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THE ROLE OF FINANCIAL LITERACY AND AWARENESS ON THE TAKAFUL ACCEPTANCE AMONG NON-MUSLIM STUDENTS IN PRIVATE UNIVERSITY IN MALAYSIA

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Abstract

The Takaful industry has experienced significant growth in recent years, emerging as a strong competitor to conventional insurance. Its introduction in Malaysia initially captured the attention of individuals seeking protection. Takaful, as an Islamic alternative to conventional insurance, gained popularity as it aligned with Shariah principles. This concept of universal protection through Takaful schemes appealed to a broader audience, resulting in a substantial increase in demand from 2014 to 2024, particularly among Muslims who prioritize financial products that adhere to Islamic rules. In Malaysia, where most of the population is Muslim, takaful products are commonly marketed to Muslims. However, these products are also available to non-Muslims, and they have gained popularity among this demographic. Thus, it's important to note that this study aims to explore how non-Muslims perceive Takaful in comparison to conventional insurance. Several factors may contribute to this demand among non-Muslims, with religion being less of a driving factor. Instead, the study focuses on financial literacy and awareness as potential factors influencing the preference for Takaful products among non-Muslims. This paper employs a quantitative approach to comprehensively analyse existing literature on the topic, ultimately concluding on the key factors influencing the acceptance of Takaful among non-Muslims. In addition, it offers readers valuable insights by presenting a robust theoretical framework. The findings indicate that financial literacy components such as financial knowledge, financial attitude, and financial behaviour play a role in influencing Takaful acceptance, although their impact varies in strength.

Keyword: Takaful acceptance, awareness, financial literacy, financial attitude, financial behaviour



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INTRODUCTION

The ongoing spread of the disease is currently exerting a significant impact on the financial services sector, including the Takaful industry. The COVID-19 pandemic brought the importance of health, life insurance and financial security to the forefront. This raised awareness among Malaysians about the need for adequate insurance coverage, including Takaful. As individuals and families became more health-conscious, there is a growing demand for Takaful products in these areas. Thus, the takaful industry is poised to chalk up commendable growth and maintain its resilience despite the slower economic growth anticipated this year. According to the Malaysian Takaful Association, the life or family takaful achieved a penetration rate of 20.1% in 2022 compared with 18.6% in the previous year based on the number of certificates enforced against the total population. The family takaful market has also shown strong resilience with annual takaful contributions of new businesses maintained above the RM2bil mark at RM2.19bil, albeit a slight decrease of 1.9% compared with RM2.23bil in 2021. Overall, the family takaful new business industry registered RM10.06bil in gross contributions, up 18.3% from RM8.5bil in 2021. Bank Negara, in its Financial Sector Blueprint, targets a 4.8% to 5% insurance and takaful penetration rate by 2026.

The wider range of products and distribution channels available helped to spur the growth of takaful in Malaysia. Interestingly, as the insuring public in Malaysia became more discerning, efforts made by the takaful operators to increase public awareness of takaful products also attracted the non-Muslim community. The *al-Mudharabah* or profit-sharing principle, one of the unique features inherent in takaful products, makes takaful an attractive alternative to conventional insurance. This is attributed in no small measure to the high level of religious tolerance among Malaysians which enabled takaful to gain acceptance among the non-Muslim population.

BACKGROUND OF STUDY

Takaful, an Islamic-based insurance concept rooted in cooperation and shared responsibility, has seen substantial growth in Malaysia, especially among Muslim consumers. However, its acceptance among non-Muslim segments remains relatively low despite Malaysia being a global hub for Islamic finance. According to data from Bank Negara Malaysia and Islamic Financial Services Board (IFSB), while the Takaful industry has experienced steady expansion,

the penetration rate is still limited, with Takaful contributions accounting for only around 18% of the total insurance market as of 2023. A key contributor to this stagnation is the underrepresentation of non-Muslim policyholders.

In Malaysia, non-Muslims constitute approximately 37% of the population (Department of Statistics Malaysia, 2020), yet studies have shown that a significant proportion of them are either unaware of Takaful or associate it strictly with religious obligations, assuming it is meant exclusively for Muslims. Surveys by the Malaysia Takaful Association (MTA) indicate that up to 70% of non-Muslim respondents had low awareness or misperceptions about the benefits, legality, and inclusiveness of Takaful products. In the context of young adults, particularly university students, financial literacy and awareness play a pivotal role in shaping their financial behaviour and product choices.

However, studies on financial literacy in Malaysia reveal worrying trends; for instance, a 2019 survey by the Securities Commission Malaysia found that only 28% of Malaysians were considered financially literate, with youth showing weaker understanding in areas such as insurance and savings planning. When narrowed down to Takaful knowledge, the gap becomes even more evident, especially among non-Muslim university students who may not have access to financial education that includes Islamic financial concepts. Given the importance of financial preparedness and inclusive financial systems, it becomes crucial to explore the factors that affect the acceptance of Takaful among non-Muslims, particularly in higher education settings where financial independence is being developed. Understanding these determinants will provide insights into how to design more inclusive and educational strategies to enhance Takaful penetration across diverse demographics.

The objective of this study thus aims:

To investigate the role of financial literacy and product awareness in influencing the acceptance of Takaful among non-Muslim students in private universities in Malaysia.

LITERATURE REVIEW

Limited research has been conducted on the acceptance of Takaful among Non-Muslims, largely due to the perception that market penetration is slow and challenging to garner their interest. This paper presents an alternative perspective, suggesting that Takaful has the potential to gain favour among non-Muslims, provided they have confidence in the service quality offered by Takaful providers. Furthermore, this increased acceptance among non-Muslims could lead to a surge in demand for Takaful insurance, thereby making a significant contribution to economic growth. In this manner, Takaful is capturing the attention of not only Muslims. In the case of India, Takaful is predominantly embraced by the Muslim population, with economic factors such as pricing, affordability, and perceived value for money playing pivotal roles in influencing the acceptance of Takaful insurance among non-Muslims. However, this situation differs in Malaysia, where the availability of services between conventional insurance and Takaful is on par. At the core of the factors shaping Takaful acceptance lies the establishment of trust among non-Muslims in using these financial products. This is supported by empirical evidence, such as the study by Aziz et al. (2019), which found that perceived trust serves as a complete mediator in the relationship between perceived religiosity and attitude towards family Takaful.

Financial literacy has been widely recognized as a key determinant in influencing individuals' financial decision-making, including the uptake of financial products such as insurance and Takaful. According to Lusardi and Mitchell (2014), individuals with higher levels of financial literacy are more likely to understand the benefits and mechanisms of financial instruments, leading to better financial planning and insurance adoption. In the Malaysian context, Mahdzan and Tabiani (2013) found a positive relationship between financial literacy and insurance purchase behaviour, indicating that a lack of knowledge often results in poor risk management decisions. When applied to Takaful, financial literacy becomes even more critical, as the underlying principles differ from conventional insurance and may not be readily understood by those unfamiliar with Islamic finance concepts. This lack of understanding is particularly apparent among non-Muslim segments, where Takaful is often misunderstood as being exclusively religious rather than ethical or cooperative in nature.

In addition to financial literacy, awareness and perception also play significant roles in influencing Takaful acceptance. Past studies have indicated that awareness levels among non-Muslims are notably low, contributing to poor market penetration outside the Muslim community. A study by Abdullah et al. (2012) revealed that non-Muslim respondents were either unaware of Takaful products or had misconceptions regarding their purpose and benefits. Similarly, research by Idris, Krishnan, and Aziz (2019) emphasized that awareness campaigns and educational initiatives significantly improve Takaful uptake among university students, particularly when the emphasis is on ethical investment and mutual protection rather than religion. These findings underscore the importance of both financial literacy and targeted awareness in increasing acceptance rates, especially among non-Muslim students who may otherwise overlook Takaful as a viable financial protection option. Awareness plays a vital role in influencing Takaful participation among non-Muslims in India, albeit with a somewhat lower level of motivation compared to their Muslim counterparts (Salman et al., 2018). This trend is mirrored within the Somali community, where Takaful insurance significantly influences adoption decisions (Ali and Jama, 2016). Additionally, the acceptance of Contractor's All Risks (CAR) Takaful insurance by Bumiputera contractors is notably impacted by awareness (Ibrahim et al. (2021). In the study of Mohd Aziz & Kassim (2020), self-awareness is where individuals are acutely aware of diversifying their monthly income into various investments since one's attitude towards investments is not an inherent habit or attribute that one is born with. But this study is focusing on product awareness which is also important for acceptance of Takaful.

UNDERPINNING THEORY

The Theory of Planned Behaviour (TPB), developed by Ajzen (1991), provides a strong foundation for understanding the behavioural intentions that lead to the adoption of financial products, including Takaful. TPB posits that an individual's behaviour is directly influenced by their behavioural intention, which is shaped by three core components: attitude toward the behaviour, subjective norms, and perceived behavioural control. This theory has been extensively applied in the field of consumer behaviour and financial decision-making, making it highly relevant to the present study. In the context of Takaful acceptance among non-Muslim students, TPB helps explain how financial literacy and awareness influence their intentions and

decisions. Financial literacy can positively impact an individual's attitude toward Takaful by enhancing their understanding of its benefits, ethical principles, and risk-sharing mechanisms, which are similar in purpose to conventional insurance.

Meanwhile, product awareness can shape both subjective norms and perceived behavioural control, as increased exposure and knowledge reduce misconceptions and social barriers, making individuals feel more capable and informed in their decision to accept Takaful. For example, if non-Muslim students perceive that their peers or trusted figure's view Takaful positively (subjective norms), and they believe they have sufficient knowledge to make informed choices (perceived behavioural control), they are more likely to develop favourable intentions toward its adoption.

By integrating TPB, this research can better examine the cognitive and social factors that influence Takaful acceptance. It allows the study to go beyond mere demographic and informational variables by exploring how internal attitudes and perceived social influences mediate the relationship between financial literacy, awareness, and actual behavioural intention. Thus, TPB serves as a relevant and comprehensive theoretical framework to understand and predict the acceptance of Takaful among non-Muslim university students in Malaysia.

RESEARCH FRAMEWORK

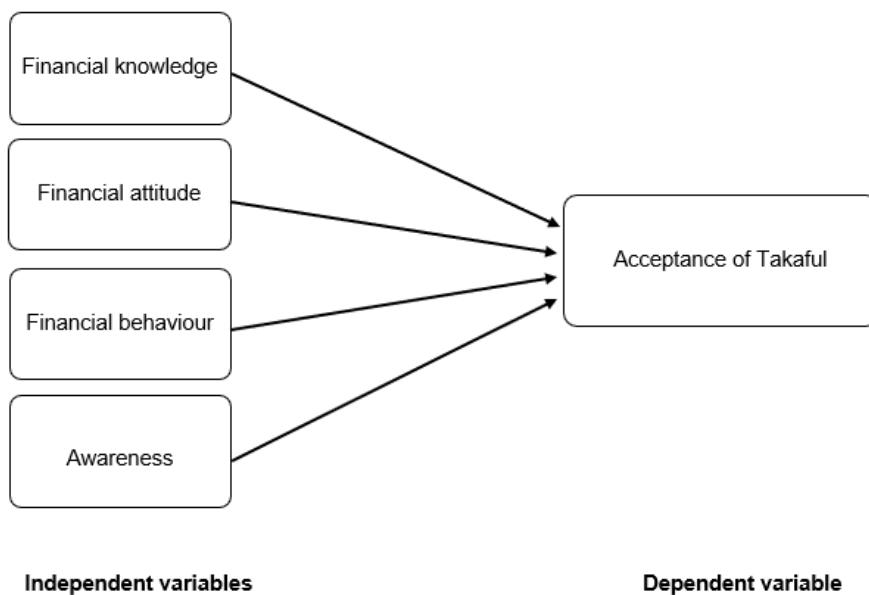


Figure 1: Conceptual framework

According to the OECD (2022), financial literacy refers to the combination of financial awareness, knowledge, skills, attitudes, and behaviours needed to make sound financial decisions and ultimately achieve financial well-being.

METHODOLOGY

The instrument that is used in this research is a self-administered and closed-ended questionnaire. 232 questionnaires were distributed to all the potential respondents. This current study used two distribution methods, where the questionnaire was developed in Google forms, and the link for the survey was distributed among the respondents. On the other hand, some questionnaires were self-distributed through hardcopy. The target population for this questionnaire involves the potential and existing customers of Takaful. As a sample, this study focused on the non-Muslims students around private university in Malaysia.

Measurement scale in questionnaire

Table 1 Details and Sources of Measurement items

Constructs/ Sources	Description of Measurement items
Acceptance	<ol style="list-style-type: none"> 1. I am concerned about savings for healthcare expenses. 2. I will consider purchasing a Takaful policy if it is offered by my employer. 3. I fully accept Islamic insurance as one of the most convenient methods of financing 4. Islamic insurance offers right products and services to both Muslims and non-Muslims 5. I am proud to tell others that I am using or have used Islamic insurance services
Financial knowledge	<ol style="list-style-type: none"> 1. I am familiar with the concept of Takaful (Islamic insurance). 2. I understand the differences between Takaful and conventional insurance. 3. I understand that diversification is buying various assets and combining them into a portfolio to reduce risks. 4. I understand that purchasing power is the quantity of goods and services that can be purchased. 5. I understand that the concept of the time value of money is the money I have now is not the same as it will be years from now.
Financial behavior	<ol style="list-style-type: none"> 1. I keep a close watch on my personal financial affairs. 2. Before I buy something I carefully consider if I can afford it. 3. I set long term financial goals and strive to achieve them. 4. I pay my bills on time. 5. I have enough money to spend in case of emergency needs in the future.
Financial attitude	<ol style="list-style-type: none"> 1. Before buying something, I ask myself if I have paid my necessary expenses. 2. Before buying something, I compare prices. 3. I am careful to distinguish between necessary & unnecessary expenses. 4. Before making a major purchase, I make sure that my savings are sufficient to cover any sudden expense.

	5. If I know the costs I will have to incur tomorrow, I'll think about it today.
Product	1. I am aware of Takaful products.
Awareness	2. Takaful is based on Islamic law.
	3. Takaful products are different from conventional insurance.
	4. Takaful prohibited ventures like <i>Riba</i> , <i>Gharar</i> , <i>Maysir</i> , etc.
	5. Takaful is strictly based on cooperation and risk sharing.

RESULT AND FINDING

Descriptive Statistic for Variables

The highest mean was observed for financial knowledge, indicating it is the strongest area among the respondents. In contrast, financial behaviour recorded the lowest mean, suggesting it is the weakest area and that financial knowledge and attitude alone may not significantly influence Takaful acceptance. Product awareness showed the highest variability ($SD = 1.59$), implying uneven exposure or understanding of financial products among the participants. Meanwhile, financial behaviour had the lowest standard deviation ($SD = 0.99$), indicating a relatively consistent (though low-to-moderate) pattern of behaviour across the sample.

Table 2 Descriptive Statistic

Construct	N	Mean	Standard deviation
Financial knowledge	121	4.956	1.541
Financial attitude	121	3.167	1.280
Financial behavior	121	2.949	0.987
Product awareness	121	3.290	1.593

Reliability Testing of Data

Cronbach's alpha is used to assess the reliability, internal consistency, and overall validity of the measurement scales. As shown in Table 1, the Cronbach's alpha value for intention to use exceeded 0.6, which is listed in the acceptable range.

Table 3 Summary of Test Criteria and Reliability Measures

Variables	No. of items	Reliability (Cronbach alpha)
Takaful acceptance	5	0.825
Financial knowledge	5	0.811
Financial attitude	5	0.742
Financial behavior	5	0.854
Product awareness	5	0.681

The reliability analysis using Cronbach's alpha shows that all constructs in the study exhibit acceptable to high internal consistency. Takaful acceptance, with a Cronbach's alpha of 0.825, indicates strong reliability, reflecting consistent responses across its five items. Financial knowledge also demonstrates high reliability ($\alpha = 0.811$), suggesting the items effectively measure respondents' understanding of financial concepts. Financial attitude and financial behaviour reported alpha values of 0.742 and 0.854, respectively, both indicating good internal consistency, with financial behaviour emerging as the most reliable construct. Meanwhile, product awareness recorded the lowest alpha ($\alpha = 0.681$), which, while still within the acceptable range, suggests relatively lower consistency among the items and may indicate variability in respondents' awareness or exposure to financial products. Overall, the results affirm the suitability and reliability of the measurement instruments used in this study.

Regression Analysis

The path coefficient was identified to generate the significance of parameter estimates; to estimate the standard errors. The summary of regression analysis is presented in Table 2.

Table 4 Coefficient of Regressions Analysis

Variables	B	t	Sig.	Results
Financial knowledge	0.187	1.691	0.003***	Supported
Financial attitude	0.315	2.643	0.010**	Supported
Financial behavior	0.244	2.169	0.104*	weakly Supported
Product awareness	0.286	1.890	0.028**	Supported

At the 0.01 level of significance***

At the 0.05 level of significance**

At the 0.10 level of significance*

The analysis, which applied a 10% significance threshold, revealed that financial behaviour showed a weak but statistically significant relationship with Takaful acceptance, suggesting that students who demonstrate better financial practices are more likely to consider and accept Takaful products. On the other hand, financial knowledge and attitude exceeded the 10% significance level, implying that their influence on Takaful acceptance is not strongly supported within this study, despite being conceptually relevant.

CONCLUSION

Financial Knowledge ($B = 0.187$, $t = 1.691$, $p = 0.003$) was found to be a significant predictor of Takaful acceptance. This aligns with the findings of Bhushan and Medury (2013) and Huston (2010), who emphasized that greater financial knowledge enhances individuals' understanding and appreciation of diverse financial products, including Islamic financial instruments like Takaful. For non-Muslim students, better financial literacy may reduce perceived risks or misconceptions about Takaful, increasing its acceptance.

These results highlight the importance of behavioural factors over mere awareness or attitudes in shaping financial decisions related to Islamic financial products among non-Muslim students. While financial literacy is often viewed as a holistic concept, this study suggests that practical financial behaviour may be a more critical driver in promoting Takaful acceptance in this demographic. For future research, expanding the sample size, including students from various types of institutions, or incorporating qualitative methods may help uncover deeper insights into the motivations and barriers affecting Takaful acceptance. Additionally, designing educational interventions that focus on improving financial behaviour could be a key strategy in increasing awareness and trust in Takaful among non-Muslim consumers.

RECOMMENDATIONS FOR FUTURE RESEARCH

This study provides valuable insights for fellow researchers, encouraging them to delve into the non-Muslim market for Takaful. Subsequent research endeavours could empirically investigate the acceptance of Takaful among non-Muslims, with a particular focus on the factors that attract them to embrace Takaful. Exploring this within different geographic regions and among diverse sets of respondents could contribute more comprehensive and far-reaching outcomes. In some regions, Takaful products may not be as widely available or diverse as conventional insurance products. Limited access to Takaful options can discourage non-Muslims from considering it. Takaful companies may reevaluate their product portfolios to ensure they are aligned with the post-pandemic economic, health, and risk landscape. Some products may need to be adapted or expanded.

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