

Sustainability & Successful Takaful Agents: What Matters?

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Abstract

This conceptual paper is written to review related literature about the sustainability of successful Takaful agents in Malaysia. Studies on Takaful agents' sustainability have gained interest among scholars because Takaful contributes to the country's development in terms of growing its economy, generating financial resources and creating job opportunities. Conversely, existing literature focusing on Takaful agents is still lacking. In view of this, this particular study attempts to develop a conceptual framework using an agent-principal relationship and motivation to explain this phenomenon. The integration of economic and management theories, mainly Takaful agent sustainability is insufficiently discussed and still infantile. Hence, this paper aims to close the gap by comprehensively reviewing all elements required in integrating the two theories that contribute to this phenomenon. It is important to note that Takaful agents' motivation to apply agent-principal relationships is sustained, which meets the demand for the untapped market in the Takaful industry. Thus, this paper is significant as it provides a critical corpus of knowledge and a better understanding of both theories' elements.

Key-words: Sustainability Takaful Agent, Successful Takaful Agent, Agent Principal Relationship, Self-Determination, Extrinsic Motivation, Intrinsic Motivation.

1. Introduction

Insurance provides a massive contribution to the worldwide economy remarkably in the development of the enormous industry. The life insurance premium for the United States and Japan are the more extensive involvement which is 40% of the market share (Rasika, 2018). The benefit of having life insurance is the policyholders entitle to guarantee the family members' financial wellbeing, resorting to the unsettled financial obligation immediately after he died (Zakaria et al.,

2016). Hence, it is very important to adopt insurance among individuals because it becomes a vital part of their financial mechanism. Contradict to non-life insurance, European countries are slightly lower, contributed to the global market than India and China (Huang & Eling, 2013). Non-life insurance is subjugated by motor insurance, yet the percentage growth is not much as life insurance. Dragos (2014) revealed that, non-life insurance including insurance other than life, such as motor insurance, property insurance, travel insurance, disaster insurance, mortgages insurance and credit insurance. Perceptively, the concept of insurance as opposed to Islam's beliefs and values to fit the edging of all aspects of life in this Islamic ritual. Shariah compliances are introduced to design a pleasant community upbringing among Muslims (Hassan, Salman, Kassim, & Majdi, 2018). As a result, Takaful manages to be relevant and significant in the international market for the past four decades of its introduction which started in Sudan in 1979 (Lim, Idris, & Carissa, 2010). Takaful has paraded a remarkable growth throughout the years, which is accepted worldwide, specifically with its first operation of Takaful Ikhlas, formerly recognized as Syarikat Takaful Malaysia Berhad in 1985 (Othman, 2017). Since then, Takaful has its impetus to bloom in the Malaysian market as it's the imperative economy funder. According to the Malaysian Takaful Association (2019), Takaful penetration market rate in 2018 was at 15.9 % compared to ten years ago, which was not more than 10%. Furthermore, Takaful share net contribution in 2019 exceeded the contribution of the previous year, with 18.3% compared to 16.6% (BNM, 2020). Takaful total asset from 2014 to 2019 also showed a tremendous evolution whereby in 2019, its total market share was 10.5% (Malaysian Takaful Association, 2019). This indicates Takaful industry has high potential since it keeps flourishing in the market. As Takaful become more essential from the time when it was introduced, the Takaful agent apparently suited as key of distribution channel for the achievement in the industry (Rasika, 2018). Hence, Takaful agents play essential roles (Hamid, Rahman, Ya'amob, & Yakob, 2010; Yazid et al., 2020) to promote Takaful product and ensuring its smooth operation. The agents are one of pivotal distribution channels in Takaful industry (Ghani, 2017) which is the most preferred by clients to purchase Takaful products (Annuar, 2005). Among those products are retirement scheme for sustaining clients' financial position for at least 20 year-period (Foziah et al., 2018) and health Takaful Scheme (Salleh et al., 2017; Salleh et al., 2017). Many previous studies have discussed Takaful; but few focuses on the context of Takaful agents particularly in terms of sustainability. Sustainability issue needs to be addressed as number of registered agents in the industry has declined from 2014 to 2017 (Malaysia Takaful Association, 2019). Agents are crucial as the distribution channel dominating the acceleration of Takaful growth in the industry (Malaysia International Islamic Financial Centre, 2019). A comprehensive model of Takaful agent sustainability needs to be

developed in reaction to this issue in line with the implementation of Islamic Financial Services Act 2013 (IFSA 2013); which is a special Shariah compliance guideline for financial services including Takaful (Daud, et al., 2017). Notwithstanding the plethora of discussions pertaining to Takaful's demand and awareness, view on the sustainability of Takaful agents is left behind.

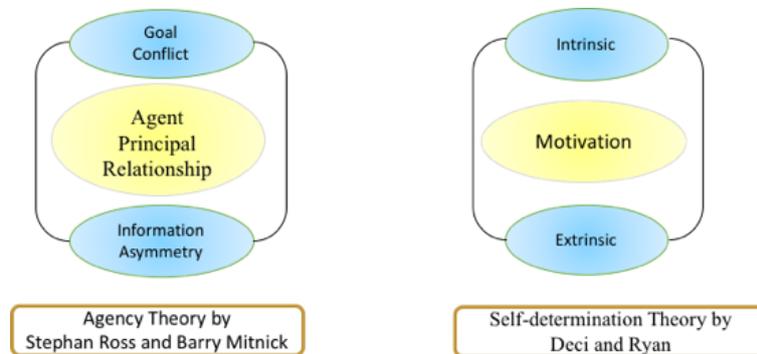
This conceptual paper aims to explore what makes successful agents in the context of sustainability with the integration of agency theory and self-determination theory. Previous literature shows that integrating these two theories describing Takaful agents' sustainability is at its early phase. Agency theory focuses more on the economic and finance field (Abdulrahman, 2014; Boučková, 2015). On the other hand, many scholars discuss self-determination in work organization and entrepreneurial (Bakker & van Woerkom, 2017; Fadzil et al., 2019), but few studies concentrate on the motivation from Takaful perspective. Therefore, this paper attempts to relate the agent-principal relationship and motivation with the sustainability of Takaful agents. Additionally, elements of motivation and agent-principal relationship are not fully recognized in Takaful context despite major influence in other areas namely accounting, marketing, and entrepreneurial (Al-Jubari, 2019; Balago, 2014; Kirchner et al., 2019).

2. Underpinning Theory

2.1. The Integration Self-determination Theory and Agency Theory

Several theories and conceptual models of Takaful agents were explained in previous researches (Messah & Kubai, 2011; Salleh & Kamaruddin, 2011; Salleh, Abdullah, & Razali, 2013; Salleh, Abdullah, Razali, & Wok, 2012). Motivational factors, such as self-efficacy, self-monitoring, and locus of control were highlighted in the study of Takaful agents' personality traits by Salleh & Kamaruddin (2011). The conceptual model of Takaful agents developed by Muhamat et al. (2018), pointed out recruitment, branding, and sales activity as the focal components of agents' outcome. Meanwhile; Salleh et al. (2013) explained the model in terms of concept and understanding of Takaful among agents. On the other hand, Hamid et al. (2010) and Shah & Asad (2018) argued the theory is still infantile because it is devoted only to the intrinsic and extrinsic motivation of self-determination theory. In term of sustainability, some researchers concentrate on self-determination theory such as De Vos, Van der Heijden, & Akkermans (2018). The elements of agent-principal relationship in agency theory are introduced by Muhamat et al. (2018) in Takaful agent context, yet the model is still at the premature level. Therefore, this paper attempts to fill in the gap by exploring

the integration of agency and self-determination theories as few studies have investigated them in terms of sustainability (Lawrence, Hall, & Arthur, 2015). Sloof & van Praag (2008) adopted the integration of theories in the context of employee outcomes; which are expectancy theory (motivation) and agency theory; whereas the integration of intrinsic motivation and agency theory are applied in the context of the economy (Kunz & Pfaff, 2002).



3. Literature Review

3.1. Concept of Sustainability

Sustainability is one of the new uncultivated research paradigms in the management area; unlike previous studies such as accounting, economy, and investment. The number of studies in these areas is incontestable as the concept of sustainability has been discussed in various sectors by previous scholars (Bettencourt & Kaur, 2011; Burhan et al., 2017). Patlins (2017) pointed out that sustainability descriptions are plenty but dispersed and not specific. Sustainability signifies various economic, social, and environmental fundamental (Emas, 2015; Martens, 2006). Harrington (2016) defined sustainability as a natural, human, and social system that encourages human lives for stabilization and utilization. Generally, the environment is the most conversant component to be reconnoitred in sustainability studies (Emas, 2015; Solomon, 2017). Even more so, numerous areas of sustainability need to be explored due to today's economic climate change era (De Vos & Van der Heijden, 2015).

One of the areas rarely focused by researchers is career sustainability. In view of Lawrence, Hall, & Arthur, (2015), sustainability career in various types of survival attempts due to career experience affecting an individual's outcome. On the other hand, Holling (2001) described sustainability as human sustainability that encourages people's ability to cultivate, evaluate, and

conserve their competencies' robustness. On top of that, Kossek, Valcour, & Lirio (2014) discussed sustainable development and work-life balance and justified that the pillars are related to each other in day-to-day repetitive work activity resulting in individuals' outcome. The statement was supported by Pappas, Pappas, & Sweeney's (2015) personality sustainability study, which relates sustainability to an individual's behaviour and attitude. Pappas (2012) refers to personality sustainability as:

"A characteristic by attitudes and behaviours that tend to create harmony, interconnections, and relatively high levels of self-awareness in values, thoughts, and actions as well as cultivate continued individual growth in physical, emotional, social, philosophical, and intellectual abilities. A sustainable Personality also includes a well-developed and demonstrated value system that acknowledges the importance and interconnectedness of all global geo-biological and social systems, and our appropriate place within them."

Meanwhile, Lozano, Carpenter, & Huisinigh (2015, pg. 24) defined sustainability-oriented theory based on the integration of agency theory, resourced based view theory and stakeholder theory, and it is defined as:

"The firm is a profit-generating entity in a state of constant evolution. This entity is a system comprised of resources and networks of relationships with stakeholders. The firm's employees are responsible for representing the firm, managing its resources, and empowering its stakeholders so that the firm complies with laws, maintains its 'license-to-operate', increases its competitive advantage, and better contributes to foster the evolution of more sustainable societies by holistically addressing the economic, environmental, social, and time dimensions."

3.2. Takaful Agent Sustainability

Takaful agents are the intermediary between insurance company and clients; whereby the agents perform on behalf of insurance companies to deal with clients relating to insurance policy contract (Muhamat et al., 2018). The definition of agent-based on Financial Services Act 2013 (2013, p.18) is:

"A person who solicits or obtains a proposal for insurance on behalf of an insurer offers to act on behalf of the insurer in negotiating policy and represents the insurer to reissue renewal or continuance of a policy."

Takaful agents' role is significant in the Takaful industry as a marketing and distribution channel (Hamid et al., 2010; Yon Bahiah, Siti Zaleha, & Norshahida, 2009). Takaful agents are accountable for preparing and advising the best service and product to the Takaful policy prospect

(Muhamat et al., 2018). Ghani (2017) highlighted that sales in the industry mainly rely on Takaful agents because its product is not regularly purchased; agents need to transfer knowledge and awareness about Takaful to prospective clients. Takaful has its specific term and definition pertaining to the concept; thus, Takaful agents need to enhance their comprehension of Takaful (Ghani & Lambak, 2018).

Sustainability of Takaful agent is described as the period of which the agents are able and keen to endure their present and future working condition (Dam, Vuuren, & Kemps, 2017). The number of agents retains in the industry are upsetting, as the rate has declined over the years, as shown in the study conducted by Kandelousi & Seong (2011). Statistic by Life Insurance and Market Research Association (LIMRA), the United States indicated that insurance agents' sustainability rate is below 20% within five years. This is supported by Dalessio (1994) who claimed that most insurance industry agents choose not to continue their contracts, resulting in the lack of agent sustainability.

Additionally, Takaful agents' sustainability rate in AmMetLife for 2016 is just 20% after six months of recruitment (Muhamat et al., 2018). A similar phenomenon was also recorded in United States; whereby the percentage of sustainability agents drained for the first three years (Rasika, 2018). Sustainability issues soared as more than 50% of agents in the insurance company left the industry (Ngari, 2018). Sustainability issues among agents also accelerated in Sri Lanka and turned out to be perplexing to the industry.

3.3. The Influence of Agent-Principal Relations

Normally, in any contract, both parties are bound to its term and condition. In this context, one party is the business owner, while the other party is hired as an operative for the business owner (Panda & Leepsa, 2017). The relationship between the two parties, called agent and principal, is expounded in the agency theory; and the contractual relationship between them gravitates the agency's issues (Jensen & Meckling, 1976). The relationship between agents and principals is affected by different goals and interests caused by a conflict named agency problem (Kunz & Pfaff, 2002). If there is the inequity of interest or any business activity actions, the agents tend to act with self-interest behaviour (Bendickson, Muldoon, Liguori, & Davis, 2016). Also, Panda & Leepsa (2017) agreed that the relationship that needs to be examined is the agent-principal relationship and the relationship between creditor and stakeholders. However, this paper investigates the relationship between agents and principals since Takaful agent in the context of this study. According to Fama

(2012), agency theory is a tool to guide the parties in the contract to align their interest. Bendickson et al. (2016) and Maestrini, Luzzini, Caniato, & Ronchi (2018) identified elements in agency theory which include information asymmetry, and the other one is goal conflict (Eisenbeis, 2004; Kivisto, 2008).

Information asymmetry happens when the agents possess information about the business activity, and the principals attain on this information from the agents (Panda & Leepsa, 2017). The agents also have a better understanding and knowledge about business activity performance (Balago, 2014). Information asymmetry needs to be diminished by the agents and principals to acquire better outcome (Maestrini et al., 2018). The agents must ensure that information asymmetry is low and under control to avoid any disagreement with the principals. Information asymmetry frequently happens when the agents have self-interest behaviour without considering principals' interest (Bendickson et al., 2016). In this study, the researcher explores information asymmetry among Takaful agents that contribute to the outcome of sustainability Takaful agents. When the performance of business owned by the principal is successful (Yusuf, Yousaf, & Saeed, 2018), the impact reflects agent sustainability. The information asymmetry among agents will take advantage of the principal limitations information regarding the product and services of Takaful which proven in the study of Wellenbrock (2013); individual context among manager and coworker agents in the supply management area. The minimization of information asymmetry among agents marks to the outcome (Corcos, Montmarquette, & Pannequin, 2020), namely performance and sustainability.

Goal conflict is the most significant element in agency theory (Kivisto, 2008) and is further examined in this study. Normally, agents face goal conflict whenever there is a dissimilar desire between agents and principals (Milgrom & Roberts, 1992). This dissimilarity gravitates towards goal conflict because the principal's preference is not similar to the agents (Maestrini et al., 2018; Waterman & Meier, 1998). It was postulated by Maestrini et al. (2018), that goal conflict between agents and principals can be resolved by having goal congruence. The mutual goal between both parties can affect the longevity of agents staying in their contracts. Balago (2014) also further added goal conflict causes deterioration in agent outcome, whether to remain in or revoke the contract. Eisenbeis (2004) confirmed the influence of goal conflict defines the activity forms, agents and principal accountability, and activity outcome. This study revises that goal conflict may happen between Takaful agent and principal. It can affect the business's performance and the outcome of the Takaful agent to stay longer in the industry.

Meanwhile, goal conflict is also considered a supervisory system among agent and principal in decision-making purposes (Kivisto, 2008). The conflict that occurs between both parties results in

the consequences of agents' sustainability. In the broad study done by Kivisto (2007), goal congruence reflects goal conflict, exposes the concentration activity, and entices the agents' productivity, simultaneously affecting output and quality.

3.4. The Influence of Individual Motivation

Motivation can influence individuals and their psychology (Borsi, 2015) and it comes from the combination of individual's potential and willpower (Cassar & Meier, 2018) to drive the extra effort in achieving task effectiveness (Akhtar, Aziz, Hussain, Ali, & Salman, 2014). Rey-Martí, Tur Porcar, & Mas-Tur (2015) concluded that motivation impacts female entrepreneurs' sustainability in Spain. Meanwhile, employees in Spain also reported motivation and capabilities to influence their work sustainability (Vanroelen, 2017). It is proven in the study by Bikrant Kesari & Verma (2015), that motivation plays a vital role among staff in public and private sectors in their pursues success, performance, and sustainability. Thus, Cravens et al. (1993) argued that insurance agents usually do not stay in the industry for long and succeed; however, they certainly will with motivation and right instruments. Self-determination theory is part of individual motivation (Deci, Olafsen, & Ryan, 2017). Many previous scholars discussed self-determination in management (Kanat-Maymon, Elimelech, & Roth, 2020; Sexton, 2013) and sport (Calvo, Cervelló, Jiménez, Iglesias, & Murcia, 2010; Ntoumanis & Standage, 2009). The theory explains that individuals have the freedom to control their lives by having responsibility for their action (Gagné & Deci, 2005). Many researchers agreed that self-determination contributes to an individual's outcome (Shir, Nikolaev, & Wincet, 2018). According to Fadzil et al. (2019), self-motivation is one element of the new venture entrepreneur's outcome. It is aligned with the finding in research conducted by Al-Jubari (2019), which shows that individuals with a high level of self-determination gravitate toward becoming entrepreneurs. On top of that, De Vos, Van der Heijden, & Akkermans (2018) indicated self-determination drives sustainability career and is consistent with Ryan & Deci (2000) who claimed that intrinsic and extrinsic motivation are the elements of self-determination which lead to the individual outcome of sustainability.

Intrinsic motivation performs an activity for own satisfaction rather than for separable conditions (Bikrant Kesari & Verma, 2015). It signifies an individual's experience that leads to the action and feeling during the activity (Deci, Connell, & Ryan, 1989). An individual with high intrinsic motivation levels knows the importance of performing an activity and sees it completed and enhancing the individual's outcome (Deci et al., 2017). Although intrinsic motivation exists within

the individual, somehow, some individuals are not intrinsically motivated from the task (Bikrant Kesari & Verma, 2015). Some authors pointed out that intrinsic motivation appears when the activities are lucrative; while others stated intrinsic motivation depends on individual task engagement (Bikrant Kesari & Verma, 2015). Generally, there are two intrinsic motivation conditions: being intrinsically interested (satisfaction) and exciting activities. Intrinsic motivation is valued by action and affect the outcome, which is sustainability in their work or activity (De Vos et al., 2018). In research reported by Farooq & Hanif (2013), the finding indicated intrinsic and extrinsic motivation are significant in sustaining organization workforce. According to Quigley & Tymon (2006); Thomas & Jr (1997); Wayne & Jansen (2000), four essential elements contribute to individual outcomes such as meaningfulness, progress, choice, and competence.

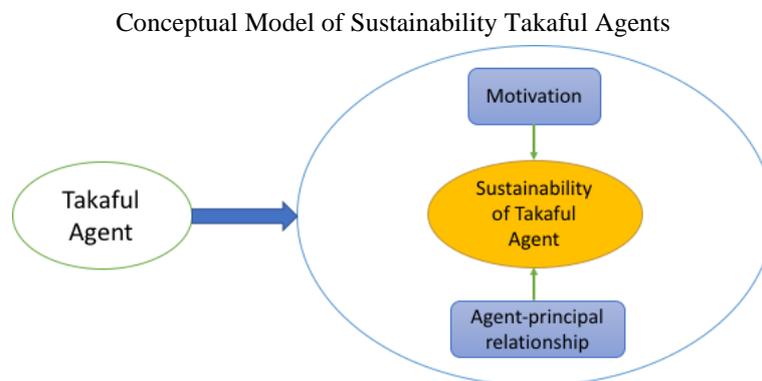
The second element in self-determination is extrinsic motivation, which is defined as a concept that acquires separable outcomes every time the task is finished. It is about significant value such as reward (Bikrant Kesari & Verma, 2015; Ryan & Deci, 2000). The activity involves extrinsic motivation due to physical rewards and imbedded penalty entailed (Gagné & Deci, 2005). Many scholars agreed that extrinsic motivation contributes to the individual's outcome (Kuvaas, Buch, Weibel, Dysvik, & Nerstad, 2017); even though it produces a lesser impact than intrinsic motivation. According to Hamid et al. (2010), extrinsic motivation relates to the value resulting from the action and the evaluation of outcome possibility. Examples of extrinsic motivation can be observed in the following situations. Student A completed his homework because he was afraid of his parents' punishment if he failed to do so.

In contrast, student B finished her homework for the benefits of her future. Both situations are considered instrumental extrinsic motivation whereby student A engages a feeling of choice because he finds it exciting, and student B entails the compliance of external control (Ryan & Deci, 2000). There are four pillars in extrinsic motivations: external regulation, introjection regulation, identification regulation, and integration regulation.

4. Conceptual Model

Until now, the conceptual model to describe sustainability is still infantile as no specific model can explain the concept of sustainability (De Vos et al., 2018). A comprehensive model of sustainability is proposed in this study by integrating relevant theories. This is supported by Sloof, Praag, & Sloof (2007) who adopted agency theory and intrinsic in motivation theory for sustainability model in employability. According to Kunz & Pfaff (2002), the integration of the approaches

mentioned above stimulates the outcome of agents in the business. A conceptual model of sustainability by De Vos et al. (2018) also claimed that self-determination theory is one of the pillars for sustainability.



Meanwhile, the integration of agency theory by Stephan Ross and Barry Mitnick and self-determination theory by Deci and Ryan presented two elements of agent-principal relationships and two elements of motivation. The aspects of agent-principal relationships are goal conflict and information asymmetry; the elements in motivations are intrinsic and extrinsic motivation introduced in this study. All components are adopted by integrating agency theory and motivation theory, contributing to the comprehensive model of sustainability.

5. Conclusion

To sum up, this conceptual paper presents a sustainability model with the integration of agency theory and self-determination theory. The elements in integration theories have contended as the pillars for exploring sustainability among Takaful agents. Combination of economic and motivation theories sets this apart from other concepts of sustainability. This study applies agent-principal relationship elements (goal conflicts and information asymmetry) and motivation (intrinsic and extrinsic) to successful Takaful agents. The model is essential as an instrument to ensure the sustainability and success of Takaful agents that can reflect the growth of the Takaful industry. It is even more so to fill in the gap of deficiency in sustainability studies, particularly with integrating economic and motivation theories in the model. There is a need to conduct empirical research to explore and confirm the model among practitioners and academicians; which subsequently benefits the Takaful industry and its economy.

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