FACTORS INFLUENCING FINANCIAL PERFORMANCE OF TAKAFUL FIRM IN MALAYSIA

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ABSTRACT

The objective of this study is to analyze the relationship between the internal factors and the financial performance of takaful companies in Malaysia. The internal factors that were tested are liquidity (LQ), return on equity (ROE), leverage (LV), and size of the firm (SIZE). The financial performance of takaful firms is measured by using the return on assets (ROA) ratio. The study uses pecking order theory as the basis for explaining the disclosure of the financial performance of the firms involved. The type of data used in this research is secondary data, that are retrieved from the company's annual report. The number sample in this study used is 6 takaful firms listed in Bursa Malaysia with observations year from 2016-2020. To analyze the relationship between all internal factors and takaful firm's financial performance, the study uses Descriptive statistics, Corelation analysis, Durbin-Watson test (OLS), White test and Variance Inflation factors. To determine the suitable model, the Hausman test is used. The result of this research shows that liquidity level and leverage have a negative insignificant effect on takaful firm's financial performance while return on equity and size of the firm is positively insignificant.

Keywords: Takaful, Return on Assets, Liquidity, Return on Equity, Leverage, Size of Firm

INTRODUCTION

Takaful, often referred to as Islamic insurance, is a Shariah-compliant mutual risk-sharing arrangement based on the principle of taawun (mutual assistance) and shared accountability. A takaful agreement involves a group of participants who voluntarily agree to mutually guarantee each other against risks, calamities, or other losses of valuable assets (Naim et al., 2018). Participants contribute a sum of money, referred to as tabarru' (a donation), into a pooled fund to fulfill this shared responsibility in the event of a loss.

In contrast, conventional insurance operates as a risk-transfer mechanism, where an individual or business (the insured) transfers risks to another party (the insurer) in exchange for a premium (Dahnoun & Alqudwa, 2018). Despite differences in their operational models, both takaful and conventional insurance share the fundamental goal of mitigating financial losses for individuals or