet been passed by the parliament of Somalia for the regulation of insurance industry. There is no literature that confirms weather an insurance Act was passed in Somalia before 1991 or not.
This study is aimed at exploring the knowledge and perceived attitude of Somalis towards insurance In Mogadishu, Somalia. In particular, this study will not focus on specific type of insurance and will include both

insurance policy holders and non-holders.

2. LITERATURE REVIEW

An interesting study by, OjikutuYusuf and Obalola (2011) examined the attitude and perception of residents of Lagos State, Nigeria towards insurance fraud. For the collection of data for the study, a questionnaire was distributed and administered to 400 respondents in Nigeria. Results of the study indicated that Nigerians show general pubic tolerance and indifference towards insurance fraud. The study also showed that 60% of the respondents in the study do not trust their insurance companies and 17.1% of the respondents who experienced a loss or damage in the past decide not file claim because the insurance company would not be transparent in the dealings.

Likewise, Yusuf, Gbadamosi and Hamadu (2009) investigated attitudes of Nigerians towards insurance services. The finding of the study concluded that Nigerians have negative attitude towards insurance services. In addition to that, the study also shows that socio-economic factors such as age, marital status, educational status, profession, household income—all have significant impact of varying degrees on attitudes towards insurance. In contrast, gender does not have significant impact.

Furthermore, Chowdhury, IbnRahman and Afza (2007) studied the perception of the customers towards insurance companies in Bangadesh. So, this study addresses clients' behaviors and attituderegarding insurance companies in public andprivate sectors in Bangladesh. They concluded that people in Bangaldesh do not prefer to subscribe or insure themselves against potential losses.

Moreover, Ismail, Othman, et al (2013) examined the extent to which micro enterprises are aware of Takaful and the benefits of its products. The study found that lack of understanding and awareness of Takaful products contributed to the low demand for Takaful services. Besides, the study also noted that misunderstanding on trustworthiness of Takaful and owner's expectation of the benefits of Takaful products. As was also indicated previously in a similar manner, Bashir and Hj Mail (2011)examined the consumer perceptions of Takaful companies in BruneiDarussalam. Results showed that Bruneians need education on the importance of insurance and its products. Thus, in this study, respondents also indicated that the processes involved in the claim are the common problem shared by the respondents.

Another study by AlNemer (2015) discussed about the participants' preferences and motivation about Takaful products and services. The study administered a questionnaire to 420 target population of family Takaful policy holder and then found on the contrary that profit return not religion is the most important factor motivating participants to buy Islamic insurance in Saudi Arabia. Equally important, the study also suggests that participants need education on the main purposes behind their contribution to the *Takaful* fund. Similarly, Maiyaki and Ayuba (2015)analyzed factors that influence the consumers' attitude toward Takaful services patronage in KanoMetropolis, Nigeria. It was found that awareness, perception, trust and confidence have significance on the customer's attitude towards Takafulservices.

Next to that, Arifin, Yazid and Sulong (2013) carried out extensive review of literature to identifying the main determinants that drive family Takaful demand in Malaysia. Here the study found that marketing and advertising of Takaful products, agency system and reputation of Takaful operators, products and services are main determinants driving family Takaful demand in Malaysia. In the same way, *Kamila and Mat Nor (2014) studied* the factors that influence Malaysians to choose Takaful over conventional Insurance. So, the result of the finding indicated that Takaful customers have a clear concept of Takaful and the requirement of Shariah compliance and have awareness on the relationship between insurance and religion in contemporary business. They also found that respondents showed that Takaful is necessary for Muslims as it is a replacement to conventional insurance.

By the same token, Ayinde and Echchabi (2012) examined the Malaysian customers' willingness to adopt IslamicInsurance services as well as the factors that may influence their behavior. The study found participant had showed their willingness to adopt Islamic insurance. In the light of thisstudy, it was also found that compatibility and awareness are the two factors that influence participants' decision to adopt Islamic insurance. In a similar study, Echchabi&Echchabi (2013) investigated the willingness of the French Muslims to adopt Islamic insurance (Takaful), as well as the factors that may influence their decision. The result indicated that French Muslims have shown willingness to adopt Takaful services as an alternative to the existing conventional insurance services while attitude, perceived behavioral control and subjective norm have a positive influence on the adoption of Islamic insurance.

Comparatively and in the same fashion another study by Arfin, Yazid and Hussin (2014) explored the critical factors for family Takaful demand among Muslim customers in Malaysia. The resultsthen indicated that reputation and image and religious adherence are one of the critical factors influencing participants adopt Islamic insurance.

Ultimately a study made by Bashir and Hafiizah (2011) examined the consumer perceptions of Takaful companies in BruneiDarussalam and found that that the most common problem encountered by Takaful policyholders regards the claim process. Most of the policyholders expressed unhappiness that it was difficult to obtain their claims. The processes are too bureaucratic and complicated. Takaful companies should find a better solution to this problem. Bruneians still need to be better exposed and educated on the importance of insurance, especially of Takaful products.

3. CONCEPTUAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

The current study investigates the influence of four predictor on adoption of Islamic insurance in Somalia; the researchers developed below diagram to show the relationship between knowledge, awareness, attitude, perception on behavioral intention to adopt Islamic insurance products.

Ayinde and Echchabi (2012) found that compatibility and awareness are the two factors that influence participants' decision to adopt Islamic insurance while Ismail, Othman, et al (2013) found that lack of understanding and awareness of Takaful products contributed to the low demand for Takaful services. Similarly, Ackah and Owusu (2012) also found that general lack of insurance knowledge is one of the reasons for low insurance uptake in Ghana. thus the following concept were developed depend on existing literature.
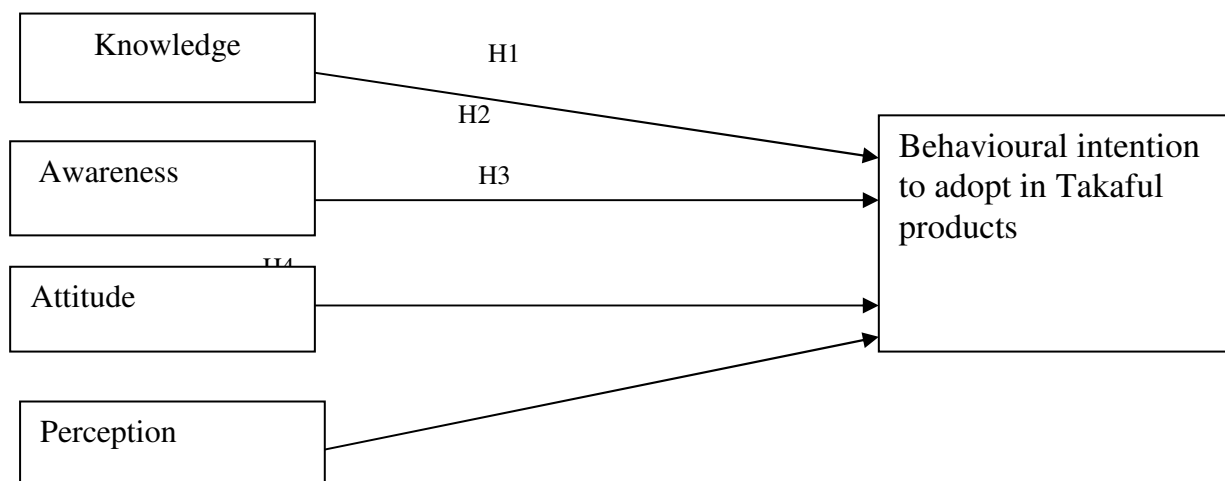

Figure 1: Research Model

H1: There is significant relationship between knowledge of Takaful products and Behavioral intention to adopt.
H2: There is significant relationship between awareness of Takaful products and Behavioural intention to adopt
H1: There is significant relationship between attitude of Takaful products and Behavioural intention to adopt
H1: There is significant relationship between perception of Takaful products and Behavioural intention to adopt

4. METHODOLOGY

Survey research design was used to collect information needed for this study. Convenientsampling was also be used to select 400 respondents in Mogadishu, Somalia. The reason why Mogadishu is chosen is that it is the city that has the largest population in Somalia with diverse people from all Somalia.A structured questionnaire was distributed to the selected respondents.The questionnaire consists of 31 questions; nine questions on perception, seven (7) questions on knowledge, seven (7) questions on attitude, five (5) questions on awaness and three (3) question for behavioral intention to use Takaful products.in addition to that, questions relating to background information were also added in the questionnaire.

SPSS version 20 was used to analyze data for the study. Cronbach Alpha and principal components analysis (PCA) were used to test the goodness of measurement while correlation analysis was conducted to identify the relationship between variables investigated. Finally, and linear regression analysis was employed to test the research hypotheses.

5. DATA ANALYSIS AND DISCUSSION

5.1: Goodness of measurement

The goodness of the measurement was tested using Cronbach Alpha and principal components analysis(PCA) using SPSS version 20 to validate the data collected from sample random. Earlier to performing PCA, the fitness

of data collected for factor analysis was evaluated. Examination of the correlation matrix discovered the presence of many coefficients of .3 and above. The Kaiser- Meyer-Olkin value was .860, exceeding the recommended value of .6 and Bartlett's Test of Sphericity reached statistical significance, maintaining the factorability of the correlation matrix.

Principal components analysis discovered the presence of five components with got Eigen values exceeding 1, explaining 30%,25%, 20% 17%, and 14% of the variance respectively as shown in below table 1.

Five factors were extracted from the analysis. Only two items from knowledge dimension was loaded less on their respective factor (KN08 and KN09); items Communalities were less than the cut score of .50, which indicated that the item has no contribution to their respective factor; the two items were deleted and all other items were loaded high on their respective factor. Other than Dimension of "knowledge" they got more than 0.5 score of communalities. Moreover, the Five factors explained an overall 58% of variance while the overall alpha was also very high (α= .846).

A reliability test was conducted to assess the internal consist of the items by using Cronbach's alpha. A variable is reliable and internally consistent when the alpha is .70 and above as role of thumb.

The highest alpha was obtained by Knowledge of Takaful Insurance (α=.821), followed by Perception (α=.815), Behavioralintention (α=.787), and Attitude (α=.730), the lowest alpha was found to belong to Awareness (α=.719).

Table1: Factor Analysis of All items

Factor Variables	Item Label	Factor loading					Total variance explained	Cronbach Alpha (α)
		F1	F2	F3	F4	F5		
F1: Perception	PER01	**.876**	-.152	-.159	-.062	.094	**30%**	**.815**
	PER02	**.867**	-.277	-.170	-.033	.086		
	PER03	**.857**	-.214	-.265	-.154	.052		
	PER04	**.838**	-.223	-.272	-.113	.019		
	PER05	**.836**	-.104	-.145	-.103	.029		
	PER06	**.835**	-.279	-.244	-.052	-.036		
	PER07	**.822**	-.272	-.282	-.037	.040		
	PER08	**.876**	-.152	-.159	-.062	.094		
	PER09	**.867**	-.277	-.170	-.033	.086		
F2: Knowledge	KN01	-.210	**.793**	.263	.161	-.006	**25%**	**.821**
	KN02	-.175	**.758**	.184	.222	.107		
	KN03	-.201	**.757**	.314	.012	.033		
	KN04	-.202	**.720**	.132	.323	-.038		
	KN05	-.295	**.717**	.176	.196	.061		
	KN06	-.170	**.703**	.250	.339	-.058		
	KN07	-.309	**.644**	.141	.343	-.065		
F3: Attitude	ATT01	-.296	.309	**.720**	.133	.005		**.730**
	ATT02	-.228	.364	**.720**	-.049	.012	**20%**	
	ATT03	-.217	.185	**.702**	.383	.002		
	ATT04	-.286	.471	**.674**	.062	.029		
	ATT05	-.194	.247	**.670**	.245	.092		
	ATT06	-.101	-.034	**.650**	.471	.203		
	ATT07	-.337	.392	**.591**	.131	.054		
F4: Awareness	AW01	-.351	.328	.145	**.522**	-.131	**17%**	**.719**
	AW02	-.038	.290	.259	**.752**	.123		
	AW03	-.164	.317	.107	**.731**	.118		
	AW04	-.059	.371	.199	**.674**	.062		
	AW05	.325	.0245	1.89	**.546**	.189		
F5: Behavioral intention	BI01	.047	.026	-.082	.102	**.834**	**14%**	**.787**
	BI02	-.096	.098	.132	.098	**.807**		
	BI03	.354	-.044	.076	.029	**.687**		

5.2: Demographic profile

According to the age of the respondents 59.8% were between 20-30 years. 25.7% were between 31-40 years while 14.5% were older than 41 years. 72.6 of the respondents were male, while 27.4% of them were female. 28.5% of the respondents were postgraduate, 45.3% of the respondents had University first degree, and 12.3% of

the respondents were secondary school level while 14% of them had no formal education. 33.0% of the respondents were single, 59.8% of the respondents were married, 4.5% of the respondents were widow and 2.8% of the respondents were divorced. 25.1% of the respondents were lecturers, 10.6% were unskilled labour, 31.3% of the respondents were business owner, 12.8 of the respondents were civil servants and 20.1% of the respondents were NGO/UN worker. 37.4% of the respondents had income 300-600USD, 17.9% of the respondents had income 600-900USD, 10.6% of the respondents had income 900-1200USD, 4.5% of the respondents had income 1200-1500USD, and 5.0% of the respondents had income more than 1500USD while 24.6% had income less than 300 USD.

Table2: Profile of the respondents

Variables	Frequency	Percentage
Age		
20-30	107	59.8
31-40	46	25.7
More than 41	26	14.5
Total	**179**	**100.0**
Gender		
Male	130	72.6
Female	49	27.4
Total	**179**	**100.0**
Educational attainment:		
No formal education	25	14.0
Secondary	22	12.3
University Degree	81	45.3
Postgraduate	51	28.5
Total	**179**	**100.0**
Marital status		
Single	59	33.0
Married	107	59.8
Widow	8	4.5
Divorced	5	2.8
Total	**179**	**100.0**
Respondents occupation		
Lecturer/Teacher	45	25.1
Unskilled labour	19	10.6
Business owner	56	31.3
Civil servant	23	12.8
NGO/UN worker	36	20.1
Total	**179**	**100.0**
Average Monthlyincome		
less than 300 USD	44	24.6
300-600 USD	67	37.4
600-900 USD	32	17.9
900-1200 USD	19	10.6
1200-1500 USD	8	4.5
More than 1500USD	9	5.0
Total	**179**	**100.0**

5.3: Zero order correlation coefficient
Table3 shows the result of correlation analysis of the relationships among knowledge of Takaful Insurance, Awareness Takaful Insurance, Attitude of Takaful Insurance, Perception of Takaful Insurance and Behavioural intention to use Takaful products. Hence knowledge of Takaful insurance has positive relationship with Behavioural intention to use Takaful products(r=.347and p<0.01). This shows that community has brief knowledge to use Takaful products. Besides community actively satisfy their usage of Takaful products. In addition, the second objective of this study was to identify the relationship between awareness of Takaful Insurance and Behavioural intention to use Takaful products and has positive relationship(r=.274 and p<0.01).
The third objective was to identify the relationship between attitude of Takaful Insurance and Behavioural intention to use Takaful products. Attitude has positive relationship with Takaful Service (r=.427 and p<0.01).

The fourth objective was to examine perception of Takaful Insurance and Takaful service in Mogadishu. Perception of Takaful insurance has significant positive relationship with Takaful Service (r=.587 and p<0.10).

Table 3: Zero-order correlation

No	Variables	Mean	SD	1	2	3	4	5
1	Knowledge of Takaful Insurance	3.0838	.91394	1				
2	Awareness of Takaful Insurance	3.0022	.90018	**.593**	1			
3	Attitude of Takaful Insurance	3.0822	.80169	**.568**	**.592**	1		
4	Perception of Takaful Insurance	3.3398	.76670	**.546**	**.506**	**.591**	1	
5	Behavioural intention to use in Takaful products	3.5680	1.07093	**.347**	**.274**	**.427**	**.587**	1

5.4: Regression analysis

The current paper investigates the perception and perceived attitude toward Islamic Takaful firms in Somalia, the main objective was to explore knowledge, attitude, perception and awareness of Mogadishu residence toward Takaful Services. Four hypotheses were developed after reviewing the literature, andlinear regression analysis was employed to test the research hypotheses.

Four hypotheses were developed after reviewing the existing literature; **H1** stated that there is significance relationship between knowledge of Takaful Insurance and behavioral intention to use Takaful products in Mogadishu-Somalia. **H2** asserted that there is relationship between awareness of Takaful Insurance and behavioral intention to use Takaful products in Mogadishu-SomaliaWhile**H3:** there is significant relationship between attitude of Takaful insurance and behavioral intention to use Takaful products and **H4:** stated positive relationship between perception of Takaful insurance with behavioral intention to use Takaful products in Mogadishu-Somalia.

The result indicates positive and significant relationship between knowledge, awareness, attitude, perception and behavioral intention to use Takaful products in Mogadishu-Somalia; all hypotheses of the study were accepted.

All four predictors managed to explain more than 36% of variance of behavioral intention to use Takaful products in Mogadishu-Somalia.

Table 4: Model test using regression analysis

Variables	Beta	t-value	Standard Error	Results
Knowledge of Takaful Insurance	.347	4.916	.000	H1 Accepted
Awareness of Takaful Insurance	.274	3.786	.000	H2 Accepted
Attitude of Takaful Insurance	.427	6.278	.000	H3 Accepted
Perception of Takaful Insurance	.587	9.651	.000	H4 Accepted
R	.601			
R Square	.361			
Adjusted R Square	.346			

6. DISCUSSION OF THE RESULTS

The main aim of the current study was to focus the knowledge, attitude and awareness of Somali community on Islamic insurance; the products of Takaful companies are quite new in Somalia and region as well; the first company was established in 2013 which started the business in 2014. However, this study will test how knowledge, awareness, attitude and perception affect behavioral intention to adopt Takaful products.

The Data of this paper was collected from Mogadishu residents, 400 questionnaires were distributed using convenient sampling. the correct and completed questionnaires collected are 179 respondents. however, the respondent rate was 45%, first we test the normal distribution of data using different measurements such as Skewness and Kurtosis and result did not shows any serious of normality distribution of data. Different Data analysis techniques was used, first the factor analysis showed that the data was appropriate for factor analysis and suggested some items to remove.

To test the reliability and consistent of variables, Cronbach alpha was tested and indicated the all variables are internally consistent and reliable. Further analysis was taken place, to test the relationship between the variable, researchers utilized Bivarate correlations to determine the interrelationships of the variables. The researcher

developed five hypotheses to test the linear relationships; no hypotheses were removed after data reduction using component factor analysis. Linear regression was done to test the research hypotheses.

The results of the tested hypotheses illustrated that (H1, H2, H3, H4,) were fully supported; perception had major influence to behavioral intention to adopt Takaful products as coefficient table suggests.

7. CONCLUSION AND POLICY IMPLICATIONS
The main objective were to investigate the determinants of intention to adopt Islamic Insurance in Somalia; explanatory model was developed based the literature, quantitative methods were utilized to analyze the data collected from respondents. The study found significant positive relationship between all predictors and intention to adopt of Islamic Insurance. this study is useful to Somali Insurance companies and Researchers.
The study findings can be a good instruction and support for Islamic Insurance Researchers. possibly it is also valuable to extend it to other researches in order to produce more comparable and interesting findings in Islamic products.

The result of the study shows that community has concise knowledge about Takaful products. The study suggests that Takaful companies design and develop promotion and awareness program aimed at enhancing the knowledge of Somalis regarding how Takaful insurance operates and its benefits.Such program would help both current and potential users of Takaful product gain very good knowledge about Takaful products which in turn help Takaful companies attract customers.

Secondly, the study also suggests that Takaful companies provide the necessary training to Takaful agents on the best ways of communicating with the users on the benefits of Takaful products. Agents play an important role in educating users about the Takaful products. In addition to that, educating Takaful agents themselves would help agents pass the information to the users in an easily manner.

References
Ackah, C., & Owusu, A. (2012, March). Assessing the knowledge of and attitude towards insurance in Ghana. In Research Conference on Micro-Insurance.

AlNemer, H.A. (2015). Participants' preferences & motivations about Takaful products & services: an empirical study on Saudi Arabia. Kuala Lumpur International Business, Economics and Law Conference 6, Vol. 1

Arifin, J., Yazid, A. & Hussin, M. (2014). Demand of Family Takaful in Malaysia: Critical Determinant Factors Examined. International Review of Management and Business Research, 3(2).

Arifin, J., Yazid, A. & Sulong, Z.(2013). A Conceptual Model of Literature Review for Family Takaful (Islamic Life Insurance) Demand in Malaysia. International Business Research, 6 (3).

Ayinde,L.O. & Echchabi,A.(2012). Perception and Adoption of Islamic Insurance in Malaysia: An Empirical Study. World Applied Sciences Journal 20 (3)

Bashir, M.Sh. & Nor Hafiizah Hj Mail, N.H. (2011). Consumer Perceptions of Islamic Insurance Companies in Brunei Darussalam. International Journal of Emerging Sciences, 1(3).

Chowdhury, T.A., Masud Ibn Rahman,M.& Syeda Rownak Afza,S.R. (2007). Perception of customers towards insurance companies in Bangaldesh: A study based on the survqual model. BRAC University Journal, IV (2).

Ismail, N., Othman,A.N.,Yousop,N.L., Mat Din,S.Z., Abu Bakar, N.,Noh,M.K., & Shafi, R.M.(2013). A Study of the Awareness Level of Takaful Products Among Micro Enterprises in Malaysia. Journal of Modern Accounting and Auditing, 9(11).

Kamil, N.M. & Mat Nor, N. (2014). Factors Influencing the Choice of Takaful Over Conventional Insurance: The Case of Malaysia. Journal of Islamic Finance, 3 (2).

Mahmoud, H. (2008). Insurance: Takalful gaining ground the actuary.

Maiyaki, A.A. & Ayuba,H.(2015). Consumers' Attitude toward Islamic Insurance Services (Takaful)

Maiyaki, A. A., & Ayuba, H. (2015). Consumers' Attitude toward Islamic Insurance Services (Takaful) Patronage in Kano Metropolis, Nigeria.International Journal of Marketing Studies, 7(2), 27.

Obaidullah, M., (2005). Islamic Financial Services, [http:// www.islamic-finance.net].

Ojikutu, R. K., Yusuf, T. O., & Obalola, M. A. (2011). Attitude and perception about insurance fraud in Lagos State, Nigeria. European Journal of Scientific Research, 57(4), 615-625.

Sulieman , S. E. (2013). Islamic Insurance in Sudan. Retrieved March 23, 2016, from http://www.Takaful.coop/images/stories/IslamicInsuranceinSudan-Paper.pdf

Yusuf, T,O., Gbadamosi, A. & Hamadu, D. (2009). Attuitude of Nigerains towards insurance services: An emprical study. African Journal of Accounting, Economics, Finance and Banking Research, 4(4).