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Takaful Reporting on IFSB Requirements in Malaysia: Users and Preparers Perspective

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Abstract

Bank Negara Malaysia (2014) mentioned the importance of having meaningful disclosure to protect participants. However, it did not provide details of the elements of meaningful disclosure. There is no specific guidelines or standards of what should be reported and how detailed the items should be reported. Takaful operators have more knowledge in the operational aspect of takaful, compared to the participants. Authorities try to harmonise all the possible variations and gaps between takaful operators (preparers) and participants (users) for the benefit of the industry. Any gap between what is expected to be reported (desirable) and what is actually reported needs to be analysed in order to provide more information relevant to the users and to standardise the disclosure level. By adopting Sulaiman's (2005) framework, the study determines what users and preparers perceive as meaningful disclosure on the Islamic Financial Services Board (IFSB) standards. The first two objectives of the study are to determine the disclosure perspectives of the two parties while the third objective is to examine if gaps exist between the two stakeholders. Questionnaire was distributed to takaful agents to examine their perception while content analysis was employed to evaluate the actual level of disclosure in takaful operators' websites. The gap analysis was conducted between the desired and actual level of disclosure and found significant differences among all the gaps. Additionally, the average level of disclosure is 44%. It is hoped that the findings will assist authorities in formulating guideline in takaful industry in Malaysia.

Keywords: Takaful Reporting, IFSB, Decision Usefulness, Users' Perspective, Preparers' Perspective

Introduction

Conventional insurance differs from takaful primarily because of its inconsistency with Islamic law (Shariah) in terms of uncertainty in the transactions (*gharar*), interest income, interest expense (*riba'*) and gambling elements (*maisir*) applied in the conventional insurance. Unlike insurance which transfers risk, takaful is based on the principle of *tabarru'* (donation) and the concept of risk sharing. This would indirectly eliminate uncertainty (*gharar*). More importantly, the investments made by takaful operators accord with Shariah requirements. In Malaysia, takaful operators are required to adhere to the Malaysian Financial Reporting Standards (MFRS) to the extent that the standards in preparing their financial statements are consistent with Shariah principles. To further enhance the growth of the takaful industry in Malaysia, Bank Negara Malaysia (BNM), has issued guidelines on the takaful operational framework for takaful operators (TOs). There are several guidelines and framework for takaful including the Takaful Operational Framework (TOF), Guidelines on Financial Reporting for Takaful Operators (FRTO), Internal Capital Adequacy Assessment Process for Takaful Operators (ICAAP) by Bank Negara Malaysia (BNM), Islamic Financial Services Act (IFSA) 2013, standards issued by Islamic Financial Services Board (IFSB), pronouncements on Islamic financial transactions by Malaysian Accounting Standard Board (MASB) and related Malaysian Financial Reporting Standards (MFRS).

An international standard-setting body of regulatory and supervisory agencies, the Islamic Financial Services Board (IFSB) was officially established on 3rd November 2002 and started its operations on 10th March 2003. The board ensures the reliability and stability of the Islamic financial services industry including banking, capital market and insurance. The board is also responsible to conduct research, coordinating initiatives on industry related issues, organising discussions, seminars as well as conferences for authorities and industry stakeholders. As in April 2014, IFSB has 184 members which comprise of 59 regulatory and supervisory authorities, 8 international inter-governmental organisations, 111 financial institutions and professional firms as well as 6 self-regulatory organisations (Industry Associations and Stock Exchanges) operating in 45 jurisdictions. The IFSB has enacted a law known as the Islamic Financial Services Board Act 2002 and has issued 15 Standards, 6 Guiding Notes and 1 Technical Note for the Islamic financial services industry. There are five IFSB standards and two guiding notes related to takaful. Three IFSB standards are specifically on takaful (IFSB-8, IFSB-11 and IFSB_14). Unlike BNM guidelines on takaful operational framework, IFSB requirements is not mandatory in Malaysia. This study aims to examine the takaful reporting of IFSB requirements in Malaysian takaful industry.

Literature Review

Previous Research on Takaful

Previous studies can be classified into three main areas; research on knowledge and perception of takaful products, the basic concepts of takaful and consumer behaviour and preferences of takaful products. Several studies examined the level of awareness, knowledge and perception on takaful products and services (Maysami & Williams, 2006; Abdul Wahab et al., 2007; Hamid et al., 2009; Bashir & Mail, 2011; Ismail et al., 2011; Akhter & Hussain, 2012; Ayinde & Echchabi, 2012; Salleh et al., 2013; Arofah et al., 2019; Rahman et al., 2019). Other studies explore and clarify the basic concepts and products of takaful (Maysami & Kwon, 1999; Bekkin, 2007; Altuntas et al., 2011; Muhamat@Kawangit et al., 2012; Amuda and Hassan, 2019; Ismail et al., 2021). Among the focused areas of studies by the researchers are consumer behaviour and preferences in takaful (Ab Rahman et al., 2008; Redzuan et al., 2009;

Matsawali et al., 2012; Sherif & Shaairi, 2013; Yakob et al., 2019; Ishak and Saraih, 2021, Akhter et al., 2021).

Research on takaful reporting is indeed limited. This study intends to add to existing literature by considering the reporting of takaful in the perspective of two group of stakeholders namely, takaful participants (users) and takaful operators (preparers). The desired disclosure from user’s perspective is based on the usefulness of information for them to make sound takaful purchase decisions. As for the preparers, the actual disclosures that they made in their annual reports and websites reflect their perceptions of the useful information needed by users.

Desirable, Desired and Actual Level of Disclosure

This study adopts the framework outlined by Sulaiman (2005) for the model of corporate reporting based on what is desirable by Muslims or what they ought to desire. Central to this discussion is what is ethically right. Individuals may act differently to what they desire and what they desire may not be the “desirable” and consequently, “what is actually desired” may not be the same as “the actual” practice.

Although, Takaful is being offered in Malaysia since 1984, its awareness seems to be low (Hassan et al., 2018). Takaful operators have better operational understanding than participants; therefore, there is a gap in term of knowledge and understanding between takaful operators and participants. Supposed, takaful operators should not take advantage on the Shariah knowledge and variation. Authorities are expected to work together to coordinate all possible variations for the benefit of the entire industry (Salman, 2014). As for this study, the gaps on IFSB requirements disclosure in the perspective of users (the desired) and preparers (the actual) were analysed based on framework initially developed by (Sulaiman, 2005).

Research Objectives and Questions

This study focuses at two different perspectives of disclosure: from users’ perspective, and preparers’ perspective. In this study, users’ perspectives represent the desired level of disclosure and the preparers’ perspective represent the actual level of disclosure.

Table 1
Summary of study

Level of Disclosure	Objectives	Stakeholders	Methodology	Theory
Desired	Objective 1	Users	Questionnaire	Decision Usefulness
Actual	Objective 2	Preparers	Content Analysis	Institutional (Mimetic)
Analysis of the gaps	Objective 3	Users and Preparers	-	-

From Table 1, the first objective of the study is to examine the perception of the users on what they perceive as meaningful disclosure level. This constitutes the desired level of disclosure. Data on the desired level of meaningful disclosure is gathered through a questionnaire survey and using disclosure index. The second objective of the study is to

examine what preparers regard as meaningful disclosure. The assumption here is that what is being reported in the annual reports and websites of takaful operators (preparers) would constitute what preparers regard as meaningful disclosure. Using the disclosure index, the actual level of disclosure was measured through a content analysis of items TOs reported in their annual reports and websites.

Given that each stakeholder's focus differs, their perception of usefulness may also differ. What users perceive as meaningful information may differ from what preparers reveal. This suggests that there may be a gap between the "desired" and the "actual." As a result, the third goal of the study is to investigate the difference in meaningful disclosure between users and preparers. The research examines the possible reasons for the difference in perceptions of usefulness between the two stakeholders. Two theories are used to support the study's objectives. From the user's perspective, decision usefulness theory is employed to support and explain the users' perception of meaningful disclosure. From the preparers' point of view, institutional theory, specifically on mimetic isomorphism is employed to support and explain on actual meaningful disclosure.

Theoretical Framework

Decision Usefulness Theory

According to the decision-makers paradigm, the users know best the type of information that they desire and that such information should be made available to them (Laughlin & Gray, 1988; Bebbington et al., 2001). This paradigm employs two approaches to discover information that are required by the decision makers namely; Security Price Research (SPR) Approach and Behavioural Accounting Research (BAR) approach (Laughlin & Gray, 1988).

The Behavioural Accounting Research (BAR) Approach was developed based on Bruns (1968) works. The approach emphasises the relevance to decision making of the communicated information and the individual or group behaviour caused by the communication of that information. In the BAR approach, it assumes that the user is in the best position to ascertain the information that will affect their decision or behaviour. The best way to know the information needs of the user is by asking them directly on the type of information that they want. If the information is wanted by the users, it must be delivered (Wolk et al., 2001). This study adopts the BAR approach on the basis of its fundamental assumption that users themselves are in the best position to ascertain the information that will affect their decision or behaviour.

Institutional Theory

Institutional theory explains that firms within an industry are likely to evolve and become similar in form and practice because of the institutional pressures they face. Scott (1995) indicates that, in order to survive, firms must adhere to the rules and belief systems in the surrounding environment (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). More importantly, institutional isomorphism, both structural and technical, will enable the firms to gain legitimacy (Suchman, 1995; Deephouse, 1996). Firms within the same industry might adopt similar structures and practices through the isomorphism process.

DiMaggio and Powell (1983) state that coercive, mimetic or normative isomorphism will lead to firms' action to adapt their processes to correspond with their institutional environment. Mimetic isomorphism occurs when a company compares other successful firms in addressing external uncertainties (Qu et al., 2012). In addition, literature suggests that businesses or an industry may recognize the need for voluntary disclosure in a competitive market as a means

of addressing information asymmetry issues (Barnett & King, 2008). Mimetic was hypothesized to measure the degree of disclosure practices by benchmarking industry leaders, competitors, industrial best practices and peer firms (Nyahas et al., 2017). As for this study, mimetic isomorphism refers to the tendency of one takaful operator to imitate another takaful operator's reporting trend because of the belief that the reporting structure of that takaful operator is beneficial.

Methodology

Phase 1: Development of Disclosure Index

This study focusses on IFSB requirements which is voluntary requirements in Malaysian setting. The voluntary disclosure requirements were developed based on four IFSB requirements. The summary of the voluntary disclosure items is presented in table 2.

Table 2

Number of voluntary items from IFSB requirements.

Requirements	Number of Disclosure items
IFSB 8 – Guiding Principles on Governance for Takaful Undertakings	24
IFSB 9 - Guiding Principles on Conduct of Business for Institutions Offering Islamic Financial Services	3
IFSB 10 - Guiding Principles on Shari`ah Governance Systems for Institutions Offering Islamic Financial Services	3
IFSB 14 - Standard on Risk Management for Takaful Undertakings	14
Total	44

The checklist of this study is grouped into seven (7) themes based on suggestion of the previous research and various sources (guidelines and standards). The themes are; a) Shariah Compliance and Governance (El-Halaby et al., 2018); b) Corporate Governance (IFSB & IAIS, 2006); c) Takaful Policy Requirements (Archer et al., 2009); d) Family Takaful (IFSB, 2009); e) Solvency Requirements of Takaful Undertakings (Archer et al., 2009); f) Risks (Abdul Aris et al., 2012; Akhter, 2010) and h) Enterprise Risk Management (Abdul Aris et al., 2012; Akhter, 2010). Table 2 and table 3 shows the summary of disclosure items.:

Table 3

List of IFSB Items

THEMES	Standard/Regulation
SHARIAH COMPLIANCE AND GOVERNANCE	
1 Training on Shariah awareness for employees	IFSB 9
2 Operating procedures and lines of reporting	IFSB 10
3 SSB members profiles	IFSB 10
4 Training for continuous professional development	IFSB 10
5 The role and authority of the Shariah advisor	IFSB 14
CORPORATE GOVERNANCE	
6 Code of ethics and business conduct	IFSB 8
7 Appointment of actuary and their duties	IFSB 8

TAKAFUL POLICY REQUIREMENTS

8	Policy on remunerations	IFSB 8
9	Policies on complaints-handling	IFSB 8
10	Explanation on obligations of Takaful operators	IFSB 8
11	Explanation on obligations of Takaful participants	IFSB 8
12	Statement of assurance	IFSB 8
13	Exit options	IFSB 8
14	Disclosure of commissions and agency fees	IFSB 9
15	Publish on their website details of products, fees and charges.	IFSB 8
16	Investment management and strategy	IFSB 8
17	Set out specific investment objectives	IFSB 8
18	Allowable expenses to the Takaful funds	IFSB 8

FAMILY TAKAFUL

19	Fund segregation policy	IFSB 8
20	Performance management	IFSB 8
21	Management of liquidity, and asset–liability	IFSB 8
22	Reserving policy for unearned premium	IFSB 8
23	Actual and historical fees	IFSB 8

SOLVENCY REQUIREMENTS OF TAKAFUL UNDERTAKINGS

24	Provisioning methods	IFSB 8
25	Identification and determination of pools of assets	IFSB 8
26	Treatment of the Takaful contributions	IFSB 8
27	Handling of investment profit allocation	IFSB 8
28	Policy for charging provisions against non-performing investment assets	IFSB 8
29	Basis for allocating expenses to a PRF	IFSB 8
30	Surplus ratio and weightings for the distribution of surplus	IFSB 8

RISKS

31	Information technology (IT) systems constantly reviewed	IFSB 14
32	Training for employees: professional skill	IFSB 9
33	Underwriting standards and mechanism	IFSB 14
34	Policies and procedures technical provisions.	IFSB 14
35	Framework for management of market risk.	IFSB 14
36	Liquidity management policies	IFSB 14
37	Procedures on money laundering.	IFSB 14

ENTERPRISE RISK MANAGEMENT

38	Enterprise risk management framework	IFSB 14
39	Internal control framework (to reflect the risk policies)	IFSB 14
40	Maintain a comprehensive reporting process for all risks.	IFSB 14
41	Asset and Liability Management (ALM) policies	IFSB 14
42	Own Risk and Solvency Assessment (ORSA) process and report	IFSB 14
43	TU's exposure to the risk	IFSB 14
44	Management's opinion on the effective operation	IFSB 14

Phase 2: Using Questionnaires to Know the Desired Level of Disclosure

For this study, a questionnaire based on IFSB requirements (44 items) was distributed to a selected group of users (represented by takaful agents) to ascertain their preferences for desired disclosure level. Checklist items were distributed via social media and emails to 801 takaful agents in order to gather their opinions and perceptions on meaningful disclosure. The questionnaires were designed to ascertain how users ranked the disclosure items based on their preferences. The questionnaires are built around 44 voluntary disclosure items organised into seven (7) themes (Table 3). This study focuses on participants who have takaful experience and knowledge so that they can provide feedback on the disclosure items developed in this study. Takaful agents were chosen as a sample due to their knowledge and extensive experience in insurance and takaful.

Data analysis (Questionnaires)

The respondents were asked to rate the importance of 44 voluntary disclosure items. The checklist was evaluated using a five-point Likert scale. Respondents were given the option of ranking each statement from least to most important using code 1 (least important) and code 5 (most important). For clarity and conciseness, the percentages of more important and most important (4 and 5 on the Likert scale) were added together and reported as "percentage that perceive statement to be important" in the last column of the table 11 to 12. Those who are uncertain (3 on the Likert scale) were classified as perceiving the statement not to be important as the middle point of the Likert scale (3) suggest neutrality in the perception of the importance of the statement. The statement was ranked according to the percentage of users that perceive statement to be important which was adopted from the previous studies (De Villiers & Van Staden, 2010; Kamala, 2014). The data from the questionnaires were analysed using Statistical Package for Social Sciences (SPSS). The views of users and preparers were then be compared to determine any significant gap.

Phase 3: Using Content Analysis to Measure the Actual Level of Disclosure in Annual Reports and Websites

The second objective of this research is to investigate what constitutes meaningful disclosure to preparers. The disclosure index is used to assess the level of actual disclosure. All eleven (11) takaful operators' annual reports, director's reports, audited financial statements, and websites were evaluated. The index used in this study were weighted in order to measure the meaningful disclosure of annual reports, director's reports, audited financial statements, online brochures, and other online documents published on websites. It is selected based on previous works (Wiseman, 1982; Botosan, 1997; Al-Tuwaijri et al., 20045; Hassan & Kouhy, 2014) which assessed quality by assigning categories for the importance of each item among the sub-elements related to its disclosure.

This study employs ordinal scale index as it suits the purpose of the study to examine meaningful disclosure annual reports and websites of takaful operators. Categories for each item based on the following scoring system:

- 0 – Non-disclosure
- 1 – Simple narrative disclosure
- 2 – Details qualitative or quantitative disclosure

Details and quantified information are given more weight (2) than simple narrative disclosures (1) because they are more accurate, comparable, and have a higher potential value in decision-making by various stakeholders (Kamal, 2012; Kamala, 2014). The assigned

categories reflect the level of information provided in annual reports and websites. The index indicates any variances in the reporting quality of each item. In order to analyse the results, the disclosure index's category for each item were evaluated. The websites and annual reports of all eleven (11) takaful operators were evaluated using the weighted disclosure index. The evaluation process was conducted between July 8, 2019 and July 31, 2019. The second round of content analysis was conducted between the 1st and 19th of August 2019 to ensure the stability and reliability of the collected data.

Data Analysis (Content Analysis)

The contents of the seven themes were entered into a spreadsheet and computed based on the sub-quality index for each qualitative characteristic of each takaful operator. For each theme, a total score was calculated for each company. Utilizing the total score, the takaful operators are ranked in descending order (from highest scorer to the lowest scorer). The overall disclosure score for each company were determine by the arithmetic mean of each theme.

Disclosure sub-quality Indices

To compute a sub-quality index for each of the theme, an aggregate score for each characteristic was computed for each takaful operators. The aggregate score was then divided by the maximum applicable total sub-quality score which the takaful operator could earn for the highest disclosure. The maximum applicable total sub-quality sores were 10 points for Shariah compliance and governance, 4 points for corporate governance, 22 points for takaful policy requirements, 10 points for family takaful, 14 points for solvency requirements, 14 points for risks and 14 points for enterprise risk management. Each takaful operator's disclosure sub-quality index was computed according to the following formula.

$$\text{MD Sub - Quality} = \frac{\sum_{i=1}^n \text{Sub-Quality } i}{\text{MAX Sub-Quality}}$$

Where:

MD Sub-Quality = Meaning Disclosure Sub-Quality Index,

Sub-Quality i = Scoring scale for each sub-quality is applied to item i ,

MAX Sub-Quality = Maximum applicable disclosure sub-quality score,

n = number of items reported.

The above formula is employed to calculate the disclosure index for each of the eight sub-qualities of financial reporting, Shariah compliance and governance, corporate governance, takaful policy requirements, family takaful, solvency requirements, risks and enterprise risk management.

Overall Disclosure Index

The overall disclosure index for each takaful operator was then computed as an arithmetic mean of the eight sub- indices in percentages. The takaful operators were ranked from high to low based on the overall disclosure index. The overall disclosure index (Disc Index) of each takaful operator was computed using the following formula:

$$\text{Disc Index} =$$

Where:

Disc Index = Disclosure Quality Index

Disc Shariah = Disclosure Shariah Compliance and Governance Index

Disc CG = Disclosure Corporate Governance Index

Disc policy = Disclosure Takaful Policy Requirements Index

Disc family = Disclosure Family Takaful Index

Disc solvency = Disclosure Solvency Requirements Index

Disc risks = Disclosure Risks Index

Disc ERM = Disclosure Enterprise Risk Management Index

Phase 4: Gap Analysis on the Desired Level of Disclosure and Actual Level of Disclosure

The third objective of this study is to examine the difference in disclosure between users (desired) and preparers (actual). What is desirable may not coincide with “what is actually desired”. Subsequently, “what is actually desired” may not be the same as the actual practice. (Sulaiman, 2005). Furthermore, Hassan and Rohayem (2011) mentioned that operator’s interest (preparers) is not always aligned to that of the policyholders (participants). In term of knowledge, according to Salman (2014), there is a knowledge and understanding gap between takaful operators and participants due to the fact that takaful operators have a better operational understanding than participants. Supposedly, takaful operators should not take advantage of Shariah knowledge and variation, and authorities should coordinate all possible variations for the good of the entire industry. A gap between users (the desired) and preparers (the actual) were analysed using the Independent-Samples Mann-Whitney U Test based on the proportion of users who perceive a statement to be important and the average disclosure on each theme.

Findings

Demographics

The respondents were asked to provide background information in question 1 to question 4 on gender, age group, religion and educational qualification.

Table 4

Analysis of gender, age group, religion and educational qualification

Background Characteristics	Frequency	Percentage
<u>Gender</u>		
Male	44	55.70%
Female	35	44.30%
<u>Age Group</u>		
Under 25 years old	6	7.60%
Between 26 and 35 years old	23	29.10%
Between 36 and 45 years old	23	29.10%
Between 46 and 55 years old	20	25.30%
Between 56 and 65 years old	6	7.60%

Over 65 years old	1	1.30%
<u>Religion</u>		
Islam	78	98.70%
Hindu	1	1.30%
<u>Educational Qualification</u>		
SPM	3	3.80%
STPM	4	5.10%
Diploma	30	38.00%
Bachelors' Degree	33	41.80%
Master	6	7.60%
PhD	3	3.80%

The background information of the respondents revealed that 55.70% of the respondents are male and 44.30% are female. 29.10% of the respondents aged between 26 and 35 years old, 29.10% were those aged between 36 and 45 years old and 25.30% were those aged between 46 and 55 years old. Only 7.60% of them aged between 56 and 65 years old, 7.60% aged under 25 years old and 1.30% aged more than 65 years old.

As for religion, 98.70% of the respondents are Muslim and only 1.30% Hindu. Concerning the highest educational qualification achieved, 3.80% of the respondents possessed Doctor of Philosophy (PhD), 7.60% had Masters' degree, 41.80% had Bachelors' degree, 38% had Diploma, 5.10% had STPM (Malaysian Higher School Certificate) and 3.80% had SPM (Malaysian Certificate of Education). Therefore, the respondents represent educated individuals in which majority of them (53.2%) possessed bachelor's degree and higher.

Table 5
Reliability test (Cronbach's alpha)

THEME	Cronbach's Alpha	No of items
Shariah Compliance	0.903	5
Corporate Governance	0.794	2
Takaful Policy Requirements	0.861	11
Family Takaful	0.926	5
Solvency Requirements	0.949	7
Risks	0.916	7
Enterprise Risk Management	0.956	7

Table 5 shows that the Cronbach's alpha reliability results show that the seven themes in this study; Shariah Compliance, Corporate Governance, Takaful Policy Requirements, Family Takaful, Solvency Requirements, Risks and Enterprise Risk Management have reliability coefficients above 0.70 which exceed the minimum value, hence all data are valid and reliable.

The Questionnaire Survey: The Desired

As for individual disclosure items (as shown in table 7 and table 8), 67.09% (with mean of 3.9620) to 98.73% (with mean of 4.7975) perceives that the information on voluntary disclosure is either more important or most important which shows that majority of the respondents agree that all information of voluntary disclosures items is important. Based on

the findings, it can be concluded that the users have similar perceptions on voluntary meaningful disclosure as outlined by the Islamic Financial Services Board (IFSB) as shown in Table 6.

Table 6

Users perceived the information to be important based on themes

Themes	More than 80% perceived information to be important	Less than 80% perceived the information to be important
Shariah Compliance	5 items	0 item
Corporate Governance	2 items	0 items
Takaful Policy Requirements	7 items	4 items
Family Takaful	0 item	5 items
Solvency Requirements	0 item	7 items
Risks	5 items	2 items
Enterprise Risk Management	1 item	6 items
Total	20 items	24 items

Further analysis shows that respondents have different perceptions on the importance of the disclosure items based on themes. More than 80% of the respondents agrees that all items classified under Shariah compliance theme (5 items), 2 items of corporate governance theme, 7 items of takaful policy requirements theme, 5 items of risks theme are important and 1 item of enterprise risk management. Less than 80% of the respondents perceives that all items classified under Family Takaful theme (5 items), all items of solvency requirements theme (7 items) and 6 items of enterprise risk management theme are either more important or most important.

Most probably, the respondents (takaful agents) are more familiar and exposed to Bank Negara (regulator or authority) requirements compared to IFSB standards which is not mandatory in Malaysia.

Table 7

Rank 1 to 5 based on mean of voluntary disclosure items by users

Disclosure Items	Theme	Means	Standard Deviation	Overall Rank	Percentage that perceives statement to be important
Training on Shariah awareness for employees	SC	4.7975	.49041	1	98.73%
Obligations of participants	TPR	4.7722	.47903	2	97.47%
Statement of assurance	TPR	4.7468	.49273	3	97.47%
Code of ethics	CG	4.7215	.59779	4	94.94%

Obligations of takaful operators	TPR	4.6835	.51997	5	97.47%
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Table 7 shows the top 5 ranking by the users based on mean. The first rank is from Shariah Compliance (SC) theme on information on Shariah awareness training for employees followed by information on obligations of participants and statement of assurance from Takaful Policy Requirements (TPR) theme. Code of ethics from Corporate Governance (CG) theme is at the fourth rank and obligations of takaful operators from Takaful Policy Requirements (TPR) theme is at the fifth rank. Only training on Shariah awareness is from TOF requirements. Another four items are from IFSB requirements.

From the users' point of view, information on training on Shariah awareness leaves a hint that, employees in the organisation are aware on Shariah requirements and possessed a certain level of skills. Explanation on obligations of participants is important to ensure participants are aware of their responsibility to make full disclosure of material facts before signing takaful contract. This is to prevent any conflicts in the future. Another important information is the statement of assurance by takaful operators on providing accurate, fair, and non-misleading information to the potential participants. Information on code of ethics requiring employees and agents of TOs to observe high standards of integrity, honesty and fair dealing. Explanation on obligations of takaful operators is to ensure takaful funds are managed and invested on sound basis and in accordance with Shariah rules and principles. All this information increases the confidence level of the users (takaful agents) in the takaful operators.

Table 8

Rank 40 to 44 based on mean of voluntary disclosure items by users

Voluntary Disclosure Items	Theme	Means	Standard Deviation	Overall Rank	Percentage that perceives statement to be important
Allowable Expenses	TPR	4.0633	.82185	40	74.68%
Commissions and agency fees	TPR	4.0633	1.06629	40	73.42%
Own Risk and Solvency Assessment (ORSA) report	ERM	4.0633	.88204	40	69.62%
Actual and historical fees	FT	4.0253	.86194	43	69.62%
Reserving policy	FT	3.9620	.91207	44	67.09%

Table 8 shows the bottom 5 ranking (rank 40 – 44) by the users based on mean. The lower rank is from Family Takaful (FT) theme, Enterprise Risk Management (ERM), Takaful Policy Requirements (TPR) Corporate Governance (CG) theme. Reserving policy is ranked last (rank 44). It is the policy to reserving and distribution of underwriting and/or investment profit. It seems that users (takaful agents) are less interested in this information. The respondents (takaful agents) are more concerned of takaful process and governance. At rank 43 is information on actual and historical fees and four items with the same means at rank 40 (own

risk and solvency assessment (ORSA) report, commissions and agency fees of takaful products and allowable expenses charged to takaful funds).

As respondents are takaful agents, they might prefer to reserve information related to agency fees, commission fees and allowable expenses (*Wakalah* fees is part of allowable expenses). Most probably, that is why these three items are less preferable by the respondents and ranked at 40 to 42 of overall ranking. Another item at 40th overall ranking is information on own risk and solvency assessment (ORSA) process and report. ORSA is not mandatory in Malaysia. Most likely, respondents are not familiar with such information and opt for lower weightage. Perhaps a detailed discussion of each theme such as listed below may shed further light on this.

Content Analysis: The Actual

Table 9 shows that average disclosure (for each theme) is between 0% and 68% while total disclosure for all items (for each takaful operator) is between 26% and 59%. Based on theme, Enterprise Risk Management (ERM) hold the highest disclosure level (68%) while none of the takaful operators disclose any information on Solvency Requirements. The highest voluntary disclosure was TO5, with 59% disclosure level and the lowest was TO7, with 26% disclosure level.

Table 9

Overall disclosure of IFSB requirements by takaful operators

	TO1	TO2	TO3	TO4	TO5	TO6	TO7	TO8	TO9	TO10	TO11	Average
Shariah Compliance	70	30	40	40	60	30	40	40	40	70	40	45
	%	%	%	%	%	%	%	%	%	%	%	%
Corporate Governance	50	0%	50	50	75	50	25	25	25	25	75	41
	%		%	%	%	%	%	%	%	%	%	%
Takaful Policy Requirements	45	82	59	59	73	36	45	55	64	82	50	59
	%	%	%	%	%	%	%	%	%	%	%	%
Family Takaful	0%	50	30	80	40	20	0%	60	60	40	20	36
	%	%	%	%	%	%	%	%	%	%	%	%
Solvency Requirements	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Risks	57	36	43	57	79	43	14	50	36	57	43	47
	%	%	%	%	%	%	%	%	%	%	%	%
Enterprise Risk Management	50	71	64	79	86	43	43	71	86	86	71	68
	%	%	%	%	%	%	%	%	%	%	%	%
TOTAL MEANINGFUL DISCLOSURE	39	47	42	52	59	31	26	45	48	57	41	44
	%	%	%	%	%	%	%	%	%	%	%	%

The result on IFSB information disclosed by takaful operators is mixed. The disclosure level is between 26% and 59% of total disclosure. None of the takaful operators disclose information on solvency requirements theme. There is only 36% disclosure level on Family Takaful theme. The highest disclosure level is 68% which is on enterprise risk management theme.

Higher non-disclosure items on IFSB requirements are because it is just a guideline and best practice, not mandatory. No penalty imposed on non-disclosure and IFSB is not one of the regulators in takaful industry in Malaysia. The findings show that the average disclosure level is 44%, which is considered as at moderately low level. Mimetic isomorphism explains the voluntary disclosure made by takaful operators. One takaful operators might imitate another takaful operator's reporting structure which is perceived as legitimate and becomes a "safe" way to proceed.

Between the Desired and Actual

In Table 10, what users perceive as meaningful disclosure represent the desired level of meaningful disclosure. On average, for each theme, preparers disclosed 0% - 68% information while average users' perception on the importance of the statement is between 74.41% - 93.42%. More than 65.82% of the users agree that information of 44 voluntary disclosure items is important.

Table 10
Voluntary disclosure: preparers and users (overall results)

Themes	Preparers (Actual)	Users (Desired)
Shariah Compliance	45%	93.42%
Corporate Governance	52%	85.23%
Takaful Policy Requirements	55%	86.14%
Family Takaful	36%	74.41%
Solvency Requirements	0%	75.59%
Risks	47%	84.81%
Enterprise Risk Management	68%	75.77%
Average	44%	82.2%

The Mann-Whitney test is an alternative for the independent samples t-test when the assumptions required by the latter aren't met by the data. The most common scenario is testing a non-normally distributed outcome variable in a small sample. For this study, Independent-Samples Mann-Whitney U Test is conducted on average disclosure level of preparers and average percentage of users that perceive statement to be important.

Table 11
Hypothesis test summary on average disclosure (preparers and users)

	Null Hypothesis	Test	Sig.	Decision
1	The distribution of Score is the same across categories of Disclosure	Independent-Samples Mann-Whitney U Test	.001 ¹	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05

¹ Exact significance is displayed for this test.

In Table 11, the test found a significant difference (level of .001) between average disclosure level of preparers and average percentage of users that perceive statement to be important.

The null hypothesis of equality was rejected. Statistically, there is a significant difference between average level of disclosure by preparers and average percentage of users that perceive statement to be important which verify that there is gap between what is reported by the preparers and what users perceive as meaningful disclosure.

The preparers disclose less than what is expected by the users. Preparers are more concerned with company's profits and place a lesser focus on good relations with the firms' stakeholders, while users expect preparers to be more transparent on corporate social responsibility issues (Nani, 2019). Based on the findings, it seems that preparers put less attention on IFSB requirements.

Conclusion

From the users' perspective, out of 44 disclosure items, information on Shariah awareness is ranked first followed by the explanation on obligations of participants, information on the statement of assurance by takaful operators, information on code of ethics and explanation on obligations of takaful operators. Two of the items are closely related with Shariah matters (information on Shariah awareness and obligations of takaful operators to manage and invest takaful funds according to Shariah). This may imply that; users need assurance on the adherence of takaful operators to Shariah matters to increase their confidence level in the operation of takaful operators.

As shown in table 10, although the items are classified as voluntary by the authorities, based on Decision Usefulness theory under BAR approach, users find them meaningful to be reported. Therefore, from the user's perspective, all these items are essential. Mimetic isomorphism under institutional theory explains the voluntary disclosure of takaful operators. One takaful operator might imitate another takaful operator's reporting structure which is perceived as legitimate and thus it becomes a "safe" way to proceed. Takaful operator's voluntary disclosure is between 0% - 68% of total voluntary disclosure.

Contributions of the Study

This is the first study in Malaysia to evaluate the disclosure of IFSB requirements on takaful reporting. The findings of the study provide significant insights to Bank Negara Malaysia as a regulator to undertake the task of formulating new legislation and standards. With input from the users and preparers, Bank Negara can improve the existing regulation by revising the existing guidelines.

Secondly, this research identified gaps existing between the desired and the actual disclosure. Thus, addressing the gaps will enable the regulator or authority to develop guidelines or standards on meaningful disclosure that is more comprehensive.

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