

Innovation in the takaful industry: a strategy to expand the takaful market in Indonesia

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Abstract

Purpose – This study aims to identify and describe possible innovations available to the takaful industry in Indonesia by considering demographic characteristics and geographical conditions. Indonesia has a

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dominantly Muslim population, and thus, presents good potential for the takaful market.

Design/methodology/approach – This study uses a qualitative, descriptive, literature-based method to discuss innovation strategies in the takaful industry. This method is appropriate for reviewing particular conditions and phenomena by analysing information and data drawn from existing literature.

Findings – Market, product and process innovations are chosen as the strategies appropriate to expanding the takaful market in Indonesia. Strategies are described, which could be used to implement these innovations by influencing the community to participate in takaful, and thus, to expand the takaful market.

Research limitations/implications – The innovation strategies described are adapted to the demographic characteristics of Indonesia and so cannot necessarily be generalised to other countries with different environments.

Practical implications – By considering customer demographic and geographical conditions, the takaful industry should choose the types of innovation that will suit the community characteristics and environmental conditions of Indonesia.

Originality/value – The study specifically discusses innovation strategies in the takaful industry by describing the socio-economic conditions of Indonesian society. Takaful companies in Indonesia can use the results to determine the types of innovation they pursue based on the customer demographic and geographical conditions faced.

Keywords Innovation, Takaful, Islamic insurance, Market development

Paper type General review

33 1. Introduction

Insurance is a financial instrument used to deal with risks that may affect business continuity (Ichsan, 2015). Among the important roles of insurance in its positive contribution to a country's economic life are its functions in both financial intermediation and long-term investment (Cristea *et al.*, 2014). Insurance can be used as a significant fundraising tool for the economic activities of a community that enable extensive economic development and for resolving the risks faced in the development of a country (Ichsan, 2015). As part of the financial services sector, the insurance sector has a strategic role in encouraging a country's economic stability through the aspect of the risk management of economic activities (Setiawan, 2013).



Muslim awareness of the need to conduct economic activities in accordance with Islamic principles is contributing to the growth of the Islamic insurance (takaful) industry. As the creation of the first takaful enterprises in 1994, 13 takaful companies and 49 takaful business units (a parts of larger organisations) have been established in Indonesia (as at December 2018). Indonesia is one of the Asian Pacific countries with the fastest growth in insurance uptake, and this has been supported by “the gradual expansion of the middle classes, growing income levels and development of more affordable insurance products including micro-insurance” (BMI, cited in Karim Consulting 2017, p. 11). Nevertheless, the market share of takaful in Indonesia is still relatively low; data from the Financial Services Authority of Indonesia shows that at the end of 2017 its penetration rate was only 0.104 per cent of the country’s total population of 262 million.

The takaful industry is expected to continue growing to provide an alternative investment option based on risk sharing. Successful introduction and marketing of takaful products in particular countries requires understanding of the characteristics and environment of those countries. Indonesia has a predominantly Muslim population, and thus, is a potential takaful market. However, there are many challenges to be faced by the takaful industry in trying to market its products there (Deloitte, 2013; Redhika and Mahalli, 2014; Ichsan, 2015). One of these challenges is determining the form innovations should take. Boer and Daring (2001, p. 84) define innovation as “the creation of a new product-market-technology-organisation combinations”. According to Haron and Nursofiza (2008), innovation is not only related to new technologies or new products but also includes innovation in the process and renewal of organisational structures or markets.

Innovation in the takaful industry should be considered to devise alternative ways of encouraging public interest in takaful products. Such innovation should consider the conditions surrounding the industry, such as economic, financial and demographic factors (Sherif and Shaairi, 2013). According to Husin and Rahman (2013), demographic characteristics can influence the marketing strategies for takaful because they can be used to measure the intentional behaviours of customers to identify their needs.

This study aims to identify and describe innovations that can be pursued by takaful companies in Indonesia. Research into innovation in the takaful industry is important for three reasons: first, takaful is developed to fulfil the demands of Muslims for insurance, which operates in accordance with Islamic principles – it is, therefore, particularly important for Indonesia as a country with a predominantly Muslim population; second, previous studies have discussed the challenges faced by the takaful industry, in general, while this study specifically describes aspects of innovation that can be put in place by takaful companies; and third, the takaful industry may face different challenges depending on the environment encountered in the country in which it is located. This study specifically investigates the takaful industry in Indonesia and suggests that many of the strategies explained might be used as alternative solutions to issues faced by takaful businesses in increasing their market share. It is expected that understanding of the characteristics and environment in Indonesia can be used to further encourage participation in Islamic economic activities.

This study is divided into several sections. Section 2 reviews the literature related to takaful and innovation, Section 3 presents the methodology of the research and Section 4 describes the type of innovations available to the takaful industry. Section 5 explains the implications and limitations of the study.

2. Literature review

2.1 A 5 overview of takaful and takaful development in Indonesia

The term "takaful" is derived from the Arabic word *kafala*, which means to guarantee, guard and protect. The concept of takaful relates to mutual cooperation between groups of participants who guarantee each other by contributing *tabarru'* (donations or gifts) to takaful funds (Sherif and Shaairi, 2013). Takaful products exist to maintain the commitment of their users to Islamic principles while also meeting market demands. To achieve these aims, insurance industries are required to be innovative in the development of products to suit the needs of the societies within which they operate (Johne and Davies, 2000).

Takaful has several characteristics, 45 which differ from those of conventional insurance (Sherif and Shaairi, 2013). First, takaful is based 44 on *tabarru'* contracts, while insurance is based on sale-and-purchase contracts. Second, in conventional insurance, the insured must pay the premium(s) and the insurer must pay compensation to the insured when an insured event occurs; In contrast, in takaful, the participants pay contributions into a fund and the takaful operator plays the role of fund manager 6. Third, conventional insurance companies bear the risks insured while risk in takaful is borne by all participants. Fourth, takaful businesses must operate according to sharia principles in all areas of their activity.

Ismail *et al.* (2012) state that the importance of the takaful system is its basis in socio-economic principles, which accord with Islamic 13 values for the benefit of individuals and society. According to Matsawali *et al.* (2012), the concept of takaful based on mutual cooperation will encourage trade and commerce 13 activity to flourish, contribute to poverty reduction and establish a self-reliant society. Participation in takaful is one of 50 ways through which Muslims can contribute to the development of Islamic economies (Husin and Rahman, 2016).

The development of takaful products in Indonesia began in 1994 with the establishment 24 of the first takaful company, PT Syarikat Takaful Indonesia. The setting-up of this business was subject to the Republic of Indonesia law 2/1992 concerning insurance business, although this legislation did not specifically mention takaful. More recently, insurance, including takaful, was regulated under 14 Republic of Indonesia law 40/2014. According to this law, Islamic insurance (takaful) is a collection of agreements, which comprise an agreement between the takaful company and the policyholder and agreements between the policyholders in terms of the management of contributions based on sharia principles with the aim of helping and protecting one another.

The performance of takaful has improved every year, as its inception, although its value remains below that of conventional insurance. Table I compares the assets and gross contributions of takaful and conventional insurance in Indonesia. Total assets of the takaful industry were Rp40.52tn as at December 2017, having grown 18 per cent over the previous year from Rp33.224tn. Meanwhile, conventional insurance assets increased 17.6 per cent

Description	Takaful		Conventional insurance	
	2016	2017	2016	2017
Assets (Rp trillion)	33.24	40.52	534.57	628.65
Takaful's share of gross insurance assets(%)	4.83	5.79		
Gross contributions (Rp trillion)	12.03	14	224.75	277.49
Takaful's share of gross insurance contributions(%)	5.35	5.04		

Source: FSA (2018)

Table I.
Comparison of assets
and contributions
between takaful and
conventional
insurance

from Rp534.57tn in 2016 to Rp628.65tn in 2017. The difference in assets as at December 2017 between takaful and conventional insurance was Rp588.13tn or 93.5 per cent.

Total gross contribution to takaful was Rp14tn in 2017, an increase of Rp1.97tn from the 2016 figure of Rp12.35tn (16.33 per cent). In 2017, the share of gross insurance contributions by takaful was 5.04 per cent compared with 5.35 per cent for the previous year.

Indonesia has characteristics and environmental factors that may be different from other countries. Among these are its very large and widespread area, containing different geographic typologies, levels of education and levels of income, all of which may affect people's preference for takaful service offerings. Understanding the challenges presented by Indonesia's environment will be useful in creating strategies to promote takaful products and achieve greater market share.

2.2 Challenges to the takaful industry

Southeast Asian countries including Indonesia have seen significant development in takaful companies in recent years (Ismail *et al.*, 2017). Takaful insurance has being the choice of community to share risks in the possibility of facing an accident or disaster. According to Husin and Rahman (2016), takaful has an important role to play in a country dominated by Muslims because it is designed to meet their religious requirements for sharia compliance and the development of Muslim communities. Taka⁴²s an alternative to conventional insurance for people who need cover, which is in accordance with Islamic principles. However, the development of the takaful market has not met with the desired expectations, and a number of studies reference the challenges that must be faced by the takaful industry in Indonesia and elsewhere.

A survey by Deloitte (2013) shows some of the challenges currently faced by takaful companies in Indonesia. These include compliance with regulations and corporate governance requirements, the need for improvements in human-resource capacity, risk management and internal control, strategies for managing products and corporate business activity. Redhika and Mahalli (2014) interviewed managers of takaful companies in Medan, Indonesia, to investigate the constraints on takaful development. They identify constrains such as limited human-resource quality, similarity of products to conventional insurance, lack of p¹romotion and limited agents available to market takaful. Ichsan (2015) also discusses some of the causes of the low market penetration of takaful in Indonesia. During the past ten years, problems faced by takaful companies include ineffective promotions and market education, the absence of innovative products and services, limited knowledge about takaful business by human resources within takaful companies and limited marketing and distributive channels compared to conventional insurance. Based on an interview with a takaful expert, Effendi (2018) also identifies four internal business problems: lack of promotion and socialisation, human resources, utilisation of information technology¹⁸, lack of development of products and services. Meanwhile, Amron *et al.* (2017) find that satisfaction and trust has a significant impact on word-of-mouth recommendation by the customers of sharia life insurance in the Moslem society of Indonesia.

Many researchers also investigate takaful and the factors tha² must be considered in achieving penetration of worldwide insurance markets by takaful. Janjua and Akmal (2014) analysed customer satisfaction with the services of c²ventional and Islamic insurance companies in Pakistan. Their research found that conventional insurance companies preferred to target young people, private employees and lower-income groups. Meanwhile, takaful companies prefer to focus on improving sharia compliance and attracting self-used and higher-income groups. In general, insurance as a service provider industry needs to put more effort into aspects of management of funds such as effective risk management, and

into offerings to consumers such as low cost, easy claims procedures and easy access to insurance services (Janjua and Akmal, 2014).

Sherif and Shaairi (2013) investigated the significance of economic and demographic factors in determining the consumption of takaful by families in Malaysia. They report that economic factors (income, inflation and banking sector development) and demographic factors (education, dependency ratio and Muslim population) have significant and positive relationships with family takaful demand. The relationship between Islamic banking deposits and takaful demand shows the inter-dependency between Islamic financial institutions (IFIs); thus, strong performance of Islamic banks will increase the confidence of customers of other IFIs, including takaful (Sherif and Shaairi, 2013). Mohamed and Alhabshi (2015) surveyed takaful managers in Malaysia and found that they believed innovation would improve takaful market penetration. A study conducted by Arifin and Yazid (2018) describes the factors that influence innovation attributed to loyalty in family takaful in Malaysia. Five elements of innovation, namely, relative advantages, compatibility, simplicity, trialability and observability are important determinants of participants' loyalty in family takaful.

2.3 Innovation

According to Rogers (1995, cited in Arifin and Yazid, 2018, p. 2), innovation is "an idea, practice or object that is perceived as new by an individual or another unit of adoption". Innovation is necessary for a company to survive and to become more profitable and more competitive than other companies in their area of operation (Mills and Tubiana, 2013). There are some important roles for innovation in the development of Islamic products and services (Haron and Nursofiza, 2008): first, innovation may improve existing products and services; second, innovation might lead to a new activity that benefits a business because it reduces operating costs; and third, innovation can expand markets and even create new markets for Islamic products and services. Many experts distinguish types of innovation into different groups. Johnes and Davies (2000) identify three categories of innovation: market product and process. Market innovation refers to entering a new market segment, product innovation is the development of new products by a company, while process innovation improves internal capabilities.

According to Mills and Tubiana (2013), there are three types of innovation: empowering, sustaining and efficient. Empowering innovation creates mass products that are available to more people than more-expensive products, which can only be acquired by certain people; sustaining innovation refers to the development of products with better quality but still with similar basic characteristics; and efficiency innovations will lead to reductions in production and distribution costs.

Takaful companies need to choose the types of innovation that are in accordance with the characteristics of their prospective consumers and the corporate environment. The selection of the right type of innovation will facilitate the expansion of the market for takaful products.

3. Research methodology

Based on the challenges mentioned in the literature, this study will discuss innovation as a strategy that is expected to solve those challenges. The three categories of innovation mentioned by Johnes and Davies (2000), namely, market, product and process innovation will be used as the basis for discussing the strategies.

This study uses a qualitative, descriptive method to discuss the innovation strategies of the takaful industry from a literature-based approach. This method is useful for reviewing

particular conditions or phenomena based on existing facts and analysing them based on existing literature such as books, academic journals, conference papers and other sources. According to Sekaran and Bougie (2013), the benefits of descriptive study are:

- understanding the characteristics of a group for a particular situation;
- offering ideas for further research; and
- helping to make simple decisions.

Several previous studies have used qualitative research to discuss takaful. Abdullah (2012) uses a literature-research approach to describe the risk management of takaful from the perspective of *maqasid al-shari'ah*. The study reviews and analyses risk management and *maqasid al-shari'ah* from the literature in terms of adequacy, relevancy and significance. Qualitative methods were also applied by Abdullah and Yaacob (2012), who studied the legal and sharia issues in the application of the *wakalah-waqf* model in the takaful industry using previous literature and reports to highlight and discuss the issues. A similar method was used by Hidayat (2015), who discussed the enhancement of awareness of takaful using previous studies in that area to reveal common findings and conclusions.

The present study adopts the same method as the studies detailed above. The data sources used are previous literature and documentation relating to the development of takaful in Indonesia, socio-economic conditions and innovation. Using a qualitative descriptive method this study is expected to meet the research objective regarding innovation strategy in the developing takaful market based on the conditions and phenomena that exist in Indonesia, including population and geographical characteristics.

4. Discussion

In general, companies implementing sharia principles need to reinforce their perceived position as complying with Islamic principles by providing information, which confirms that they are sharia compliant (Nugraheni and Wijayanti, 2017). However, takaful companies cannot rely for their success solely on their identity as Islamic companies. As businesses operating in a new industry, they not only have to compete with conventional insurance providers, they but also need to evaluate their own internal conditions. The improvement of many aspects of performance must be prioritised to compete with the larger market of existing conventional insurance.

Takaful companies have become one of the main components in the development of IFI. The ability to acknowledge and respond to environmental changes will be an important factor in allowing them to anticipate, adjust and adapt to the advancement of technology and business competition in the finance industry. Basic environmental conditions that may influence a community's interest in takaful, such as political, economic, social and cultural factors, technology advancement and environmental factors, need to be understood (Wheelen and Hunger, 2008, cited in Miao, 2012).

The takaful industry needs to improve its operational and business strategies (Deloitte, 2013). As a service industry, satisfaction in using products and services is a primary concern for communities in choosing takaful products. Innovation is one of the keys to success in increasing interest in takaful insurance and in competing in the financial sector (John and Davies, 2000). Takaful companies need to be able to identify customer needs to provide products that are suitable for them. The innovations that can be pursued by takaful companies are discussed below, based on the categories developed by John and Davies (2000).

4.1 Market innovation

Innovations regarding the choice of market reference a variety of factors (Johnes and Davies, 2000). According to Husin and Rahman (2013), income is one of the factors that influences participation in insurance. Thus far, the insurance market has been aimed particularly at high-income groups, as they are seen as being more financially capable. According to data from the Indonesia Bureau of Statistic (cited in Deloitte, 2015), the composition of the Indonesian population in 2014 was as follows (Table 48)

The 2014 Indonesian population of 250 million can be classified into four groups based on income: the high-income group (more than Rp120m/US\$8,000 per year), comprising 25 per cent of the population; the upper-middle-income group (income Rp60-120/US\$4,000-8,000 per year) at around 42 per cent; the lower-middle-income group (income Rp36-60m/US\$2,500-4,000 per year) at around 26 per cent and the low-income group (less than Rp36m/US\$2,500 per year) at around 7 per cent. The data show that the majority (68 per cent/170 million) of Indonesia's citizens belong to middle-income groups.

Setiawan (2013), quoting a report from the Asian Development Bank for 2010, states that the middle-income group consists of professional people in the service sectors and industry. They live in cities and are oriented towards good-quality education and health care. Such characteristics suggest significant opportunities for insurance companies to target members of this group as potential new customers.

The takaful industry can also target the low-income group who comprise 7 per cent of the Indonesian population. Although relatively small, providing services to this group is in accordance with the role of takaful in poverty reduction (Matsawali *et al.*, 2012). Due to limited income, the insurance products aimed at this group must be adjusted to match financial ability. Low premium products that focus on protection and are simple to access are suitable for customers in this group (Miao, 2012).

4.2 Product innovation

Targeting different markets requires the development of products, which are tailored to their particular needs. Different communities also need different takaful products that are suitable for their financial abilities. Haron and Nursofiza (2008) assert that product innovation is a part of the market development process and a key to keeping competitive advantage. Takaful operators should direct their efforts to expanding the takaful market and to stimulating demand for takaful products (Husin and Rahman, 2016).

Product innovation is the development of new products to increase the variety of products being offered (Johnes and Davies, 2000). Based on differences in income level among the Indonesian population, adjusting takaful products and price/premium/contributions to targeted markets should be considered. In such products, the price offered is adjusted to a product's features so that customers are offered a fair price. The principles to be followed in

Name of group	Income (per year)		Percentage of the population (%)
	Rp (million)	US\$	
High-income group	>120	>8,000	25
Upper-middle-income group	60-120	4,000-8,000	42
Lower-middle-income group	36-60	2,500-4,000	26
Low-income group	<36	<2,500	7

Source: Deloitte (2015)

Table II.
Composition of
Indonesian
population based on
income level

determining a fair price for a product are to avoid selling inappropriate products, following fair processes and giving freedom to customers in choosing their desired product (Remli *et al.*, 2013). These principles are important as they can build trust with communities and develop their interest in the Islamic financial system and its products and services.

The emergence of micro-insurance (micro-takaful) is a step towards obtaining a wider market. Micro-insurance is designed to provide protection from the type of financial risks that may be experienced by low-income communities (FSA, 2017). Its characteristics are that products are simple to understand and use and economical and immediate; micro-insurance is, therefore, expected to be better at reaching targeted low-income customers.

Another product innovation is the development of insurance products specifically for women. Some previous studies mention that women are less interested in participating in insurance than men (Husin and Rahman, 2013). However, more women are now working to meet their household needs and it is commonly the case that women are now the financial backbone of Indonesian families. According to data from the Central Bureau of Statistics of Indonesia (cited in Setiyoko, 2016), in 2013 there were about 65 million families in Indonesia, of which 14 per cent or 9 million were headed by women years of age between 20 and 60. These women are responsible for their families for a number of reasons, including a daughter being responsible for her younger siblings because of the parents' inability to sustain the family or a wife replacing her husband's role, either as a single parent or because her husband is unable to work because of illness.

Of these women number, 38.8 per cent are illiterate because they have not received elementary education. These women typically have to feed between one and six dependents, work as agricultural or informal labour and earn average incomes of less than Rp 10,000 (US\$ 1) per day (Setiyoko, 2016). Takaful companies may try to develop products, which give protection to these women against the impacts of unpredictable occurrences such as sickness, disability or death.

In choosing a potentially profitable takaful product to be released, a company must consider the market's interest in the product. According to Abdullah *et al.* (2015), product specification and design that accord with Islamic values are the main factors that will be considered by Muslim customers. In addition, the products and services must be compatible and simple (Arifin and Yazid, 2018). Arifin and Yazid (2018) mention that compatibility refers to the "extent of the product that is consistent and compatible with customers' need, beliefs, values, experiences and habits", while simplicity is being "easy to understand [in terms of] the features of takaful products". In addition, Effendi (2018) suggests that the development of more innovative products is important in solving the internal business problems of takaful products and services.

4.3 Process innovation

Process innovations repair and improve the efficiency and capability of internal operations (Johnes and Davies, 2000). Such innovations include improving human-resource capacity, corporate management issues and promotion activities.

4.3.1 Improving human resource quality. Human resources play an important role in the success of companies in competitive environments. As service businesses, takaful companies rely on the skills of their human resources to offer their products to, and to retain, customers. However, human-resource expertise in the field of takaful is very limited (Redhika and Mahalli, 2014). Strategies to improve human-resource quality in takaful companies include the following.

4.3.1.1 Training programmes for takaful employees. The quality of human resources can be determined through the recruitment process and can then be developed through

training and educational programmes, which conform to company regulations (Deloitte, 2013). In maintaining and improving human-resource quality, companies need to conduct training for their employees (Karim Consulting, 2017). Three capabilities that should be developed by takaful operators are professional competence (through skill assessment and gap analysis), personal competence (through identification of knowledge and skills) and technical competence (specialised skills in areas of underwriting, risk management and product development) (Deloitte, 2013).

Employees, especially those involved in marketing, need to have sufficient knowledge to enable them to explain takaful products correctly and appropriately to prospective customers. This can avoid misunderstandings between the company and its customers in choosing suitable products for their financial investment purposes (Miao, 2012). Moreover, the employees of takaful companies should be able to explain the Islamic characteristics of the products for customers who are particularly focussed on the halal aspects of the product. Employees, including marketing employees who are frontline in introducing and selling insurance products, need to continually upgrade their knowledge and skills.

4.3.1.2 Cooperation with higher-education institutions. Cooperation between the takaful industry and higher-education institutions can be used to improve human-resource quality. Subjects taught at higher-education level relating to Islamic finance, including takaful, can be practised directly by students in takaful companies through the development of internship programmes. Inviting practitioners from the takaful industry as guest lecturers can also give insights to students about the working environment in takaful and can attract students to join the takaful industry in the future.

4.3.2 Corporate management. Companies need to understand the characteristics of their business area to understand its core advantages, business models used and strategies followed (Miao, 2012). There are several aspects that must be considered to improve corporate management:

4.3.2.1 Service quality. As service providers, takaful companies should consider service quality as a way of enhancing customer satisfaction (Janjua and Akmal, 2014). Service quality in takaful includes responsiveness (readiness to help customers and provide quick service), reliability (ability to perform the service perfectly), convenience (ease of using services) and compliance (implementation of sharia principles in business activities) (Janjua and Akmal, 2014).

According to Kazak *et al.* (2013), service quality is the most significant factor influencing Malaysian people to choose takaful products. In addition, quality innovations can influence customers loyalty (Arifin and Yazid, 2018), while Amron *et al.* (2017) mention that service satisfaction will influence customers to tell other people about takaful products. Therefore, clear indicators and processes for improving and maintaining business operation, financial management and service standards need to be created. Monitoring systems should also be established to avoid activities, which are not being carried out according to procedures.

4.3.2.2 Technology capabilities. Utilisation of technology will contribute to effective competitive performance. Takaful companies should use appropriate technology in all operational, sales and marketing strategies (Deloitte, 2013). Innovation in such companies can be implemented through the use of social media and/or the application of information technology.

A community's expectations of service providers include being able to interact with them online to discuss products and to give and receive feedback (Hagen *et al.*, 2012). For takaful companies, the effects of the use of social media can be seen in product development, marketing, product sales, claim handling and customer relationship development. Information technology can be applied to suit companies' needs, for example, to integrate

customer databases across all business units, for decision making and to support daily operations (Hagen *et al.*, 2012).

In addition, a survey by the Indonesian Internet Service Providers Association (APJII, cited in FSA, 2018) reveals that more than half of the Indonesian population is now connected to the internet through computers or smartphones. According to Mills and Tubiana (2013), internet use is an efficiency innovation that can reduce production and distribution costs. Takaful companies can, therefore, use the internet to market and transact takaful products.

4.3.3 Promotional strategies. One of challenges in expanding the takaful market in Indonesia is lack of promotion by the industry (Ichsan, 2015; Redhika and Mahalli, 2014). Until now, the community has been accustomed to conventional insurance; thus, takaful products and services with different characteristics conventional insurance need to be actively introduced to potential buyers. Takaful companies need to take an aggressive approach to promotion to increase levels of acceptance of takaful products (Razak *et al.*, 2013).

Lack of awareness is one of the main challenges faced by the takaful industry in marketing its products (Deloitte, 2015; Husin and Rahman, 2016). According to Hidayat (2015), improved awareness will increase market preference for the offerings of takaful companies. Husin and Rahman (2016) state that individual factors such as awareness and knowledge have impacts on takaful participation. Improvement in community awareness about takaful can be achieved through continual socialisation.

8 Early socialisation about takaful can be conducted through formal education. Education plays a significant role in increasing the level of awareness of the existence of takaful (Hidayat, 2015). Many higher-education institutions have been teaching Islamic finance as a response to the rapid development of IFIs. However, the learning process is mostly still focussed on Islamic banking, while other aspects of Islamic finance including takaful are less-frequently discussed. For more widely based IFIs, students are expected to have at least an initial understanding of takaful. Integrating the subject of takaful into the academic curricula of universities is an effective way of enhancing students' awareness at the same time as promoting takaful (Hidayat, 2015).

6 Cooperation with other institutions can also enhance the marketing of takaful, and the Islamic banking sector has contributed towards the strong growth of the takaful industry (Sherif and Shaairi, 2013). Cooperation between banks and insurance companies usually works through the provision of "bancassurance", defined as cooperative activity between an insurance company and a bank in marketing insurance products via the bank. Islamic bancassurance (bancatakaful) provides some advantages for takaful operators in that it can enable the expansion of distribution of takaful products, and can also create reduced costs (Maturi, 2013) and influence cost-effective distribution channels (Mohamed and Alhabshi, 2015).

Promotional activities tools of communication between companies and consumers through which companies can influence consumers buy their products and services. Consequently, various forms of promotional activity such as advertising, personal selling, sales promotion and public relations should be enhanced in various ways (Abdullah *et al.*, 2015). However, the promotional tools need to be adjusted to fit the type of product offered. For example, the introduction of micro-takaful designed for low-income groups can be performed through appropriate marketing channels. According to FSA Circular Letter Number 9/SEOJK.05/2017, marketing channels for micro-insurance can include direct marketing and marketing via insurance agencies, bancassurers, non-bank business institutions and marketing companies. Moreover, intensive promotional activity by the

takaful industry can be performed to reach customers in all locations. For customers of micro-insurance in rural areas, companies could attract customer interest by advertising on local radio stations, developing product socialisation, entertainment and cultural programmes and providing facilities for in-location claim settlement (Miao, 2012).

Level of understanding of takaful can vary based on geographic location (Miao, 2012). Indonesia is a widely spread country with many different types of citizen needing different treatments from businesses. Indonesia is known as the world's largest archipelago, extending across 5,000 km (around 3,200 miles) and consisting of more than 17,000 islands. Unfortunately, the service network of IFIs (other than Islamic banks) 16 is still centred (at 79 per cent) on the two largest islands – Sumatra and Java (FSA, 2018). This means that the penetration rate is not evenly distributed across the country.

According to Ismail *et al.* (2017), the large geographical spread makes the distribution of takaful market areas difficult to reach. In this environment, the identification of the right promotion tools for each area becomes important. Modern city areas may have higher knowledge levels than rural areas, making it easier to promote takaful in cities than in the countryside. One strategy that can be implemented is building an integrated system of business management and regulation throughout a company's network while still applying different marketing in each area (Miao, 2012). In marketing a certain product, the understanding of prospective customers is the main aspect to be considered.

Miao (2012) suggests steps for marketing insurance products in particular areas. First, if a company lacks detailed information, it needs to carry out a review to determine what type of insurance products are appropriate. Second, a cooperative relationship with local organisations and communities can be an alternate way to ensure that the products being offered are suitable for the environmental conditions. According to Abdullah *et al.* (2015), the involvement of certain parties during the process of creating and delivering products and services in marketing is one of the considerations of consumers in choosing certain products. A combination of takaful products with the products of local organisations can add value to a marketing strategy. When sales of the local products increase, sales of insurance products will also increase and this may reduce direct sales and promotional expenses. This is also a method for market penetration when the facilities available in a targeted area are still limited.

A company may be not need to offer all of its products to a community, but rather can focus on one or several particular products that are suitable for local market conditions. Alajmi *et al.* (2011) state that national culture has an impact on mechanisms of communication policy and information flow within the takaful industry. Therefore, it is possible that there will be different strategies of marketing in cities and rural areas. However, there are strengths and weaknesses in this strategy (Miao, 2012). The strong reputation of a company for a certain product and resulting faster increase in sales will positively affect profitability. On the other hand, there may be high assessment costs because the company needs data and information for each specific area. There will also be differences in costs for activities such as advertising and promotion between different areas.

5. Implications and limitations of the study

The takaful industry has an important role to play in Indonesia's economy. It offers social value in the form of *tabarru'* funds and provides insurance, which accords with Islamic principles. The low market penetration of takaful compared to Islamic banks more generally should 37 encourage the takaful industry to put innovative strategies into action. This study suggests the types of innovation that could be pursued by the takaful industry. It should choose the type of innovation that will suit the characteristics of communities and environmental conditions in Indonesia by considering customers' demographic and geographical conditions. So that the

goal of introducing takaful and encouraging participation in takaful activities can be achieved, each different condition requires a different strategy.

This study has several limitations in explaining the innovation strategies of the takaful industry. First, the strategies described are adapted to environmental characteristics in Indonesia, so they may not be generalisable to other countries with different environments. It is, therefore, important to identify the customer demographic and geographical conditions in each region. Second, this study is only based on a literature review, so more specific empirical studies need to be done. Future research could further identify what consumers need, through surveys and through mapping certain types of regions to appropriate types of takaful products and services. Third, the use of theories to understand consumers' motivations and desires could be applied, such as the theory of planned behaviour (Husin and Rahman, 2016) or the theory of Islamic marketing (Abdullah *et al.*, 2015). Through such activities, the takaful industry can better understand consumer needs by integrating knowledge based on theory, the characteristics of consumers, and the real conditions in particular regions. As a result, takaful products may be chosen as investment and risk protection tools not only because they are in accordance with sharia principles but also because they perform in line with the needs of customers.

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