Issues and Challenges of Takaful for Micro, Small, and Medium Enterprises (MSMEs) in Malaysia
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ABSTRACT
The primary purpose of this paper is to discuss Takaful in Malaysia and how it helps Micro, Small, and Medium Enterprises in Malaysia that suffer financial losses. In addition, this article elaborates on and highlights the main issues and challenges of Takaful for MSMEs in Malaysia. A qualitative method is used in this paper. We mainly conducted library research to study Takaful in Malaysia and the issues and challenges of Takaful for MSMEs in Malaysia. The findings show several issues and challenges of Takaful for MSMEs in Malaysia. Low penetration rate, lack of knowledge and awareness and Micro -Takaful issue are the main issues that were found. Therefore, to increase the penetration rate of Takaful for MSMEs, the Malaysian government, and Takaful corporations should develop a comprehensive strategy for Takaful. Additional study is needed in this area. This paper is limited to Malaysia. Therefore, it cannot be generalized to other countries. We collected articles and studies that relate to the topic that were published between 2013 to 2023. We will cite the most relevant publications to determine the issues and challenges of Takaful in Malaysian MSMEs

Key Words: Takaful, Micro-Takaful, MSMEs, Issues and Challenges, Malaysia.

1 Introduction
Small businesses contribute significantly to the development and expansion of the Malaysian economy. Approximately 95% of business units in Malaysia are comprised of small and medium-sized enterprises (Azmi et al., 2021). However, MSMEs in Malaysia are facing natural disasters and financial losses. Therefore, Takaful is essential to MSME. Takaful is an agreement between group members in which they first agree to form a mutual fund and contribute money to it and, secondly, give a collective guarantee or protection against specified loss or harm. Consequently, if a group member suffers any stipulated loss or harm, the member would often receive money or other benefits from the mutual fund. In June 1972, the National Fatwa Committee of the Malaysian Islamic Affairs Council decided that conventional insurance was not in accordance with Shari’ah. This marked the beginning of Takaful in Malaysia’s contemporary insurance plan framework. The primary Shari’ah violation is that conventional insurance involves riba (usury), gharar (uncertainty), and maysir (gambling), which Islam bans. In 1985, the Fiqh Academy of the Organization of Islamic Conferences issued a similar pronouncement. Consequently, Muslims in Malaysia and abroad must seek alternative Shari’ah-compliant insurance, such as Takaful (Fauzi et al., 2016).

Takaful is a kind of Islamic insurance based on collaboration and mutual aid. In this sort of insurance plan, members often agree to help one another jointly in the event of a predetermined loss. The Takaful system is consistent with the Islamic philosophy of socio-economic principles for the individual and society. Takaful acts similarly to other forms of insurance. However, Takaful differs from conventional insurance because it stresses the risk-sharing principle rather than the risk-transfer principle (Ismail et al., 2013).

Since its founding throughout the last 20 years, Malaysia’s Takaful business has seen constant expansion. The contributing aspect to this is its planned growth, backed up by a practical and comprehensive strategy. As a consequence, the development of the Islamic financial sector has made amazing progress. In addition, there has been a notable improvement in the Takaful operator, as seen by the sharp rise in Takaful operators since 1984. In particular, there was just one Takaful operator at first. There are now nine Takaful operators, four Re-Takaful operators, and one international Takaful operator out of this initial number. They play a part in the diversification of Takaful product marketing strategies that meet both Shari’ah regulations and the financial demands of the economy. To meet the various demands of customers, the techniques of promoting Takaful products are continuously expanding. Furthermore, family Takaful products have dominated the market, accounting for 78 percent of the net
contribution. The general Takaful products, which have controlled the stock with a 63 percent net contribution share since 1984, are outperformed by this sum. The high rate of annual assets for the takaful sector and the proportion of its contributions, which varied from 20 to 26 percent between 2004 and 2009, demonstrate the sector's strong potential. The Takaful industry continues to be strong in terms of its growth possibilities despite the slow pace of its current development. This is because it still has untapped potential. This relates to the market penetration rate for insurance and Takaful, which was 53.5 percent. In contrast, the market penetration rate for Takaful was just 10 percent to 5.05 million in 2016 (F. Salleh et al., 2018).

There is another Takaful which is called "Micro Takaful”. Micro Takaful is for micro-enterprises. According to Ahmed, (2016), Micro Takaful insurance is a contract in which the operator (insurer) agrees, on behalf of the participants (insured/policyholders), to pay the participant (insured) of the beneficiary a specified quantity of money or other compensation if the risk insured against happens. The participant (insured) gives the insurer a charitable gift (premium). The primary distinctions between Takaful and Micro Takaful insurance are as follows: Micro Takaful insurance primarily protects the poor, Micro Takaful insurance protects against particular dangers, Micro Takaful insurance helps the poor get financing, and Micro Takaful insurance is founded on the principles of brotherhood and solidarity.

On the other hand, Small and Medium-Sized Enterprises (SME) businesses are one of the sectors contributing to a country’s economic health and overall growth. Due to their low financial resources and lack of risk management tools, SMEs are readily impacted by and susceptible to business hazards. Therefore, it is tough for them to endure over the long run. If risks are not properly handled, this circumstance may lead to the insolvency of organizations that cannot adequately defend themselves. As a type of protection in the event of a disaster or as preparation for an economic downturn, Small and Medium-sized Enterprises (SMEs) should have particular financial coverage for their company. This is known as Takaful (M. C. M. Salleh & Padzim, 2018).

According to SME Corp, (2020), during the outbreak, the Malaysian government issued a Movement Control Order (MCO), resulting in significant economic disruptions across the nation. In addition, some short-term enterprises halted operations due to severe sales losses and revenue declines, negatively influencing Malaysia’s GDP, which was anticipated to decrease between 0.1 percent and 4.6 percent this year. 76.5 percent of the 907,765 MSMEs in Malaysia are micro-enterprises, and the MCO badly impacted these micro-enterprises. Due to the commercial interruptions, this scenario forced MSMEs and firms to cease operations and seek bankruptcy protection (Fauzilah et al., 2021).

The SME firm owners and decision-makers with a high awareness of risk and male ownership are more likely to be engaged in flood catastrophe preparation, given that fatalistic attitudes lead to less participation. The retail and wholesale sectors participated in more preparatory measures than the services sector, where risk perception is the most reliable predictor of SME flood readiness (Hashim et al., 2021). Therefore, in 2021, Malaysia faced a flood disaster that badly affected many lives and the country's economy. Furthermore, Micro, Small, and Medium Enterprises have been negatively impacted by floods. Many SME businesses have faced financial losses and life losses. To overcome the financial and life losses that Micro, Small, and Medium Enterprises face, Takaful is the best solution to handle these problems that SMEs are facing. However, the SME industry do not preferred Takaful due to the challenges. We will further elaborate next sections on the challenges of Takaful in the SME sector.

2 Problem Statement
Malaysia is vulnerable to natural catastrophes such as floods. For the last 30 years, floods have inflicted enormous harm on the Malaysian economy (Hashim et al., 2021). Malaysia faced floods that badly affected business mobilization. Micro, Small, and Medium Enterprises were the main sectors that were especially affected. Furthermore, covid-19 pandemic and MCO restrictions imposed by the Malaysian Government have also affected MSMEs badly. Many MSMEs owners have lost their small businesses and faced financial loss. Micro, Small, and Medium Enterprises have no financial recovery plan if a disaster occurs, meaning that most SME enterprises have no Takaful. Takaful plays a vital role that can take part in reducing financial and life risks that small and medium enterprises face.

In addition, Micro, Small, and Medium Enterprises are riskier than other businesses. Therefore, Takaful can protect and solve MSMEs from financial risks. Nevertheless, Micro, Small, and Medium Enterprises do not use Takaful. To fill this gap, we will find out the challenges and issues of Takaful for Micro, Small, and Medium Enterprises (MSME).
3 Literature Review

The word Takaful originated from the Arabic word “Kafala” which means guarantee or securing one’s need. Therefore, the concept of Takaful is a group of people mutually guaranteeing each other against loss. In a takaful transaction, there are two main parties: the participants and the insurer. The participant pays a specific amount of money (premium) while the insurer guarantees or secures the participant to cover financial losses during the agreed contract (Muhammad et al., 2012).

Globally, Takaful market growth has increased by 4.8 percent to $24.2 billion in 2020. This significant growth came after the decline of the takaful market growth by -14.8 percent in 2019 (IFSB Annual Report, 2022). The report has further highlighted that Saudi Arabia, Iran, and Sudan are the only countries that have 100 percent of shares of the Takaful sector’s business compared to the insurance sector. Meanwhile, Malaysia has a 23.9 percent share of the Takaful relative to the insurance sector. This shows that Malaysia’s takaful is a small number compared to conventional insurance.

Takaful is one of the fastest Islamic financial products. According to Khalid et al., (2018), Sudan is the first country that established Takaful in 1979. Malaysia followed and established its Takaful in 1984. The need for Takaful came after the commencement of Islamic banks. Muslim people needed to get insurance that was based on Islamic rules (Shari’ah) that becomes an alternative to conventional insurance. The first Takaful operator was Syarikat Takaful Malaysia Berhad which was established in 1984. The Malaysian government introduced the first Takaful act in the world in 1984 known as the “Takaful Act” which its aim is to regulate Takaful and re-Takaful operators. The growth of Takaful in Malaysia has shown a vital performance which is from a single Takaful operator in 1984 to 15 Takaful operators in 2022. This indicates how Takaful in Malaysia has made a tremendous increase.

Ashkin et al. (2020) examine Takaful for small-scale agriculture and small businesses during floods. They argued that small businesses and small-scale agriculture need flood protection. To do that, the authors proposed a contribution integration model for agriculture and small businesses that takes a key role in managing Takaful participants’ contributions and provides agriculture and micro-business protection from floods. The model connects farmers, agencies, government, and Takaful operators.

According to Maizaitulaidawati (2019), despite the Malaysian Takaful has made significant progress, there are several challenges that obstruct the Takaful to move forward: lack of awareness, low penetration rate, inadequate technology capabilities, and lack of talent. To fill the gap and solve these challenges, she proposed several strategies that should be taken. Firstly, educating consumers on the importance of having financial protection should be enhanced, and promoting the Takaful market should also be prioritized. Secondly, advertisements of Takaful products through smartphones should be created. Thirdly, to fill the gap of shortage of talent, designing human capital and providing competitive remuneration can take a significant role in reducing the shortage of talent. Regarding the above issues and suggestions that the author has highlighted, we agree with the author’s suggestions and strategies toward the issues in Takaful. We believe that these strategies can play a key role in increasing the penetration rate in the Takaful market and path the way medium, small, and medium enterprises get financial protection.

According to Swartz and Coetzer (2010), highlight that there is a misconception about Takaful for only the Muslim community. Takaful can use both Muslim and non-Muslim people. For instance, in Malaysia, many non-Muslim people have engaged and use Islamic insurance (Takaful). The moral foundation of Takaful is to serve as a group of principles of justice and work together which is what humanity wants. Therefore, there is a high potential that non-Muslims to accept Takaful (Qadri et al., 2022).

Salleh et al., (2021), investigate ways to help small businesses during crises and disasters. Micro business interruption scheme (MBIS) is one of the ways that assist MSMEs. Micro business interruption scheme (MBIS) provides comprehensive timely, accessible, and financial protection to small businesses from unexpected disasters. MBIS has three main principles, namely: affordability, accessibility, and simplicity. Therefore, it is highly recommended to implement this scheme since it takes a key role in reducing financial losses that small business face during natural disasters. Furthermore, this scheme reduces the dependency on the government and opens new methods of managing risk. According to this scheme, the authors highlighted, we see that micro business interruption schemes (MBIS) are one of the best solutions. The implementation of this scheme can minimize financial losses and encourage small business owners to further enhance their businesses.

Abdul Razak et al., (2021) studied factors that influence MSMEs’ intentions to purchase Micro Takaful schemes by using a questionnaire collected from 135 MSMEs in Perak, Malaysia. The authors’ findings show that knowledge, attitude, perceived behavioral control, and subjective norms are the factors that influence MSMEs on
buying Micro Takaful products. They recommended that Islamic Takaful should review their marketing strategies for reaching MSMEs. According to the findings that the authors mentioned, we agree with the authors’ findings on the factors that influence MSMEs. Therefore, Islamic Takaful companies should bring a strategy that increases the knowledge of small business owners to purchase Micro Takaful schemes. Providing seminars and advertisements can enhance their knowledge and change their intention in a positive way regarding the purchase of Micro Takaful schemes.

4 Objectives of Study
To know the Malaysian Takaful companies available for Micro, Small, and Medium Enterprises in Malaysia.
To determine the issues and challenges of Takaful for Micro, Small, and medium enterprises in Malaysia.

Importance of the study
This study will be helpful for future researchers because it serves as a source of reference for them to follow in subsequent studies related to issues in Takaful on MSMEs in Malaysia. Furthermore, this study is important to Takaful companies, MSMEs and the Government because it identifies issues in Takaful on MSMEs and how it can be overcome. The scope of this paper is to highlight the issues and challenges of Takaful for Micro, Small, and Medium Enterprises in Malaysia. This paper provides insights into the actual reason behind the less favorable Malaysian MSMEs on Takaful.

5 Methodology
This study completed the research essentially using qualitative method through retrieving the information using desktop study. We have collected data from a variety of sources, including articles from reputable journals, annual reports, and regulatory and legislative provisions via library research to understand Takaful and issues of Takaful for MSMEs. We start the analysis with screening the significant issues in Takaful from all sources. Then we identified the number of Takaful companies existed in Malaysia. In addition, the data was analyzed using content analysis in order to gather the pertinent issues related to Takaful in Malaysia.

6 Result
In this section, we used content analysis to identify issues that have been highlighted in the previous studies that were conducted.

<table>
<thead>
<tr>
<th>No.</th>
<th>Issues</th>
<th>Findings</th>
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<tbody>
<tr>
<td>1</td>
<td>Penetration rate of the Takaful industry.</td>
<td>Maizaitulaidawati (2019) found that the penetration rate of the Takaful industry is an issue that still exists despite a slow increase in the penetration rate over the last few years. She recommended increasing awareness of consumers through education syllabi to learn youngsters about the importance of having financial protection. Dahlan et al., (2017) during the floods disaster that hit Malaysia in 2014, many SMEs were not covered their losses by Takaful companies. This is due to the high premium that led low penetration rate of takaful products. Hence, they proposed an SME-Art Takaful scheme to protect SMEs’ assets in case of natural disasters. Ibrahim et al., (2015) highlighted that despite the penetration rate of Takaful products slightly increasing, the penetration rate of Takaful is still low compared to conventional insurance. Therefore, the authors examined financial factors that take a key role in enhancing Takaful demand in Malaysia. Leverage, growth opportunity, tax consideration, and bankruptcy costs are vital for Takaful demand. To encourage SMEs to purchase Takaful products for their protection, Takaful operators should emphasize and promote the significance of these financial factors. Mohamed &amp; Alhabshi, (2015) Studied factors that influence the penetration rate of Malaysian takaful. One of the factors is the lack of public awareness of the merits of Takaful products over insurance products.</td>
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<td>2</td>
<td>Lack of knowledge and</td>
<td>Norashikin Ismail et al., (2013) examined the level of awareness of Takaful products among micro-enterprises in Malaysia. The findings show that Takaful products are not</td>
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Awareness

commonly known among small businesses. Nevertheless, a collaboration between Takaful companies and the government is vital to enhance the level of awareness of Takaful products in small businesses.

3

Micro-Takaful Issue

M. C. M. Salleh & Padzim, (2018) Investigated challenges in providing Micro Takaful products for SMEs. Awareness of Micro Takaful and understanding of Micro Takaful products are the two main challenges that Micro Takaful products are facing delivering to SMEs. Therefore, support from the government and other stakeholders is needed to enhance the awareness and understanding of small business owners toward Micro Takaful products.

Babatunde Jaiyeoba et al., (2022) conducted a study on Micro Takaful schemes as risk management tools to contribute to the sustainability of halal small businesses in Malaysia by using a survey questionnaire. They classified Micro Takaful into four: disability Micro Takaful, family Micro Takaful, property Micro Takaful, and health Micro Takaful. Their findings show that disability and family Micro Takaful are significantly related to the sustainability of the halal small business. On the other hand, property and health Micro Takaful are insignificantly related to the sustainability of the halal small business. The authors highlighted that the insignificant of property and health Micro Takaful on halal small businesses is due to little knowledge and awareness of business owners of the two Micro Takaful schemes. Therefore, the authors suggested that awareness campaigns by Takaful operators are a useful tool to enhance small business owner's knowledge of the importance of health and property Micro Takaful.

7 Discussions and Findings

1.1. Malaysian Takaful on MSMEs

Malaysian takaful industry is a rapidly expanding sector that plays an essential socioeconomic role in the country's economy. As Malaysian authorities became comfortable with expanding and regulating the Islamic sector, the government enacted further laws allowing other conventional banks to provide Islamic services from authorized locations (Hassan et al., 2014).

Although Takaful's contribution to the Islamic finance sector is limited compared to other industries, the Takaful market has gained tremendous speed. The Takaful market has possibilities for expansion, particularly in nations dominated by Muslims. However, several obstacles have been identified that might impede the growth of the Takaful market. As of May 2019, Bank Negara Malaysia has licensed fifteen Takaful operators. Since 1984, the Takaful growth rate in Malaysia has been positive. In 2003, there were just two Takaful operators, the number of Takaful operators has increased, indicating the sector's rising popularity and its increasing significance in the development of Islamic banking (Husin, 2019).

According to Ibrahim et al., (2015), Despite the increasing rise of SMEs, the insurance or risk management penetration rate is relatively low despite the wide variety of local company protection options. It has been shown that Small and Medium-sized Enterprises (SMEs) are influenced to a considerable degree by business risks that impact the company's performance. Insurance coverage is one of the risk management strategies used to address challenges posed by future hazards. Insurance protection is crucial for ensuring the firm's continued development and viability. According to their research, financial variables (leverage, growth opportunities, bankruptcy costs, and tax considerations) are helpful and important Takaful demand indicators. In this research, all financial criteria are significant predictors of Takaful demand. Their research findings can help Takaful operators emphasize and promote these financial considerations' significance to Small and Medium-sized Enterprises to entice them to acquire Takaful products for their security. In addition, they emphasized that the financial considerations of SMEs are significant indications of the sustainability of Takaful demand. This may be done by sustaining efficient services that enable more SMEs to continue contributing to the Takaful product.

Protection against natural catastrophes, including floods and earthquakes, is included in the Takaful coverage. However, the mentioned protection is extra protection, requiring SMEs to purchase both the initial protection and the additional protection (flood). The existing protection concept imposes excessively expensive premiums on SMEs, diminishing the scheme's appeal, as seen by its poor penetration rate. In certain instances, Takaful agencies were hesitant to extend insurance to Small and Medium-sized Enterprises (SMEs) in high-risk areas.
to avoid incurring losses. This violates the ideals of Takaful, which are based on mutual help between contributors and the capacity to build *akhirah* (Dahlan et al., 2017).

Although the adverse economic downturn brought on by COVID-19, the Malaysian Takaful (Islamic insurance) sector is now seeing strong development (Che Mohd Salleh et al., 2022). According to the Malaysian Takaful Association (MTA), the industry has launched several efforts since 2020, including the injection of RM8 million into the COVID-19 Test Fund by the MTA, the Life Insurance Association of Malaysia (LIAM), and the Persatuan Insurans Am Malaysia. In addition, the MTA and Islamic Banking and Finance Institute Malaysia held a virtual Takaful Basic Examination for Takaful agents and placed a 90-day ban on premium/contribution payments. The Deputy Chairman of the MTA also informed that the Takaful industry had generated RM 286.2 billion in new Takaful business, which amounted to RM 3.19 billion in total new business contribution for all certificates during the period from January 2020 to June 2020. The protection value has risen by 0.97 percent compared to the same period in 2019. (The Star, 2020).

According to the (Malaysian Takaful Association, 2020), there are 18 Takaful operators in Malaysia, 11 of them offer family Takaful, four of them provide general Takaful and three Re-Takaful operators. The table below shows the names of Takaful operators and the product they provide.

<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>Product offer</th>
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<tbody>
<tr>
<td>1</td>
<td>AIA PUBLIC Takaful Bhd.</td>
<td>Family Takaful</td>
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<tr>
<td>2</td>
<td>AmMetLife Takaful Berhad</td>
<td>Family Takaful</td>
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<tr>
<td>3</td>
<td>Etiqa Family Takaful Berhad</td>
<td>Family Takaful</td>
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<tr>
<td>4</td>
<td>FWD Takaful Berhad</td>
<td>Family Takaful</td>
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<td>5</td>
<td>Great Eastern Takaful Berhad</td>
<td>Family Takaful</td>
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<td>6</td>
<td>Hong Leong MSIG Takaful Berhad</td>
<td>Family Takaful</td>
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<td>7</td>
<td>Prudential BSN Takaful Berhad</td>
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<td>8</td>
<td>Sun Life Malaysia Takaful Berhad</td>
<td>Family Takaful</td>
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<td>9</td>
<td>Syarikat Takaful Malaysia Keluarga Berhad</td>
<td>Family Takaful</td>
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<td>10</td>
<td>Takaful Ikhlas Family Berhad</td>
<td>Family Takaful</td>
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<tr>
<td>11</td>
<td>Zurich Takaful Malaysia Berhad</td>
<td>Family Takaful</td>
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<tr>
<td>12</td>
<td>Etiqa General Takaful Berhad</td>
<td>General Takaful</td>
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<tr>
<td>13</td>
<td>Syarikat Takaful Malaysia Am Berhad</td>
<td>General Takaful</td>
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<tr>
<td>14</td>
<td>Takaful Ikhlas General Berhad</td>
<td>General Takaful</td>
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<tr>
<td>15</td>
<td>Zurich General Takaful Malaysia Berhad</td>
<td>General Takaful</td>
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<tr>
<td>16</td>
<td>Malaysian Retakaful</td>
<td>Re-Takaful</td>
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<tr>
<td>17</td>
<td>Munich Retakaful</td>
<td>Re-Takaful</td>
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<tr>
<td>18</td>
<td>Swiss Retakaful</td>
<td>Re-Takaful</td>
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As we can see in the above table, family Takaful operators are the highest number compared to the general operators and re-Takaful operators. This shows that Takaful operators are interested in providing products related to the family. On the other side, it can be seen in the table that no company provides specific micro-Takaful products for small businesses. This highlights a concern about the protection of MSMEs, which takes a key role in the GDP and the development of the Malaysian economy.

Regarding the market segment of the above companies compared to conventional insurance in Malaysia, the share of the Takaful business is 23.9 percent compared to insurance. This means that 76.1 percent is a share of
the conventional insurance sector. It is a high percentage of share. Therefore, the Takaful percentage is too low compared to the conventional, which is a concern (IFSB Annual Report, 2022).

According to SME Corp Malaysia, (2021), the number of MSMEs in 2021 was 1,226,494 MSMEs. 1.6 percent of them are medium firms, 19.8 percent from small firms and 78.6 percent of the total MSMEs are Micro firms. This highlights that Micro firms are the highest number of MSMEs. In 2021, MSMEs contributed RM 518.1 billion (37.4 percent) to the GDP. It is a significant contribution to the economy. However, there is no single micro takaful company that focuses on MSMEs for financial protection. Therefore, it is no doubt that Takaful operators in Malaysia are making progress and growth. However, this growth seems to be low in MSMEs.

**Issues and Challenges of Takaful on MSMEs in Malaysia.**

**Penetration Rate of Takaful.**

There has been an ongoing expansion of Micro, Small, and Medium-sized businesses. However, the rate of risk or insurance management penetration is still low, despite the availability of several options for enterprise protection within local limits. To illustrate this concept, consider the disadvantages suffered by many MSMEs in Malaysia during the 2008-2009 global financial crisis due to low demand for general Takaful insurance. Given the lack of study in this field in Malaysia, awareness of the socio-economic aspects that influence the public demand for Takaful is crucial. During the decision-making process of MSMEs owners/managers regarding the purchase of insurance, the degree of propensity toward hazardous behavior is a significant consideration that supports them in selecting the optimal choice for their firm's survival. However, the risk-taking propensity of MSMEs encompasses a broad range of values, albeit they are typically modest. In addition, despite the propensity for risk-taking and attitudes toward insurance of several MSMEs owners/managers at certain levels, most fail to explain the relationship between these and the need for insurance. As far as the demand for Takaful is concerned, there has been a discrepancy between theory and practice regarding the amount of propensity towards hazardous behavior due to a lack of empirical evidence of risk propensity (F. Salleh et al., 2018).

Despite the rapid rise of the Takaful in Malaysia in recent years, market penetration is still low compared to conventional insurance. Fifteen percent of the penetration rate of issued Takaful policies is a significant portion of the Takaful market. The Takaful sector in Malaysia can profit from the increased penetration rate by capitalizing on the industry's future robust development and demand. There is still a place for the family Takaful benefit as a vehicle for savings and protection against unforeseen financial troubles due to death, accidents, and chronic illnesses in Malaysia, despite its aging population. The same holds for Takaful as a mechanism for future property protection against tragedy (Ibrahim et al., 2015).

According to the IFSB Annual Report, (2022), the penetration rate of Takaful in Malaysia is 23.9 percent compared to conventional insurance. In our opinion, we believe that this indicates that the penetration rate of Takaful is still low despite an increase in the past years. To increase the penetration rate, we suggest that the government should initiate a comprehensive policy that takes a significant role in enhancing the penetration level of Takaful in small businesses to get financial protection.

**Lack of Knowledge and Awareness**

According to Hassan et al., (2014), Takaful services are not completely embraced and subscribed to by the Islamic community owing to a lack of understanding of Takaful's significance in their lives and economies. Prior research suggests that SME owners are hesitant to contribute to Takaful plans because they perceive Takaful as expensive and do not perceive any direct benefit from participating in Takaful schemes. Despite efforts to educate the owners of small and medium-sized enterprises on the significance of the Takaful protection plan, they still need to join the Takaful program (Ibrahim et al., 2015).

The poor demand for Takaful products resulted from a need for more apparent knowledge and awareness of these products. Microentrepreneurs have a limited demand for Takaful as a result. The poor demand is also attributable to the owners' need for knowledge and understanding of risk protection. Understanding is a critical factor in raising microentrepreneurs' knowledge of Takaful goods. From the standpoint of the Takaful industry, Takaful operators must actively market their products, especially micro-Takaful products. It is crucial to raise awareness among microentrepreneurs, and Takaful agents should better understand how to explain these products. Collaboration between Takaful participants and the Government is necessary to raise business owners' understanding of micro-Takaful products (Norashikin Ismail et al., 2013).
Hence, lack of knowledge and awareness is a challenge that makes Takaful less preferable among MSMEs. Increasing awareness and seminars for MSMEs owners can play a crucial role in solving this challenging factor. For instance, various campaigns were conducted in Malaysia in 2017 to increase the knowledge and awareness of the community especially small business owners, toward Takaful. These community engagements could enhance social awareness of the benefits of Takaful to the business (Maizaitulaidawati, 2019).

Regarding this issue, we recommend that seminar programs and digital advertisements can take a key role in enhancing the awareness of small businesses owner on the benefits of having Takaful to tackle financial losses in their business. Furthermore, we suggest that the government’s role in initiating policies to enhance the knowledge of MSMEs owners can be useful.

**Micro Takaful in Malaysia**

Bank Negara Malaysia instructed Takaful Operators to establish Micro Takaful policies, medical, and retirement products to penetrate the low-income market in September 2010. Poor and low-income, who represent rural and urban poverty groups are the most neglected and unprotected group in the insurance mainstream. It is known that Takaful Ikhlas and the Farmers Welfare Federation of Malaysia introduced their first micro takaful initiative in 2007. Two years later, Etiqa Takaful Berhad and Angkatan Koperasi Kebangsa Malaysia introduced the 'Skim Tabarru’ Koperasi’ takaful scheme, which is tailored to cooperative members. Recently, Takaful Malaysia introduced mySME Takaful for the business protection of SME borrowers (N. Ismail et al., 2016).

In Malaysia, there is no industry-specific word for Micro Takaful products. The majority of Takaful providers prefer to refer to Micro Takaful products by their common names. In this respect, the Central Bank of Malaysia has initiated a discussion paper on Micro Takaful for 2016 to give direction on the regulation of Micro Takaful products and the operational environment envisioned for Micro Takaful in Malaysia. Five Takaful providers have created Micro Takaful products that cover family and general Takaful. They are Etiqa Takaful, Takaful Ikhlas, AIA Takaful, Syarikat Takaful Malaysia Berhad, and HSBC Amanah. In addition, Micro Takaful products provide coverage for company assets, liability, theft, and fire, among other hazards (M. C. M. Salleh & Padzim, 2018).

As we have highlighted above on the issues and challenges on Takaful in Malaysia that caused less preferable in Micro, Small, and Medium Enterprises, there is a need to establish another Takaful that can deal with small businesses efficiently and without challenges. Bank Negara Malaysia has established Micro Takaful. Micro takaful is under the main Takaful. Micro takaful is an instrument that provides protection based on Islamic principles to low-income people and enterprises, such as MSMEs. However, Micro Takaful is specialized for small businesses that are not able to deal with Takaful due to many challenges and requirements that small businesses are unafforded to fulfill. Therefore, Micro Takaful has fewer conditions and requirements compared to the normal Takaful.

Nevertheless, Micro Takaful has not functioned well in MSME, which means that small businesses are not using Micro Takaful that has been established for them. The number of Micro Takaful users is still low. Some challenges caused low Micro Takaful users in Malaysia. The challenges of Micro Takaful are almost similar to the difficulties of Takaful on MSME. There are challenges for Micro Takaful operators that can make it difficult to implement Micro Takaful in small businesses. The absence of regulations for Micro Takaful is one of the challenges that Micro Takaful operators face. Furthermore, since Micro Takaful is new in Malaysia, operators need to be better equipped with sufficient talent to implement the Micro Takaful product. Micro Takaful operators also have a problem with balancing costs and profitability (M. C. M. Salleh & Padzim, 2018). These are challenges that Takaful operators are facing. Therefore, it results in less preferable for Micro Takaful in MSME.

Fikri et al., (2022) studied rules and regulations on Micro Takaful scheme development in Malaysia. The findings show that newly Micro Takaful schemes adhere to Takaful regulations and have no limitations on the implementations of Micro Takaful schemes. According to their findings, we believe that to reach sustainability and financial protection for MSMEs, the rules and regulations of Takaful should be updated. Moreover, new rules for Micro Takaful would further take a part in financial inclusion and increase the penetration rate of takaful at large. Abdullah, (2021), studied the degree of efficacy of the previous collective Micro Takaful initiatives on BR1M recipients, which were proved to benefit 7.2 million recipients in 2018 across the nation. The author revealed that the programme is not free of mistakes, possibly because it is the first of its kind. Initially, some complained that the incentive was insufficient, and there were instances of recipients receiving multiple aid through fraud. Moreover, she highlighted that although MySalam appears to offer superior benefits, it may not be able to sustain due to its extremely high cost on a single company at a time when the economy is struggling to find its footing. Abdullah,
suggest that the Micro Takaful coverage should be reviewed so that it is only applicable to the B40 category. According to Micro Takaful in MSMEs issue, we recommend that there is a need to establish companies that only focus on Micro Takaful to provide financial protection to MSMEs and low-middle income people. We further suggest that the current schemes should be improved to enhance their effectiveness in small businesses since MSMEs take a huge contribution to the GDP and the economy of Malaysia.

8 Conclusion

MSMEs significantly contribute to the growth and development of the Malaysian economy. However, Malaysian SMBs face natural disasters and economic losses. Takaful is hence vital for MSME. Takaful is an Islamic form of insurance based on cooperation and mutual assistance. Numerous owners of Micro, Small, and Medium-sized Enterprises (MSMEs) have lost their businesses and suffered financial losses due to floods and Covid-19 restrictions. Therefore, Takaful can shield and resolve financial risks for SMEs. However, Micro, Small, and Medium-sized Businesses do not use Takaful.

The findings show several issues and challenges of Takaful for MSMEs in Malaysia. Firstly, the penetration rate of Takaful is low compared to conventional insurance. Secondly, lack of knowledge and awareness is one of the biggest obstacles that led Takaful less preferable in MSMEs in Malaysia. Small business owners have less idea about the benefits of Takaful to their business. Thirdly, since Takaful is difficult to use for small and medium-sized businesses, thus, Micro Takaful has been invented. This is specialized only for MSMEs. Nevertheless, Micro Takaful has the same challenges that Takaful has.

Therefore, the Malaysian government should establish a comprehensive policy toward Takaful implementation. Furthermore, the government should provide more training, seminars, and awareness to MSMEs owners to understand that Micro Takaful is essential for their business. Takaful companies are also required to bring a strategic policy for the market since the penetration rate of Takaful is low compared to conventional insurance. Further research on this area is vital.

References:


