

Title

What drives the financial performance of general takaful companies?

Journal

Journal of Islamic Accounting and Business Research: Volume 11, Issue 6,

Document Type

Article

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Full text link

UniKL IR:

Publisher: <https://www.emerald.com/insight/content/doi/10.1108/JIABR-06-2018-0077/full/html#:~:text=The%20study%20finds%20evidence%20that,performance%20of%20general%20ta%20kaful%20companies.>

Citation

Kantakji, Mazhar & Baharom, A.H. & Alhabshi, Syed. (2020). What drives the financial performance of general takaful companies?. Journal of Islamic Accounting and Business Research. ahead-of-print. 10.1108/JIABR-06-2018-0077.

Abstract

Purpose: This study aims to identify the internal and external factors affecting the financial performance of general takaful companies operating in Saudi Arabia, Malaysia, UAE, Qatar and Pakistan, using an unbalanced panel data set consisting of 53 companies. Design/methodology/approach: Data were hand-collected from the official financial reports of takaful companies. Two performance measures, namely, net investment income and investment yield, are used to capture the different aspects of the takaful investment operations. Based on relevant theory and literature, these measures are related to three economic variables, namely, GDP per capita, equity returns and interest rate, and four company-specific variables, namely, company size, gross contributions, retakaful dependence and liquidity. An ordinary least squares regression model, fixed-effects model and random-effects model are estimated for both performance measures. Findings: The study finds that company size, liquidity, retakaful dependence, GDP per capita, equity returns and interest rate are statistically significant determinants of the financial performance; company size, GDP per capita, equity returns and interest rate are positively related to performance, whereas liquidity and retakaful dependence are negatively related to performance. Originality/value: In the takaful literature, studies have been directed to almost every aspect of the Shariah law governing takaful. Yet, the empirical evidence on the financial performance of global takaful is scarce. Hence, there are several aspects where this paper extends prior research and contributes to the takaful literature.