



**DEVELOPING A MODEL OF MEASURING ISLAMIC  
RELATIONSHIP MARKETING PRACTICE AMONG  
TAKAFUL AGENTS: EXPLORING ITS IMPLICATIONS  
ON CUSTOMER RETENTION**

**BY**

**MARHANUM CHE MOHD SALLEH**

**A dissertation submitted in fulfilment of the requirement for  
the degree of Doctor of Philosophy in Business &  
Administration**

**Kulliyyah of Economics & Management Sciences  
International Islamic University Malaysia**

**MAY 2014**

## **ABSTRACT**

The term 'relationship marketing' has grown to become a popular subject in marketing literature for the last three decades. The literature indicates the significance of maintaining long-term relationship with customers in ensuring the future of a company. In Asian literature, discussion on relationship marketing has been gaining popularity in recent years. Yet, research conducted on the subject; particularly in Islamic financial institutions, is very limited. This research aims to address the research gap on relationship marketing particularly in the context of the Islamic insurance industry, or Takaful. The theoretical framework of this research; built based on review of past literature, consists of four independent constructs of Islamic relationship marketing (Islamic ethical behaviour, social, structural, and financial bonds), three mediators of relationship quality (relationship satisfaction, trust, and commitment), and customer retention as the sole dependent construct. The framework is tested using primary data obtained from a survey of 755 Family Takaful customers in the Klang Valley. Data gathered was analysed with two statistical analysis software applications: SPSS and AMOS. Results obtained from measurement and structural equation modelling indicate that there were four significant constructs underlined the Islamic relationship marketing practice in Takaful industry namely Islamic ethical behaviour, social, structural, and financial bonds. The practice of these constructs has significantly influenced the retention of Family Takaful customer in future. In addition, results of structural modelling also indicate that customers would remain with the same agent and operator if they act in accordance with Islamic ethics and provide good facilities to them. Furthermore, relationship quality; which is measured by customer satisfaction, trust, and commitment, is regarded as an important factor that strengthens the influence of Islamic relationship marketing practice in ensuring future customer retention. Overall, findings of this research would be an important reference material for market players in the Takaful industry in helping them to strengthen relationship with their customers. Indeed, a strong relationship with customers will contribute to the development of the Takaful industry in the future.

## خلاصة البحث

إن مصطلح علاقة التسويق تطور ليصبح موضوعاً شعبياً في أدب التسويق منذ ثلاثة عقود. تشير الأدبيات إلى أهمية الحفاظ على علاقة طويلة الأجل مع العملاء في ضمان مستقبل الشركة. في الأدب الآسيوي نالت مناقشات علاقة التسويق شعبية كبيرة في السنوات الأخيرة. و مع ذلك أجريت أبحاث على المادة خصوصاً في المؤسسات المالية الإسلامية ولاكتنها محدودة للغاية. يهدف هذا البحث إلى معالجة هذه الفجوة في علاقة التسويق لاسيما في سياق صناعة التأمين الإسلامي أو التكافل. إن الإطار النظري لهذا البحث مبني على أساس إستعراض الدراسات السابقة و التي تحتوي على أربعة أبنية مستقلة لعلاقات التسويق الإسلامي (السلوك الأخلاقي الإسلامي, الإجتماعي, الهيكلي والسندات المالية)، ثلاثة وسطاء للعلاقة النوعية (العلاقة المرضية, الثقة و الإلتزام)، و إحتواء العميل لكي يمثل البنية الوحيدة المعتمد عليها. يختبر إطار هذا البحث بإستعمال بيانات أولية تم الحصول عليها بدراسة عدد 755 من عملاء تكافل الأسرة في كلانج فالي. تم جمع البيانات و تحليلها بواسطة إثنان من برامج التطبيقات الإحصائية SPSS و AMOS. تشير النتائج التي تم حصدها من المعادلات القياسية و الهيكلية على أن هناك أربعة أبنية مهمة في مداولة علاقة التسويق الإسلامي في صناعة التأمين الإسلامي (تكافل) و هي السلوك الأخلاقي الإسلامي, الإجتماعي و الهيكلي و السندات المالية. و قد أثرت مداولة هذه البنيات بشكل واضح على الإحتفاظ بعملاء تكافل الأسرة في المستقبل. بالإضافة, تشير النتائج من النماذج الهيكلية ببقاء العملاء مع نفس الوكيل و المشغل إذا تصرفوا وفقاً لمبادئ الإسلام و توفير تجهيزات جيدة. وعلاوة على ذلك العلاقة النوعية و التي تم قياسها بمستوى رضا العملاء, الثقة و الإلتزام, وهي تعتبر عاملاً مهماً لتعزيز نفوذ مداولة علاقة التسويق الإسلامي في ضمان الإحتفاظ بالعملاء في المستقبل. إجمالي, قد تكون نتائج هذا البحث مادة مرجعية مهمة للعاملين في صناعة التأمين الإسلامي لتعزيز علاقتهم مع عملائهم. بالفعل أن تعزيز علاقة قوية مع العملاء يساهم في تطوير التأمين الإسلامي في المستقبل.

## **APPROVAL PAGE**

The dissertation of Marhanum Che Mohd Salleh has been approved by the following:

---

Nurdianawati Irwani Abdullah  
Supervisor

---

Siti Salwani Razali  
Supervisor

---

Saodah Wok  
Supervisor

---

A.K.M. Ahasanul Haque  
Internal Examiner

---

Ashraf Mohd Hashim  
External Examiner

---

Sohirin Mohammad Solihin  
Chairman

## DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Marhanum Che Mohd Salleh

Signature.....

Date: .....

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

**DECLARATION OF COPYRIGHT AND AFFIRMATION  
OF FAIR USE OF UNPUBLISHED RESEARCH**

Copyright © 2014 by International Islamic University Malaysia. All rights reserved.

**DEVELOPING A MODEL OF MEASURING ISLAMIC RELATIONSHIP  
MARKETING PRACTICE AMONG TAKAFUL AGENTS: EXPLORING ITS  
IMPLICATIONS ON CUSTOMER RETENTION**

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below.

1. Any material contained in or derived from this unpublished research may be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieval system and supply copies of this unpublished research if requested by other universities and research libraries.

Affirmed by Marhanum Che Mohd Salleh

.....  
Signature

.....  
Date

*With love and respect*

*Haji Che Mohd Salleh Haji Che Mat*

*Hajjah Maimunah Haji Ali*

## ACKNOWLEDGEMENTS

In the name of Allah, the Most Gracious and Most Merciful. I thank Allah for his love and mercy to assist me to complete this PhD journey. Selawat to Prophet Muhammad (P.B.U.H.) and his family for spreading Islam in this world.

And Allah made it not except as [a sign of] good tidings for you and to reassure your hearts thereby. And victory is not except from Allah, the Exalted in Might, the Wise. (Al-Imran: 126)

I realised that my PhD journey is not possible without being test with various obstacles. However, all tests are given by the creator suitable to the ability of the individual person and to make the individual strong enough for future. And the completion of this thesis has been made possible through the encouragement and support of many individuals. First, special thanks go to my beloved husband, Riwan bin Ramli. The endless support that I received from him during my hard time is really appreciated. May Allah give him rewards in this world and the Hereafter.

I am grateful to my supervisors, Associate Professor Dr Nurdianawati Irwani Abdullah, Associate Professor Dr. Siti Salwani Razali, and Associate Professor Dr. Saodah Wok for their encouragement while completing this research. I am constantly amazed at their knowledge and willingness to share their time and expertise. They has assisted and supported me in every possible way throughout this journey. I owe them more than I can adequately express and offer her my warmest appreciation and deepest thanks.

My sincere thanks go to my friends, especially Dr Weni Hawariyuni who has continuously supported me until today. May Allah bless her and family. To all my fellows friends who are in the same ship with me, Kak Akmal, Kak Layla, Kak Aisyah, Kak Hasmalina, Ratna, Sister Massa, Kak Ila, Fariza, and others, thanks all for your support and time spending with me. You will never know how much I appreciate our friendship and good luck to you all.

I would like to acknowledge the Malaysian Ministry of Higher Education and International Islamic University Malaysia (IIUM) for giving me the opportunity to embark this journey under the 'Fellowship Scheme'. Acknowledgement also goes to all who helped me during the data collection especially En. Nazmi, Sister Nik Roseni, Linda, all staff of Malaysian Takaful Association (MTA), representatives of the Takaful operators, and the Takaful customers that have involved in this research.

Last but not least, my sincere appreciation goes to my family members especially, Mak and Abah for all the supports and prayers. To my adorable daughter, Nur Zara Safiya, you have been the motivational force for me to get through this journey until the end. Thank you and I love you all.



# TABLE OF CONTENTS

Abstract .....	ii
Abstract in Arabic .....	iii
Approval page .....	iv
Declaration .....	v
Declaration of Copyright .....	vi
Dedication .....	viii
Acknowledgements .....	vii
List of Tables .....	xiii
List of Figures .....	xvii
List of Abbreviation .....	xix
<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1 Introduction .....	1
1.2 Research Background .....	1
1.3 Research Problem .....	3
1.4 Research Questions .....	5
1.5 Research Objectives .....	6
1.5 Significance of Research .....	7
1.6 Organization of Research .....	8
<b>CHAPTER TWO: TAKAFUL INDUSTRY .....</b>	<b>10</b>
2.1 Introduction .....	10
2.2 Takaful: Western and Islamic Perspectives .....	10
2.3 The Development of Malaysian Takaful Industry .....	12
2.4 Takaful: Malaysian Operational Models .....	14
2.4.1 Muḍārabah Model .....	14
2.4.2 Wakala Model .....	17
2.4.3 Hybrid Wakala-Muḍārabah Model .....	20
2.5 Takaful: Marketing Practices .....	22
2.6 Roles of Takaful Agents .....	23
2.6.1 Roles of an Agent from the Islamic Perspective .....	24
2.6.2 Roles of an Agent as Dictated by Takaful Act 1984 .....	27
2.6.3 Roles of an Agent based on Islamic Financial Services Act 2013 .....	29
2.7 Past Studies on Malaysian Takaful Industry .....	32
2.8 Chapter Summary .....	41
<b>CHAPTER THREE: LITERATURE REVIEW .....</b>	<b>42</b>
3.1 Introduction .....	42
3.2 Relationship Marketing .....	42
3.2.1 Development of Relationship Marketing .....	43
3.2.2 Definitions of Relationship Marketing .....	47
3.2.3 The Importance of Relationship Marketing in Financial Services Industry .....	52

3.3 RM from the Islamic Perspectives .....	57
3.4 Islamic Relationship Marketing Model in this Research .....	59
3.4.1 Islamic Ethical Behaviour .....	60
3.4.2 Relational Bonds .....	63
3.4.2.1 Concept of Relational Bond .....	64
3.4.2.2 Types of Relational Bonds .....	67
3.4.3 Relationship Quality .....	71
3.4.3.1 Customer Satisfaction.....	73
3.4.3.2 Customer Trust .....	74
3.4.3.3 Customer Commitment.....	77
3.4.4 Customer Retention.....	82
3.5 Chapter Summary .....	85
<b>CHAPTER FOUR: CONCEPTUAL FRAMEWORK.....</b>	<b>86</b>
4.1 Introduction.....	86
4.2 The Proposed Conceptual Framework.....	86
4.3 Underlying Theories .....	88
4.3.1 Social Exchange Theory .....	89
4.3.2 Commitment-Trust Theory .....	90
4.4 Consequences of Islamic Relationship Marketing.....	92
4.4.1 Islamic Ethical Behaviour and Customer Retention .....	93
4.4.2 Relational Bonds and Customer Retention .....	95
4.5 Relationship Quality as Mediator .....	97
4.5.1 Customer Satisfaction as Mediator .....	99
4.5.2 Customer Trust and Commitment as Mediators .....	102
4.6 Summary of Hypotheses .....	103
4.7 Chapter Summary.....	106
<b>CHAPTER FIVE: RESEARCH METHODOLOGY.....</b>	<b>107</b>
5.1 Introduction.....	107
5.2 Research Design.....	107
5.3 Quantitative Approach .....	109
5.4 Survey .....	110
5.4.1 Self-Administered Questionnaire .....	111
5.4.2 Designing Survey Questions .....	114
5.4.2.1 STEP 1: Specify what information will be sought .....	115
5.4.2.2 STEP 2: Determine the types of questionnaire and methods for administration.....	116
5.4.2.3 STEP 3: Determine content of individual items .....	116
5.4.2.4 STEP 4: Scale Development.....	130
5.4.2.5 STEP 5, 6, and 7: Determine wording, sequence, and physical characteristics of questionnaire .....	131
5.4.2.6 STEP 8: Re-examine Step 1-7 .....	134
5.4.2.7 STEP 9: Pre-test Questionnaire .....	134
5.5 Final Survey .....	148
5.5.1 Final Survey Sampling Frame.....	148
5.5.1.1 Step 1 and 2: Population and Sampling Frame.....	149
5.5.1.2 Step 3: Sampling Methods.....	150
5.5.1.3 Step 4: Sample Size .....	151

5.5.2 Final Survey Procedures.....	152
5.6 An Overview of Final Data Analysis.....	153
5.6.1 SEM Assumptions.....	157
5.6.2 Reliability.....	158
5.6.3 Validity.....	160
5.6.3.1 Face Validity.....	160
5.6.3.2 Construct Validity.....	161
5.7 Chapter Summary.....	162
<b>CHAPTER SIX: DATA ANALYSIS &amp; RESULTS.....</b>	<b>163</b>
6.1 Introduction.....	163
6.2 Preliminary Data Analysis.....	163
6.2.1 Data Coding.....	164
6.2.2 Data Screening.....	164
6.2.2.1 Treatment of Missing Data.....	165
6.2.2.2 Checking for Outliers.....	165
6.2.2.3 Assessment of the Normality.....	175
6.2.3 Descriptive Analysis.....	179
6.2.3.1 Response Rate.....	179
6.2.3.2 Background of Respondents.....	180
6.2.3.3 Customers' Perception towards Takaful Agents' Islamic Relationship Marketing Practices.....	184
6.3 Analysis and Results of Exploratory and Confirmatory Factor Analysis.....	192
6.3.1 Stage One: Exploratory Factor Analysis.....	192
6.3.2 Stage Two: Confirmatory Factor Analysis.....	197
6.3.2.1 Measurement Model for Individual Construct.....	199
6.3.2.2 Reliability and Validity of the Constructs.....	209
6.3.2.3 Measurement Model of Islamic Relationship Marketing.....	215
6.4 Testing Of Hypotheses.....	216
6.4.1 Structural Model One.....	220
6.4.1.1 The Effect of Islamic Relationship Marketing Practice towards Customer Retention.....	222
6.4.2 Structural Model Two.....	224
6.4.2.1 Customer Satisfaction as a Mediator.....	228
6.4.2.2 Customer Trust as a Mediator.....	231
6.4.2.3 Customer Commitment as a Mediator.....	233
6.5 Summary of Hypotheses Testing.....	236
6.6 Chapter Summary.....	238
<b>CHAPTER SEVEN: DISCUSSIONS &amp; CONCLUSIONS.....</b>	<b>240</b>
7.1 Introduction.....	240
7.2 Summary of Research Findings & Discussions.....	240
7.2.1 Objective One.....	241
7.2.2 Objective Two.....	243
7.2.3 Objective Three.....	244
7.2.4 Objective Four.....	248
7.3 Research Contributions/Implications.....	250

7.4 Research Limitations .....	252
7.5 Suggestions for Future Research .....	253
7.6 Conclusions .....	254
<b>REFERENCES.....</b>	<b>256</b>
<b>LIST OF PUBLICATION.....</b>	<b>284</b>
APPENDIX 1:.....	286
APPENDIX 2:.....	290
APPENDIX 3.....	291
APPENDIX 4:.....	292
APPENDIX 5.....	295
APPENDIX 6.....	296
APPENDIX 7.....	297
APPENDIX 8:.....	300
APPENDIX 9:.....	301
APPENDIX 10:.....	302

## LIST OF TABLES

<u>Table No.</u>		<u>Page No.</u>
2.1	Recent Studies on Takaful	35
3.1	Evolution of Relationship Marketing	46
3.2	Definitions of Relationship Marketing	50
3.3	The Importance of RM in Financial Services Industry	55
3.4	Definitions of Trust	76
3.5	Definitions of Customer Commitment	79
4.1	Summary and Details on Research Hypotheses	105
5.1	Total number of measurement items used in this research	117
5.2:	Measure of Islamic Ethical Behaviour	119
5.3	Measures of Social Bonds	121
5.4	Measures of Structural Bonds	122
5.5	Measures of Financial Bonds	123
5.6	Measures of Customer Satisfaction	125
5.7	Measures of Customer Trust	126
5.8	Measures of Customer Commitment	128
5.9	Measures of Customer Retention	130
5.10	Results of Reliability Analysis	138
5.11	Results of EFA for Islamic Ethical Behaviour	140
5.12	Results of EFA for Social Bonds	141
5.13	Results of EFA for Structural Bonds	142
5.14	Results of EFA for Financial Bonds	143
5.15	EFA for Customer Satisfaction	144
5.16	Results of EFA for Customer Trust	145

5.17	Results of EFA for Customer Commitment	146
5.18	Results of EFA for Customer Retention	147
5.19	Summary of Research Objectives and Related Statistical Analysis	156
5.22	Initial Report of Factor Analysis for Customer Retention	290
5.23	Reliability Test for Customer Retention (initial analysis)	290
5.24	Second Report of Factor Analysis for Customer Retention	291
5.25	Reliability Analysis for Customer Retention (after second group is deleted)	291
6.1	Trimmed Mean for Islamic Ethical Behaviour	168
6.2	Trimmed Mean for Social Bonds	169
6.3	Trimmed Mean for Structural Bonds	170
6.4	Trimmed Mean for Financial Bonds	171
6.5	Trimmed Mean for Customer Satisfaction	172
6.6	Trimmed Mean for Customer Trust	173
6.7	Trimmed Mean for Customer Commitment	174
6.8	Trimmed Mean for Customer Retention	175
6.9	Measures of Normality base on Skewness and Kurtosis	177
6.10	Background of Respondents	182
6.11	Customers' Perception of Takaful Agents' Islamic Ethical Behaviour	185
6.12	Customers' Perception on Social Bonds	187
6.13	Customers' Perception on Structural Bonds	189
6.14	Customers' Perception of Financial Bonds	191
6.15	Results of Exploratory Factor Analysis for Islamic Relationship Marketing	195
6.16	Cut Off Value for Fit Indices	199
6.17	Results of Exploratory Factor Analysis for the Construct of Islamic Ethical Behaviour	201
6.18	Measurement Items for Islamic Ethical Behaviour	202

6.19	Measurement Items for Relational Bonds	204
6.20	Measurement Items for Relationship Quality	206
6.21	Measurement Items for Customer Retention	208
6.22	Reliability and Validity of the Constructs	211
6.23	Summary of Validity Assessment	214
6.24	Hypotheses Statements	217
6.25	Hypotheses testing using standardized estimate	222
6.26	Hypotheses Statements for Mediators	225
6.27	Results of Mediation Analysis for Customer Satisfaction as a Mediator	229
6.28	Results of Hypotheses Testing for Customer Satisfaction as a Mediator	231
6.29	Results of Mediation Analysis for Customer Trust as a Mediator	232
6.30	Results of Hypotheses Testing on Customer Trust as a Mediator	233
6.31	Results of Mediation Analysis Customer Commitment as a Mediator	234
6.32	Results of hypotheses testing on Customer Commitment as a Mediator	236
6.33	Results of Hypotheses Testing	236
6.34	Q-Q plots for Normality Test	292
6.35	Factor Analysis for Measures of Islamic Relationship Marketing	295
6.36	Total Variance Explained of the Measures of Islamic Relationship Marketing	296
6.37	Results of Structural Model One	297
6.38	Regression Weights: (Group number 1 - Default model)	297
6.39	Standardized Regression Weights: (Group number 1 - Default model)	298
6.40	Squared Multiple Correlations: (Group number 1 - Default model)	299
6.41	Standardized Direct Effects (Group number 1 - Default model)	300
6.42	Standardized Indirect Effects (Group number 1 - Default model)	300

6.43	Standardized Total Effects (Group number 1 - Default model)	300
6.44	Standardized Indirect Effects - Standard Errors (Group number 1 - Default model)	300
6.45	Standardized Direct Effects (Group number 1 - Default model)	301
6.46	Standardized Indirect Effects (Group number 1 - Default model)	301
6.47	Standardized Total Effects (Group number 1 - Default model)	301
6.48	Standardized Indirect Effects - Standard Errors (Group number 1 - Default model)	301
6.49	Standardized Direct Effects (Group number 1 - Default model)	302
6.50	Standardized Indirect Effects (Group number 1 - Default model)	302
6.51	Standardized Total Effects (Group number 1 - Default model)	302
6.52	Standardized Indirect Effects - Standard Errors (Group number 1 - Default model)	302



## LIST OF FIGURES

<u>Figure No.</u>		<u>Page No.</u>
2.1	Modified <i>Mudārabah</i> Model for General Takaful Scheme	16
2.2	Modified <i>Mudārabah</i> Model for Family Takaful Scheme	16
2.3	Modified <i>Wakala</i> Model for General Family Scheme	19
2.4	Modified <i>Wakala</i> Model for Family Takaful Scheme	19
2.5	Hybrid <i>Wakala-Mudārabah</i> Model for General Takaful Scheme	21
2.6	Hybrid <i>Wakala-Mudārabah</i> Model for Family Takaful Scheme	22
3.1	Propose Model of Islamic Relationship Marketing	60
4.1	Propose Conceptual Framework	87
4.2	Trust-Commitment Theory (KMV model)	91
4.3	Illustration of Mediation Effect on Structural Model	98
4.4	Outcomes of Customer Satisfaction	101
4.5	Summary of Research Hypotheses within the Research Framework	104
5.1	Questionnaire Development Process	115
5.2	Six-step Procedures for Drawing a Sample	149
5.3	Data Analysis Procedure	155
6.1	Outliers Analysis for Islamic Ethical Behaviour	168
6.2	Outliers Analysis for Social Bonds	169
6.3	Outliers Analysis for Structural Bonds	170
6.4	Outliers Analysis for Financial Bonds	171
6.5	Outliers Analysis for Customer Satisfaction	172
6.6	Outliers Analysis for Customer Trust	173
6.7	Outliers Analysis for Customer Commitment	174
6.8	Outliers Analysis for Customer Retention	175

6.9	Illustration of Measurement Model	197
6.10	Measurement Model of IEB	203
6.11	Measurement Model of Relational Bonds	205
6.12	Measurement Model of Relationship Quality	207
6.13	Measurement Model of Customer Retention	208
6.14	Measurement Model of Islamic Relationship Marketing	216
6.15	Illustration of Structural Model	219
6.16	Structural Model One	220
6.17	Structural Model for the Effect of Islamic Relationship Marketing Practice on Customer Retention	223
6.18	Structural Model Two for Mediation Effect	226
6.19	Customer Satisfaction as a Mediator	229
6.20	Structural Model of Customer Trust as a Mediator	232
6.21	Structural Model of Customer Commitment as Mediator	234

## LIST OF ABBREVIATION

AMOS	Analysis of Moment Structure
BNM	Bank Negara Malaysia
CC	Customer Commitment
CFA	Confirmatory Factor Analysis
CS	Customer Satisfaction
CT	Customer Trust
et al.	And others
EFA	Exploratory Factor Analysis
FiB	Financial Bonds
IBFIM	Islamic Banking & Finance Institute Malaysia
IEB	Islamic Ethical Behaviour
IFSA	Islamic Finance Services Act
IRM	Islamic Relationship Marketing
MTA	Malaysian Takaful Association
P.B.U.H	Peace Be Upon Him
RM	Relationship Marketing
S.W.T	Subhanahu Wa Ta'ala (Praise be to Allah and The Most High)
SEM	Structural Equation Modelling
SoB	Social Bonds
SPSS	Statistical Package for Social Sciences
StB	Structural Bond

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 INTRODUCTION**

This chapter presents an overview of the scope of this research. It consists of seven sections. Following this first introductory section is a section that highlights the background of this research, in which the objectives and importance of relationship marketing in business entities are presented. This is followed by a section that clarifies the research problem in the context of the Malaysian Takaful industry, particularly from the marketing perspective. Next is the list of research questions and research objectives, and the significance of this research to the industry and knowledge on marketing studies. The chapter ends with a summary of the overall structure of this research.

### **1.2 RESEARCH BACKGROUND**

Relationship marketing (RM), according to previous and contemporary researchers, is also known as ‘retention marketing’ and ‘zero defection’ (Reichheld & Sasser, 1990; Crosby et al., 1990; Maznah & Mohd Noor, 2010; Gilaninia et al., 2011). In other words, RM aims to minimize the lost of profitable customers by ensuring future customer retention (Alrubaiee & Al-Nazer, 2010). Hence, a company’s future profitability and performance could be maintained by adopting the RM approach (Reichheld & Kenny, 1990; Ndubishi, 2007). The effectiveness of RM is advocated not only by researchers but also by industry players. This is because, success and survival in this current competitive market depends not only on sales of quality products, but also by ensuring quality services are offered to customers. In addition, a

company needs to maintain long-term and beneficial relationships with its customers (Alrubaiee & Al-Nazer, 2010).

In recent times, the ability to maintain good and quality relationships with customers has become a competitive advantage for a company. Thus, it is necessary for a company to practice strong RM in order to achieve customer retention (Shammout, Zeidan, & Polonsky, 2006). In this context, a few marketing scholars have suggested that retaining customers is much more profitable than acquiring new ones (Reichheld & Kenny, 1990; Berry, 2007, and Boone & Kurtz, 2004). Furthermore, it has been proven that a 5 percent increase in customer retention can generate 80 percent of a company's profit (Boone & Kurtz, 2004). Given this fact, RM has been implemented in various markets including in consumer goods, services, industries, as well as in the insurance market (Murphy et al., 2007).

The RM concept is also important in the context of the Islamic insurance or Takaful industry as it promotes quality relationships among industry players, which consist of both buyers and sellers/marketers. The insurance industry is an industry that provides intangible services, complicated products, and long-term contracts. And among the objectives of Takaful is it helps to strengthen relationship among members of the society. This is consistent with the objectives of Islamic law or *maqāsid al-Shari'ah*, which aims to promote a sense of brotherhood or strong relationships in a society. From this perspective, RM is one of the most suitable marketing techniques to be practiced in the industry.

There are however, a limited number of studies conducted in the Takaful industry; which investigate RM as a practice parallel with Islamic norms. Therefore, this research is conducted to address this limitation, and contribute towards greater improvement in the industry. In addition, since this is a pioneering study on RM

practices in an Islamic industry, it is also the purpose of this research to build a measurement tool for Islamic Relationship Marketing, and testing it in the context of the Takaful industry.

As an Islamic insurance industry, its marketing practices must follow all the tenets of Islam in every respect; from customer approach to follow-up services. In this case, the Takaful agents are responsible to display good moral attitude and sincerity while dealing with customers, and in building quality relationships with their customers. Yet, it remains a question whether the agents have fulfilled their responsibilities with genuine commitment. This marketing issue and its negative implications toward the industry have been discussed and reported in various sources including speeches by government agencies, and various researchers (Mohd Irwan, 2013; Mohamed, Syed Othman, and Kamaruddin, 2013; Ahmad Rizlan, 2013). Next section provides details on these issues which become the research problem.

### **1.3 RESEARCH PROBLEM**

Instead of successfully emerging as an alternative insurance product for Muslims in Malaysia, the Takaful industry has failed to retain its existing customers, particularly those under the Family Takaful Scheme. It is observed that the number of customers who surrendered their Family Takaful Scheme has continued to increase since 2006. In five years; between 2006 and 2010, the highest number was recorded in 2010 in which approximately 139,021 customers surrendered their Family Takaful Scheme (Bank Negara Malaysia, 2010). In addition, in a recent report by Milliman, it was reported that the surrender rate of the Family Takaful Scheme continued to increase till 2011. In proportion to total number of policies, 7.4 percent of its customers have surrendered their policies (The Global Family Takaful Report, 2013). Much emphasis

was given to the Family Takaful scheme as it had recorded a compound annual growth rate of 32 percent within a 5 year-period between 2007 and 2011 during which, Malaysia dominated both regional and international markets for this type of Takaful scheme (Ahmad Rizlan, 2013).

Apparently, the increase in the number of Family Takaful customers surrendering their policies, has affected the slow rate of Takaful penetration in Malaysia despite the strong support the industry has received from the Malaysian government. Between 2005 and 2010, the Takaful penetration rate has increased by only a small percentage, from 5.7 percent in 2005 to 13 percent in 2012 (Mohd Irwan, 2013). In a recent study by Mohamed, Syed Othman, and Kamaruddin (2013), where twenty Takaful managers were interviewed, it was verified that the most influential factors that influenced the low rate of Takaful penetration are distribution channels (90 percent of the interviewees agreed), and marketing practices (85 percent of the interviewees agreed).

Currently, the main distribution channels for the Takaful industry are the agency force and BancaTakaful (Mohd Irwan, 2013; The World Family Takaful Report, 2013). Agents are required to increase the number of customer propositions through the use of proper marketing approaches. This is crucial in order to maintain present customers and to increase the penetration rate of Takaful in the insurance industry (The World Takaful Report, 2013). Unfortunately, despite the increase in the number of Takaful agents from 44,222 in 2008 to 68,009 in 2012; which is an increase of slightly more than fifty percent (54%), there is still a lot of the Malaysian market that can be penetrated (Mohd Irwan, 2013). This indicates that there are factors that must to be tackled by the agency force, as well as by other marketing channels, in order to maintain and increase the number of customers.

Feedback received from six Takaful representatives<sup>1</sup> suggests that the two main factors that influence customers to surrender their policies are marketing practices and attitude of Takaful agents. Basically, these agents are commission-based agents whose goal is to sell Takaful products that offer them high commissions, and in doing so, tend to neglect the needs of their customers. Some agents sell both Takaful and conventional products simultaneously, and some of them tend to promote conventional products by informing their customers that the Islamic products are complex, unattractive, and expensive (Mohamad Shafiqe, 2013).

To conclude, looking back at the various marketing issues in the Takaful industry, it is observed that there is lack of literature in this domain, particularly from the Islamic marketing perspective (Mohamad Shafiqe, 2013). Therefore, this research was conducted to address this gap in research by proposing a measure of Islamic relationship marketing, and to examine its influence on customer retention. Details on the questions addressed in this research and the objectives of this research are presented in the following sections.

#### **1.4 RESEARCH QUESTIONS**

There are four questions pertaining to marketing practices in the Takaful industry which this research attempts to answer. They are:

1. What are the underlying dimensions of Islamic relationship marketing practice in the Takaful industry?
2. What are the significant measurements of Islamic relationship marketing that is suitable for the Takaful industry?

---

<sup>1</sup> Informal interviews were conducted with two representatives from Takaful Ikhlas, two representatives from ING Takaful Ehsan, and one representative each from Great Eastern Takaful, and Syarikat Takaful Malaysia Bhd.