

THE ROLE OF FINANCIAL LITERACY IN PROMOTING TAKAFUL AWARENESS FOR B40 SINGLE MOTHERS

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Abstract: *This concept paper explores the relationship between of financial literacy and takaful awareness among B40 single mothers by discussing how financial knowledge, attitudes and behaviours influence the awareness on takaful which would help increasing takaful adoption as their financial protection tool. Despite the benefits of takaful in safeguarding against unforeseen events, the awareness and ownership level of takaful remain low within this demographic due to insufficient financial literacy. The literature review emphasizes that targeted financial education programs can significantly improve takaful awareness. Enhanced financial knowledge, combined with positive financial attitude and behaviours would equip the B40 single mothers to make informed choices regarding takaful as a risk management strategy. This paper recommends the implementation of tailored financial literacy initiatives supported by collaborations between government agencies and non-government organizations including takaful providers and educational institutions. Such program should address the specific challenges faced by B40 single mothers, as well as how to make financial literacy and takaful awareness more accessible and comprehensible. Future research is recommended to focus on evaluating the long-term impact of these interventions to ensure their effectiveness and adaptability to emerging needs.*

Keywords: *Financial Literacy, Takaful Awareness, B40 Single Mothers.*

Introduction

Finance is crucial aspect of life, but a poorly implemented financial plan can lead to financial mismanagement. Several factors influence the effectiveness of personal financial planning, with individual financial literacy often cited as the important key (Xu et al., 2021). Increasing financial knowledge can lead to careful planning and disciplined financial management. This is particularly important for decisions related to takaful products and services, which are more complex than other financial instruments (Lin et al., 2018). This complexity is common with life insurance and takaful products because these concepts are less familiar to most individuals compared to other products and services. This is because a takaful policy is a long-term contract that incorporates many legal, insurance and financial terms in addition to being divided into several complex sections, especially those involving additional coverage such as investment and medical insurance (Sang et al., 2020a)

Integrating financial literacy and planning with takaful can lead to an enhanced financial security and well-being. Similarly, effective financial planning can help individuals to use takaful as a tool for risk management and financial protection. Individuals who are financially literate would be able to understand the benefits and mechanics of takaful, and this will increase the awareness of takaful and likelihood of adopting takaful.

In addition, financial literacy is essential for fostering informed financial decision-making and ensuring financial security, particularly among vulnerable groups such as single mothers that are in the bottom 40 percent of earners (B40) in Malaysia. These women face unique challenges as the breadwinner in managing their finances, often due to limited educational and socio-economic opportunities. According to previous research, the financial literacy, risk tolerance, social influences and risk perception of breadwinners significantly influence how they made financial choices (Xu et al., 2021). Effective and regular personal financial planning is essential for every individual, as it leads to greater financial freedom in the future (Sang et al., 2020a).

Nevertheless, the extent of financial knowledge and takaful awareness among the Malaysian has not yet reached the desired standard. Furthermore, it has been reported that most of those without insurance or takaful policy were in the B40 low-income group and stayed in rural areas (Bernama, 2023). A study by Jahya et al. (2023) also found that 74 percent of respondents in the low-income category with a median income of RM3,860, did not have life takaful products. This situation would leave them vulnerable during financial crisis and emergencies. Several factors contribute to this inequality, including limited access to financial education and resources, lower levels of formal education, and socioeconomic challenges. The primary factor contributing to the lack of awareness regarding insurance and takaful is insufficient level of financial literacy (Sang et al., 2020b).

As this statistic highlights the challenges faced by the B40 group, this paper focuses specifically on single mothers within this demographic income category. Single mothers often bear the sole responsibility for their households and face difficulty in managing limited financial resources (Jusoh & Latada, 2020). While micro-takaful offers an affordable and practical solution, raising awareness and improving accessibility for these B40 single mothers is essential to enhance their financial security and resilience with adequate protection.

This is important as single mothers in the B40 group need to independently manage their family's finances, they might encounter the risk of unstable financial conditions if unexpected or emergency cases arise in the future. The financial challenges faced by single mothers are

often worsened by lower levels of education, which contribute to poor financial literacy and inadequate financial planning (Rubayah & Nor Hamizah, 2017). According to Ramli et al., (2023), single mothers often lack the information and abilities needed to handle their finances well, which leads to a negative effect on their overall stability and financial health. The low level of financial literacy among these women often results in a lack of awareness and understanding of the benefits of takaful as a protective measure. Therefore, targeted financial education initiatives that emphasize the importance of takaful are essential to empower B40 single mothers and enhance their financial resilience.

This concept paper aims to explore how financial literacy impacts takaful awareness among single mothers in the B40 income group. It focuses on understanding the relationship between financial literacy levels and the awareness and consideration of takaful as a financial protection tool within this marginalized demographic. By reviewing existing literature and identifying key determinants of financial literacy, this paper seeks to propose strategies for enhancing takaful awareness through targeted financial education and empowerment programs tailored to the unique needs of B40 single mothers.

Literature Review

Takaful Awareness

Takaful is an Islamic insurance system and is one of the important financial instruments. It is a shariah compliance insurance that operates on the principles of mutual assistance, cooperation, and shared responsibility among participants (Jusoh, 2023; Rapi et al., 2022). Takaful provides financial assistance to individuals or participants who contribute to the takaful fund and their beneficiary against unforeseen events such as accidents, illness or death (Jahya et al, 2023). In the context of hibah takaful, it allows participants to designate beneficiaries who will receive the takaful benefits directly upon the participant's death, by passing the lengthy probate process associated with wills and inheritance laws. It is very beneficial to the heirs when the breadwinner of a family dies. This is crucial for single mothers who may be the sole providers for their families. Compensation from takaful can help next of kin especially family members in the B40 low-income group who rely entirely on the breadwinner's income and need assistance to cover living costs temporarily through an adjustment period that may take years (Jahya et al, 2023).

Despite the importance of takaful and the growth of the takaful industry in Malaysia, the awareness is still at a low level (Jusoh, 2023). Furthermore, a previous study found that many consumers are unaware of the fundamental principles of takaful, such as mutual risk-sharing and compliance with shariah law (Hassan et al., 2018). Consequently, this has caused the ownership rate of life insurance and family takaful remains low in Malaysia. According to the Deputy Minister of Finance, as of 2023, about 60 percent of the population did not have sufficient takaful and insurance coverage to be used in the event of an emergency, with coverage among the B40 income group reported as low as 4 percent (Bernama, 2023). The Malaysian Takaful Association reported that only 18.6 percent of the population is covered by takaful plans, which falls short of the Malaysian government targets that aimed to increase the percentage of coverage to 75 percent by the end of 2020 (Jusoh & Noreffendi, 2022). Only one-third of the population was insured as of 2017 (Sang et al., 2020).

The takaful awareness in Malaysia is particularly low among the B40 low-income group. The situation is more worrying when bank Negara Malaysia reported that the B40 group recorded

much lower figures, with coverage rates at just 16 percent and 4 percent respectively as of 2015. Although the coverage has increased to 20.1 percent in 2022, only 25 percent of adults in the B40 group have life or family takaful, compared to 59 percent of the general population (Yin, 2023). Furthermore, Jahya et al. (2023) revealed that 74 percent of low-income households, lacked life takaful products. This absence of coverage puts them at risk during financial crises and emergencies.

This current state of takaful awareness highlights a significant gap in understanding its importance for financial protection against emergencies. Subsequently, the financial well-being of families that do not have takaful coverage will be exposed to high risk if an unwanted or unexpected incident happens to the family involved.

Thus, efforts to explain the importance of takaful protection must continue to be made so that the penetration level of takaful and insurance increases in the future. Efforts and program such as 'Takaful Masuk Kampung' are encouraged to help increase financial literacy in rural areas (Bernama, 2023). Consequently, this will provide exposure on benefit of takaful and giving awareness, especially to B40 single mothers, to ensure that they and their families are protected.

Financial Literacy

Financial literacy is an essential factor in influencing the awareness and adoption of financial products, including takaful. It plays a crucial role in enhancing awareness and understanding of takaful, especially among vulnerable groups such as the B40 single mothers. A recent study conducted by Ramli et al. (2023) among single mothers in Malaysia found that many of these women struggle with financial management due to inadequate financial literacy. The single mothers often lack the necessary knowledge and skills to effectively manage their finances, thus affects their overall financial health and stability (Ramli et al., 2023). These women are struggling to manage their household finances alone and facing challenges including financial distress, emotional and psychological wellbeing, as well as additional roles and responsibilities that can hinder their financial security and stability in raising up their family (Jusoh & Latada, 2020). Their income is mostly allocated to debt repayment, medical expenses and fulfil children's need. Furthermore, results of a study by Nor (2022) found that single mothers between the ages of 30 and 49 face severe financial challenges as they have small children who still attending school and youngsters enrolling in higher education institutions. In addition, the respondents of the study who were unemployed pointed out that childcare and health issues were the primary issues that they encounter (Nor, 2022). This situation is further complicated by lack of knowledge on available financial products including takaful which could offer these single mothers with necessary coverage and support during times of emergencies.

By improving financial literacy and education of takaful, these individuals can better comprehend the benefits and mechanisms of takaful products, leading to increase participation of adopting takaful (Jusoh & Noreffendi, 2022). Targeted financial education programs that are tailored specifically for the B40 single mothers can play crucial role in addressing these challenges. By equipping the B40 single mothers with essential financial literacy skill, such as budgeting, saving and understanding financial products like takaful, can help them to make more informed decisions about their finances. They can also learn how to manage their limited resources more effectively, prioritize the spending and create emergency funds with takaful. Similarly, Lim et al. (2020) highlight that higher levels of financial knowledge directly correlate with increased awareness and adoption of insurance and takaful products. This relationship

suggests that improving financial literacy among B40 single mothers can foster better takaful ownership where takaful can offer them a reliable option for financial protection.

The relationship between financial literacy and takaful awareness can be seen from several aspect, involving knowledge, attitudes and behaviours (Ramli et al., 2023; Zaibet & Imed, 2021). Financial knowledge refers to understanding of information regarding financial products, concepts, opportunity and its risk. According to Abdulkadir et al. (2021), financial literacy empowers individuals to make informed financial decisions, particularly in understanding the value of risk management tools like takaful. For B40 single mothers, who often face significant financial constraints and limited resources, financial literacy is essential for recognising and leveraging the benefits of takaful. This understanding positions takaful not just as an abstract concept but as a practical solution integrated into their financial planning to safeguard their family's future. Thus, financial literacy plays an important role in empowering them to understand and subsequently gain the benefit of takaful products, which provide a shariah-compliant approach for risk management and financial protection.

In addition, the attitude and behavioural aspect of financial literacy is equally important (Ramli et al., 2023; Zaibet & Imed, 2021). With financial literacy, it can help to educate individuals in developing their positive attitude towards finance and savings. Individual will adopt financial attitude such as to be wise in spending, not to spend lavishly, always plan ahead and maintain a future saving (Ramli et al., 2023).

The financial knowledge helps individuals to make positive financial behaviour such as wise choices of actions and decision making on how to solve the financial issues (Ramli et al., 2023). According to Zaibet and Imed (2021), a well-rounded financial education will contribute to an individual's ability to navigate complex financial products. Similarly, for B40 single mothers, improving their financial behaviour through targeted educational initiatives can enhance their interest in the benefit of takaful, making it more accessible and understandable.

In addition, Zubair et al. (2024) stated that targeted financial literacy program that is tailored by takaful operators can effectively enhance understanding and engagement with takaful products. These programs incorporate financial concepts that are supported with environmental, social and governance (ESG) principles which also provide a comprehensive approach that aligns well with the values of many Muslim consumers. Rehman and Mia (2024) further support this by identifying the demographic and psychological determinants of financial literacy, while emphasizing the importance of financial education programs. The financial education programs need to be customized to consider the specific needs of low-income groups, such as single mothers.

Reviews from previous studies explained that the influence of financial literacy on takaful awareness among B40 single mothers extends beyond basic knowledge to encompass positive financial attitudes and behaviours. Targeted financial literacy initiatives can equip these women with the skills and confidence necessary to engage with takaful, and subsequently enhancing their financial resilience. Thus, by addressing these factors, it can bridge the gap in financial knowledge among individuals and lead to higher takaful awareness.

Conceptual Framework

Figure 1 illustrates the conceptual framework on how financial literacy can directly influence the awareness and participation in takaful among B40 single mothers in Malaysia. By focusing

on educational initiatives that improves financial knowledge, B40 single mothers can be empowered to make informed decisions regarding their financial situation. It is anticipated that through increasing their financial literacy, it would enhance their takaful awareness and finally contributing to an improved financial resilience and well-being.

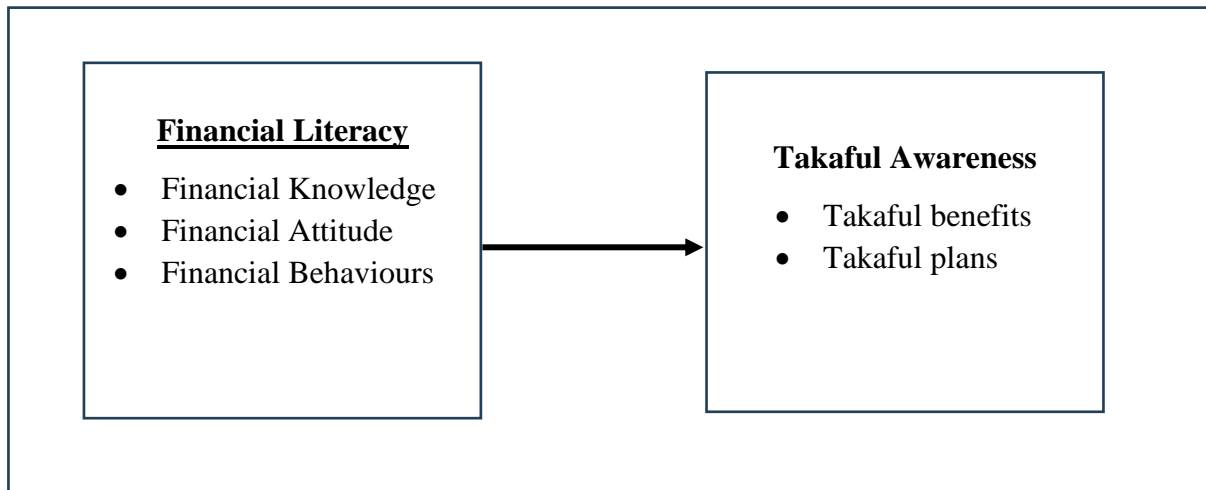


Figure 1: The influence of Financial Literacy on Takaful Awareness

Consequently, it is believed that through enhanced awareness, it will lead to likelihood of an increased participation in takaful products. This participation not only provides financial security but also encourages better financial planning and management habits among single mothers, that will ultimately improve the overall financial well-being of single mothers and their families.

Conclusion

This paper highlights the need to address the financial literacy and takaful awareness gap among B40 single mothers. By focusing on sustainable financial planning and promoting takaful as a risk management tool, it is important to empower these marginalized women and improve their financial well-being.

Therefore, more targeted and organized financial education and awareness initiatives should be implemented. The targeted financial education programs such as structured community-based workshops and mentorship training sessions, can guide and help B40 single mothers to enhance budgeting practices and takaful adoption. These workshops should cover essential topics such as budgeting, saving and understanding takaful products. In addition, the financial education programs should be adapted to the needs of the communities and include real-life scenarios that single mothers face to make the content more relevant with their life in improving their financial literacy. These programs need to address specific barriers such as language, cultural differences, and accessibility issues. For instance, financial education programs that are developed specifically for female participants, should integrate financial topics related to women to make them more personally meaningful and relatable (Lim et al., 2014). Consequently, this approach is expected to enhance engagement and awareness among women. The anticipated outcome of this intervention is a reduction in financial vulnerability and an increase in long-term economic security for these marginalized women.

To ensure the effectiveness and sustainability of the intervention, it is recommended that financial literacy programs to be established, with continuous support from government agencies and non-government organizations (NGOs). In addition, policy makers, takaful providers and educational institution should collaborate to develop financial literacy programs that address the unique challenges faced by B40 single mothers. This would help in fostering greater awareness and adoption of takaful as part of comprehensive financial protection. Such collaboration is essential to make the takaful products more accessible and understandable to low-income single mothers. Policy makers should also focus on integrating financial education into broader poverty alleviation strategies. Further, there is a need for ongoing research to evaluate the long-term impact of these financial literacy initiative programs to ensure they are refined and adapted based on participation feedback and emerging needs.

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