FACTORS INFLUENCING FINANCIAL PERFORMANCE OF TAKAFUL FIRM IN MALAYSIA

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ABSTRACT

The objective of this study is to analyze the relationship between the internal factors and the financial performance of takaful companies in Malaysia. The internal factors that were tested are liquidity (LQ), return on equity (ROE), leverage (LV), and size of the firm (SIZE). The financial performance of takaful firms is measured by using the return on assets (ROA) ratio. The study uses pecking order theory as the basis for explaining the disclosure of the financial performance of the firms involved. The type of data used in this research is secondary data, that are retrieved from the company's annual report. The number sample in this study used is 6 takaful firms listed in Bursa Malaysia with observations year from 2016-2020. To analyze the relationship between all internal factors and takaful firm's financial performance, the study uses Descriptive statistics, Corelation analysis, Durbin-Watson test (OLS), White test and Variance Inflation factors. To determine the suitable model, the Hausman test is used. The result of this research shows that liquidity level and leverage have a negative insignificant effect on takaful firm's financial performance while return on equity and size of the firm is positively insignificant.

Keywords: Takaful, Return on Assets, Liquidity, Return on Equity, Leverage, Size of Firm

INTRODUCTION

Takaful, often referred to as Islamic insurance, is a Shariah-compliant mutual risk-sharing arrangement based on the principle of taawun (mutual assistance) and shared accountability. A takaful agreement involves a group of participants who voluntarily agree to mutually guarantee each other against risks, calamities, or other losses of valuable assets (Naim et al., 2018). Participants contribute a sum of money, referred to as tabarru' (a donation), into a pooled fund to fulfill this shared responsibility in the event of a loss.

In contrast, conventional insurance operates as a risk-transfer mechanism, where an individual or business (the insured) transfers risks to another party (the insurer) in exchange for a premium (Dahnoun & Alqudwa, 2018). Despite differences in their operational models, both takaful and conventional insurance share the fundamental goal of mitigating financial losses for individuals or

businesses. However, takaful operations must adhere strictly to Shariah principles, which prohibit elements such as riba (interest), gharar (excessive uncertainty), and maysir (gambling) (Noor Aimi et al., 2019).

The takaful industry has experienced significant growth since its inception in 1979, primarily in Muslim-majority countries. Although its growth rate has slowed in recent years, it continues to expand alongside the broader Islamic finance sector, where Islamic banking assets remain the largest and fastest-growing component (Ismail, 2013). As of recent years, the global takaful is projected to grow (The Insurance and Takaful Sector BNM Report, 2023). However, the industry faces challenges, including regulatory complexities, competition with conventional insurance providers, and the need for technological advancements to cater to modern consumer expectations. These factors highlight the importance of robust financial performance to ensure the sustainability and competitiveness of takaful firms.

Takaful products are generally categorized into two types: general takaful and family takaful. General takaful provides financial protection for participants against risks such as burglary, flooding, fire, and accidents. These products are often linked to debt-based financing offered by Islamic banks, which dominate the Islamic financial services landscape (Husin, 2019). On the other hand, family takaful offers protection against unforeseen financial risks for the policyholder's beneficiaries or successors, such as in the event of death or disability. Family takaful is typically based on the principle of mudarabah (profit-sharing), which emphasizes reciprocal collaboration between participants and the operator.

Analyzing the financial performance of takaful firms is crucial for understanding their operational efficiency, sustainability, and adherence to Shariah principles. Despite the industry's growth, there remains a lack of empirical evidence on the factors influencing the financial performance of takaful firms, particularly in Malaysia. Addressing this gap is essential, as it can provide valuable insights for stakeholders, including policymakers, practitioners, and investors, while also enhancing the competitiveness of takaful firms in the global financial market.

LITERATURE REVIEW

Pecking Order Theory

The Pecking Order Theory, a prominent concept in corporate finance, was initially proposed by Donaldson in 1961 and later refined by Myers and Majluf in 1984 to make it more accessible to researchers. The theory posits that a firm must allocate resources efficiently and understand the factors influencing its capital structure to achieve optimal operational performance. Poor capital structure decisions can lead to financial difficulties and even insolvency. According to Myers and Majluf (1984), firms follow a specific hierarchy in financing preferences: internal financing is prioritized, followed by debt financing, and equity financing is considered a last resort.
The theory is rooted in the existence of asymmetric information, where management has better knowledge about the company's future prospects, risks, and true value compared to external

investors. Managers are expected to act in the best interests of shareholders, but asymmetric information impacts the firm's ability to raise funds. Companies with substantial asset values are less sensitive to information asymmetries and more likely to secure loans, as assets can be used as collateral (Masnurah, 2017). Additionally, firms can minimize the costs of asymmetric information by relying on retained earnings instead of issuing new securities, which may be undervalued due to information gaps. When knowledge asymmetry is high, issuing debt is preferred over equity to avoid undervaluation (Chen & Chen, 2011).

Agency Theory

Since the 1970s, Agency Theory has been a cornerstone in economics, finance, and management, explaining the relationship between a firm's liquidity, size, and performance (Darayseh & Chazi, 2018). The theory suggests that reducing agency costs can enhance firm value, leading to better overall performance (Le & Phan, 2017).

From an Islamic finance perspective, the concept of agency is represented by the *wakalah* contract, commonly used in takaful operations. In this model, takaful operators act as agents managing the funds on behalf of participants. For example, Takaful Malaysia employs the *wakalah* model, which not only facilitates the efficient distribution of takaful products but also incorporates incentives like cashback from surplus funds. This system ensures Shariah compliance while providing benefits to both participants and takaful operators through the *tabarru'* (donation) fund system (Riad et al., 2021; Naim et al., 2018).

Theory of Planned Behavior

The Theory of Planned Behavior (TPB) is a widely recognized framework for understanding human behavior. It comprises three core components: Behavioral Intention (BI), Attitude (Att), Subjective Norms (SN), and Perceived Behavioral Control (PBC) (Kazaure, 2019). Attitude reflects the evaluation of the behavior's performance, subjective norms pertain to societal or peer influences, and perceived behavioral control measures an individual's confidence in executing a behavior. While favorable attitudes and social norms can drive behavior, low perceived control may reduce the likelihood of action (Allah Pitchay et al., 2020).

TPB has been applied extensively in financial services research. For instance, Bhatti and Md Husin (2020) examined the unethical behavior of insurance agents using TPB. In the context of takaful, subjective norms have been shown to influence individuals' decisions to purchase takaful products, while perceived behavioral control reflects participants' financial ability and awareness (Aziz et al., 2017). Siang and Weng (2011) further utilized TPB to analyze the adoption of Islamic banking services among non-Muslims in Malaysia, finding attitudes, subjective norms, and perceived behavioral control to be significant predictors of intention, consistent with TPB's premises.

Connection the theories to the Takaful firms

These theories collectively provide a robust framework for examining the financial performance of takaful firms. The Pecking Order Theory emphasizes the importance of efficient capital allocation, Agency Theory underscores the role of governance and cost efficiency, and TPB sheds light on the behavioral factors influencing participation in takaful products. Understanding these dimensions is essential for identifying the determinants of financial performance, which is crucial for the sustainability and competitiveness of takaful firms in a dynamic financial landscape.

HYPOTHESES DEVELOPMENT

Based on the review of factors influencing the financial performance of takaful in Malaysia, four hypotheses are developed.

The amount of liquidity that influences a company's financial performance is determined by the firm's level of activity. Larger firms, with more assets, can better assist in liquidating assets and meeting debt obligations while generating relatively high profits (Herlingga et al., 2021). According to Ismail (2013), reducing the liquidity value of insurance firms can enhance financial performance. Similarly, Mazviona, Dube, and Sakahuhwa (2017) in Ibrahim et al. (2020) indicated that a firm's liquidity level affects its status, particularly when assets are at their most liquid level. The Current Ratio is a liquidity metric used to assess performance, as stated by Wanjugu (2012) and Hemrit (2020). However, Ishtiaq and Siddiqui (2019) found that liquidity levels have little effect on insurance firms' financial performance. Contrarily, Ismail (2013) and Mazviona, Dube, and Sakahuhwa (2017) argued that lower liquidity levels improve financial performance. Based on these insights, the first hypothesis is proposed:

H_1 *: Liquidity level is negatively related to the financial performance of takaful firms in Malaysia.*

Stock returns are positively associated with the financial performance of takaful companies; an increase in equity returns leads to a corresponding increase in the company's investment portfolio returns and vice versa. Several factors explain this association. First, as compared to fixed-rate interest investments, higher returns on shares significantly boost investment performance for general insurance firms. Second, equity returns provide a long-term hedge against inflation, making equity investments critical for general takaful enterprises operating in high-inflation environments (Alim & Ali, 2021; Kantakji et al., 2020). Dividend income also contributes to equity returns (Ismail, 2013). Findings by Abduh and Isma (2016) confirm that equity return is one of the main elements influencing the profitability of takaful enterprises. However, a decline in the equities index can exacerbate the asset-liability mismatch. Based on this, the second hypothesis is developed:

H_2 : *Return on equity is positively related to the financial performance of takaful firm in Malaysia*

Leverage is positively and significantly connected to investment income. Firms with higher leverage can effectively manage their obligations and transform them into profitable investments, leading to increased client satisfaction and higher premiums, which further translate into greater investment returns. Additionally, GDP is positively associated with performance indicators,

consistent with the cyclical economic theory (Abdul Razak et al., 2021). Economic development is expected to increase the demand for insurance and takaful services to support business growth (Alhassan et al., 2015). Leverage refers to financing a company's assets through debt. Firms with higher debt relative to assets are considered highly leveraged. By leveraging debt, companies can enhance operations without expanding equity. Empirical evidence from Jordanian insurance firms (2002–2007) demonstrates that leverage positively influences financial performance (Almajali et al., 2012). Based on these observations, the third hypothesis is proposed:

$$H_3 : Leverage\ is\ positively\ related\ to\ the\ financial\ performance\ of\ takaful\ firm\ in\ Malaysia.$$

The size of a company is positively associated with its performance, as larger firms tend to outperform smaller ones. This is supported by findings from Afza and Ashgar (2012), who revealed a favorable relationship between firm size and financial success. This outcome aligns with economic theory, suggesting that larger firms are better equipped to perform efficiently (Arshad et al., 2020). Additionally, larger firms can benefit from economies of scale in resource utilization. Hardwick (1997) in Ismail (2013), along with Too and Simiyu (2018), demonstrated that firm size, measured by its scale of operations, positively correlates with financial performance due to unit cost reductions. Hemrit (2020) further supports the notion that firm size significantly influences financial success. Based on this evidence, the fourth hypothesis is proposed:

$$H_4 : Company\ size\ is\ positively\ related\ to\ the\ financial\ performance\ of\ takaful\ firms\ in\ Malaysia$$

METHODOLOGY

Research Design

All takaful operators registered with Bank Negara Malaysia (BNM) were included in the research population. To ensure data accuracy and generalization from sample to population, the data were collected for five years, from 2016 to 2020. This includes both local and foreign takaful operators. Information was also extracted in detail from respective companies' financial annual reports such as balance sheets and income statements. Data are retrieved mostly from the annual report of each takaful company and financial ratios are applied to determine the connections between two or more financial statement components.

Table 1: List of Takaful operator

No	Name	Ownership
1	AIA Public Takaful Bhd	F
2	AmMetLife Takaful Berhad	L
3	Great Eastern Takaful Berhad	F
4	Hong Leong MSIG Takaful Berhad	L
5	Sun Life Malaysia Takaful Berhad	L
6	Zurich Takaful Malaysia Berhad	F

Sources: Bank Negara Malaysia (2022)

Panel Data Regression Model

To achieve the purpose of this study which is to analyze the relationship between internal factors and takaful firm's financial performance in Malaysia, the analytical method used in this analysis consists of a panel data regression model followed by a few econometric tests to assess the relationship between the dependent and independent variables. As a result, the estimating model is developed and presented below:

$$\mathbf{ROA_{it}} = \boldsymbol{\beta_0} + \boldsymbol{\beta_1} \boldsymbol{LIQ_{it}} + \boldsymbol{\beta_2} \boldsymbol{EQ_{it}} + \boldsymbol{\beta_3} \boldsymbol{LV_{it}} + \boldsymbol{\beta_4} \boldsymbol{SIZE_{it}} + \boldsymbol{\varepsilon_{it}}$$

Where:

β_0 = constant
i = Takaful companies
t = time period
ε_{it} = error term of country, i on time, t
ROA = Return on asset
LQ = Liquidity
ROE = Return on equity
LV = Leverage
SIZE = Size of firm

Descriptive Analysis

This approach assisted in presenting and understanding the characteristics of data collected for the study. Types of descriptive analysis used here include measures of central tendency which are mean and median, followed by measures of variability which are standard deviation, maximum value of the data and minimum value, the kurtosis and skewness. In descriptive analysis, data aggregation and data mining are two strategies to extract historical data.

Correlation Test

To find out whether the two variables are connected or not, correlation analysis is used. The bivariate analysis of correlation assesses the connection between two variables and the directionality of the association. When conducting a regression analysis to determine the impact of an independent variable on an outcome variable, this step is quite helpful. When there is a strong association between two or more variables, it is said that there is a high correlation; otherwise, there is a weak correlation. The correlation coefficient's percentages range between +1 and -1.

Hausman Test

Hausman tests compare two distinct estimation methods of the model parameters to look for econometric model measurement errors. By using the Hausman test, it will then identifies the endogenous regressors or also known as predictor variables in the regression model applied in this study. The outcome of a Hausman test is simply interpreted by: if the p-value is less than 0.05, therefore the null hypothesis should be rejected. Based on Zulfikar and STp (2019), The Hausman test will determine whether the best Random Effect or Fixed Effect model should be used for the study.

Diagnostic Test

Durbin-Watson Test

To detect autocorrelation, Durbin-Watson Test is used in this study. A result that is relatively close to 2 shows a very minimal percentage of autocorrelation while those that are closer to 0 show a higher positive autocorrelation. A result that is closer to 4 shows a higher negative autocorrelation (Corporate Finance Institute, 2021).

Multicollinearity Test

Variance Inflation Factors (VIF) are used to detect the multicollinearity between the explanatory variables. The degree of the correlation between the independent variables is determined by the VIF. It is predicted by regressing one variable against every other variable. The R^2 value is used to measure how well the other independent variables recognize an independent variable. A high R^2 score indicates that the variable is strongly associated with the others.

Heteroscedasticity Test

Heteroscedasticity occurred when the standard deviations of a predicted variable are non-constant over varying values of explanatory variables or as compared to earlier timeframes. As it can affect the validity of econometric research and financial models, heteroskedasticity is considered a lapse of the assumptions for linear regression modeling. Cross-sectional data is connected with heteroscedasticity. Heteroskedasticity is more common in a data set with a broad range between the highest and lowest of the observed data.

FINDINGS AND DISCUSSION

Descriptive Statistics

Table 2: Summary of descriptive statistics

Variables	ROA	LQ	ROE	LV	SIZE
Mean	6.4048	19.6374	11.1144	0.7006	20.4447
Median	0.1224	7.2284	0.1746	0.8233	20.3553
Std. Deviation	18.1424	29.3111	29.6234	0.3208	0.7322
Min	-0.0852	1.8227	-9.3657	0.0072	19.1991
Max	89.0385	106.645	131.7879	0.963	21.8603
Skewness	3.6348	1.9352	2.9233	-1.6087	0.075
Kurtosis	16.1065	5.2617	11.0783	3.879	2.0127

Note: ROA=Return on assets; LQ= Liquidity; ROE= Return on equity; LV=Leverage; SIZE=Size of Firm

Table 2 above shows the summary of descriptive statistics for each of the variables. Descriptive statistics here are used to summarise the data that includes a total of 30 valid observations (N). The mean for Return on Equity (ROE) is 11.1144 and the standard deviation is 29.6234. For the size of the firm (SIZE), the minimum value is 19.1991 and the maximum value at 21.8603. The mean value for SIZE is 20.4447 and with a standard deviation of 0.7322. Next, for liquidity (LQ), the mean is 19.6374 and the standard deviation is 29.3111. Lastly, for leverage (LV), the variable has a mean value of 0.7006 and the standard deviation is 0.3208. The minimum value for this variable is 0.0072 and the maximum value at 0.9630.

The skewness of all the variables also can be seen for all the variables. With a value of 3.6348, the dependent variable, ROA, is skewed to the right of the data and far from zero. On the other hand, ROE has the highest value of skewness between the independent variables at 2.9233. The value of skewness for SIZE is at 0.0750 where the value is quite close to 0. The skewness value of liquidity and leverage are respectively 1.9352 and -1.6087 and the value of skewness for leverage is very close to the 0 value.

Correlation Matrix

Table 3: Results of the correlation matrix

Correlation Probability	**ROA**	**ROE**	**SIZE**	**LQ**	**LV**
ROA	1.000000 -----				
ROE	0.167390 0.3766	1.00000 -----			
SIZE	0.203785 0.2801	-0.022752 0.9050	1.00000 -----		
LQ	-0.122366 0.5195	-0.178243	-0.258041 0.1686	1.00000 -----	
LV	0.085034 0.6550	0.154673	0.391319	-0.935407 0.0000	1.00000 -----

Note: ROA=Return on assets; LQ= Liquidity; ROE= Return on equity; LV=Leverage; SIZE=Size of Firm

Based on table 3 above, there is a positive correlation between return on asset (ROA) and return on equity (ROE) with a value of correlation 0.167390. A positive correlation also was shown between ROA and the size of the firm (SIZE) with a correlation value of 0.203785. ROA and leverage (LV) also have a positive correlation with a correlation value of 0.085034. Next, a positive correlation was also present between ROE and LV with a correlation value of 0.154673 followed by SIZE and LV with a correlation value of 0.391319. As all the mentioned values were far from +1, therefore it is considered a weak positive correlation. Even if both variables tend to rise in response to each other, a weak positive correlation suggests that the relationship between the variables is not very strong.

Other than that, there is also a negative correlation that is present in the table of results above. ROE and SIZE have a negative correlation with a correlation value of -0.022752 followed by ROE and LQ at -0.178243. Negative correlations were also shown between SIZE and LQ with a correlation value of -0.258041 followed by LQ and LV with a correlation value of -0.935407. Most of the values mentioned for negative correlation here indicate that the variables have a weak negative correlation.

Hausman Test

Table 4: Summary of Hausman Test result

Test Summary	**Chi-Sq Statistic**	**Chi-sq d.f**	**Prob**
Cross section random	1.273009	4	0.8659

In a simpler view, the null hypothesis will be rejected if the P-value is less than 5% or 0.05. Where the null hypothesis for this research in determining the suitable model is as table 4.5 below:

Table 5: Null Hypothesis and Alternative Hypothesis for Hausman test

Null Hypothesis, H_0:	The random Effect Model (REM) is more appropriate
Alternative Hypothesis, H_1:	The fixed Effect Model is more appropriate

Based on table 5, the probability of the test is at 0.8659 where the value is greater than 0.05. Therefore, the null hypothesis is accepted where the Random Effect Model (REM) is preferable for this research. The chosen model, which is the Random Effect Model (REM) based on the Hausman test above is regressed again to analyse the variables that are included under Random Effect Model (REM). Table 6 below shows the result for Random Effect Model (REM).

Table 6: Summary of Random Effect Model (REM) analysis

Variables	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	9.9723	150.7266	0.0661	0.9477
LQ	-0.2898	0.3387	-0.8558	0.4002
ROE	0.1151	0.1665	0.6914	0.4956
LV	-22.3741	37.6597	-0.5941	0.5577
SIZE	0.808	7.7214	0.1046	0.9174

Note: LQ= Liquidity; ROE= Return on equity; LV=Leverage; SIZE=Size of Firm

Based on table 6, the probability for liquidity level (LQ) is above 5% of significant value at 0.4002. This large value of probability for LQ conveys an insignificant relationship between

liquidity (LQ) on the dependent variable. The coefficient value from the regressed result for LQ is -0.2898 indicating a negative relationship. The results exhibit that the relationship between the dependent variable and independent variable is positively related. Therefore, the first hypothesis is rejected as the findings imply liquidity has a negative influence on a takaful firm's performance. At a significance level of 5%, Return on Equity (ROE), the second hypothesis of this research is accepted as the coefficient value obtained from regressed data is positive at 0.1151. This implies that the ROE has a positive influence on return on assets (ROA) for the random effect model but is insignificant to the dependent variable.

The probability value for leverage (LV) is above the significance level of 5% at 0.5577. This result implied an insignificant relationship between leverage (LV) on takaful firms' financial performance. The coefficient value for this variable exhibits a negative influence between leverage and the takaful firm's performance at -22.3741. Therefore, the third hypothesis implying leverage is positively related to takaful firm's financial performance for this research is rejected. Lastly, the probability of size of the firm (SIZE) is also above the significance value of 5% at 0.9174 implying an insignificant relationship with the dependent variable. The findings signified that large company size is positively related to the financial performance of takaful companies in Malaysia. The last hypothesis for this research then is accepted as the coefficient value is positive at 0.808. In other words, the financial performance of takaful companies will increase if the size of the firm also increases.

Multicollinearity Test (VIF)

Table 7: Summary of Variance Inflation Factors (VIF)

Variables	Coefficient Variable	Uncentered VIF	Centered VIF
C	10399.208	912.8081	NA
LQ	0.1239	13.2283	9.0337
ROE	0.0139	1.1894	1.0382
LV	1134.1382	58.7775	9.9083
SIZE	29.2853	1075.7975	1.3324

Note: LQ= Liquidity; ROE= Return on equity; LV=Leverage; SIZE=Size of Firm

The centered VIF of the variables is used as the main value to evaluate the multicollinearity problem between the variables. The VIF value for the variables must be lower than 10 to be identified the non-multicollinearity problem. Based on the result above, two of the variables which are ROE and SIZE have really low multicollinearity problems present. On the other hand, for LQ and LV, the values are quite big however, both values are still under 10 at 9.0337 and 9.9083 respectively. When several economic factors are included in models, multicollinearity is nearly always inescapable, according to Shiu (2004)'s research on Determinants of United Kingdom General Insurance Company Performance. Therefore, from the analysis above, there is no presence of multicollinearity in the model.

Durbin-Watson Test (OLS)

Table 8: Summary of Durbin-Watson Test (OLS)

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	-111.178	101.9765	-1.0902	0.286
LQ	-0.3383	0.352	-0.9612	0.3456
ROE	0.1002	0.118	0.8491	0.4039
LV	-31.8906	33.6769	-0.9469	0.3527
SIZE	7.114	5.4115	1.31447	0.2005

Note: LQ= Liquidity; ROE= Return on equity; LV=Leverage; SIZE=Size of Firm

Durbin-Watson tests are initially included to detect the autocorrelation problem in this research. Ordinary least squares (OLS) regression on a data set is used to calculate the Durbin Watson statistic where based on the regressed result, the value for the Durbin-Watson stat is at 1.579070. The value is relatively close to 2 which indicates a very minimal percentage of positive autocorrelation in the data present. On the other hand, if the data is closer to 0, it implies that the data has a higher positive autocorrelation. The result, generally shows that the value of probability for all the independent variables is greater than the significant level, 0.05. This implies that all the independent variables are not significant in explaining the dependent variable, Return on Asset (ROA). Among the probability values for independent variables, the size of the firm (SIZE) has the lowest probability at 0.2005 which signifies a significant relationship that is close to the dependent variable compared to other values.

Heteroscedasticity Test

Table 9: Summary of White Test result

Prob (F-statistic)	0.947856
Prob. Chi-Square (14)	0.8724

The null hypothesis will be rejected if the probability value of Chi-square is smaller than the level of significance of 5%. The null hypothesis and alternative hypothesis for this test are developed as below:

Table 10: Null Hypothesis and Alternative Hypothesis for White test

Null Hypothesis, H_0:	Heteroscedasticity problem present in the model

Alternative Hypothesis, H_1:	Heteroscedasticity problem absent in the model

Based on figure 10 above, the probability of Chi-square (14) for the model is at 0.8724 where the value is greater than the significant value of 0.05. Therefore, this proves that the data set has no Heteroscedascity problem and a good regression model. Other than that, the value of Chi-Square (14) also shows the data set is homoscedasticity where the value is also greater than the significant value at 0.8724.

DISCUSSION ON FINDINGS

This research included six takaful firms that have full annual reports presented for five consecutive years. Years of observation are from 2016 to 2020. Correlation and OLS regression were done mainly to make sure all the research objectives were met and to test the hypothesis that had been developed.

Table 11: Hypotheses Results

Hypotheses	Action
H1: Liquidity level is negatively related with the financial performance of takaful firms in Malaysia	Hypothesis is accepted
H2: Return on equity is positively related with the financial performance of takaful firms in Malaysia.	Hypothesis is accepted
H3: Leverage is positively related with the financial performance of takaful firms in Malaysia.	Hypothesis is rejected
H4: Large company size is positively related to the financial performance of the takaful firm	Hypothesis is accepted

The research revealed that liquidity has a negative but insignificant relationship with takaful financial performance. This finding relationship is supported in terms of its insignificant relationship by past research from Masnurah (2017) that found liquidity level is insignificant to the takaful firm's financial performance. This insignificant relationship indicates that liquidity does not affect a firm's financial performance. This past research didn't directly mention a positive or negative relationship between its liquidity level on financial performance. However, based on displayed results and values, it shows that liquidity level has a negatively insignificant relationship with a takaful firm's financial performance. The insignificant relationship was also found by research from Pervan and Višić (2012) that stated liquidity did not appear to be a significant factor in explaining how profitable enterprises were. Negatively correlated liquidity on takaful firm's performance was also found in research by Kantakji et al. (2020). The research stated that an increase in liquidity level can lead to a decrease in the profit of the firm. However, most past research found agreed that liquidity level is positively significant to the takaful firm's financial

performance. In research by Shiu (2004), the researchers find a positive correlation between liquidity and financial success in the UK commercial insurance market. On the other hand, negative movement between liquidity and a firm's financial performance is proven from the results obtained from the regressed data and also supported in a few past research that liquidity negatively influences the firm's performance. Therefore, the first hypothesis (H_1) is accepted. In addition, all the values for independent variables were discussed in chapter 4 of this research.

For return on equity, this research found a positively insignificant relationship between the independent variable of a firm's financial performance. The positive movement here means an increase in return on equity will also result in an increment in the dependent variable, the takaful firm's financial performance. Insignificant relationships between return on equity on takaful financial performance are very rare in the study of financial performance. Most past research also didn't include return on equity as part of the research's variables in evaluating financial performance making it hard to explain the possibility of this relationship. However, few past research found stated that return on equity or equity return has a positive relationship with takaful firm's financial performance. For instance, research from Ismail (2013) stated that a rise in equity returns complements a rise in a company's financing portfolio's returns implying a positive relationship between the variables. If looking at another view, research from Chindengwike (2021) on Equity's Impact On The Financial Performance Of Small Businesses In East African Nations, it was found that return on equity has a positive significant effect on small business financial performance. Referring back to this research hypothesis, return on equity is positively related with the financial performance of takaful firms in Malaysia. Therefore, the second hypothesis (H_2) is accepted.

The analysis results show that leverage has a negative but insignificant relationship with takaful financial performance. There was not much research found that has negative insignificant results from past research. Most past research either has significant findings or negatively significant results in their research for leverage. Future studies are encouraged to look into this matter more where a result of the negative insignificant relationship between leverage on takaful firm's financial performance was obtained. However, negative influences are found between this independent variable and the dependent variable. This movement is also supported by research found by Ismail et. al (2019) stated negative significant findings on its research. Thus, as specified in the research hypothesis and referring to the coefficient value for the regressed results, leverage has a negative influence on a takaful firm's financial performance. Therefore, hypothesis (H_3) is rejected.

Lastly, this research results also convey a positive but insignificant relationship between the size of the firm on the financial performance of takaful firms in Malaysia. An insignificant relationship between the size of a firm and the firm's financial performance is also found in research from Masnurah (2017). In research from Pervan and Višić (2012), The results showed that the size of a firm to has a significant positive impact on firm profitability. However, its impact of it on firm performance is weak indicating a small influence or relationship between the size of the firm on its financial performance. Further research on this should be done on this independent

variable as there is not much past research found that discussed the influence of size on a firm's performance generally or in more detail. On the other hand, Nodeh et al.(2015) convey a positive movement between the size of the firm on its financial performance. This indicates that as the size of the firm increase, the financial performance of the firm will also increase. In addition, when the size of the firm increase, the efficiency of the firm in handling its products and services will also move in line with the changes thus, increasing the performance of the firm more. Remarking on the hypothesis for this research, therefore, the last hypothesis (H_4) is accepted.

CONCLUSIONS AND RECOMMENDATIONS

This research concluded that the financial performance of takaful firms is not directly affected by liquidity level, return on equity, leverage, or size of the firm. While liquidity, return on equity, and size exhibit positive influences, and leverage shows a negative influence, none of these relationships are statistically significant at the 0.05 significance level. The liquidity ratio, calculated as current assets divided by current liabilities, measures the firm's ability to meet short-term financial requirements. The findings suggest that liquidity levels do not significantly impact takaful firms' financial performance. The weak positive correlation observed may indicate that most firms do not prioritize liquidity as a key factor for enhancing performance.
Return on equity (ROE), calculated as net income divided by total equity, measures a firm's effectiveness in generating returns on invested capital. Although the positive influence of ROE was not statistically significant, it suggests potential for improving financial performance by increasing profit margins or enhancing asset turnover.

Leverage, representing the extent of borrowing to acquire assets, can negatively affect financial performance if mismanaged, potentially leading to bankruptcy. The weak positive correlation between leverage and performance indicates that takaful firms generally avoid over-reliance on leverage for optimizing their capital structure. Similarly, firm size, measured as the natural log of total assets, showed a positive but insignificant relationship with financial performance. This implies that while larger firms may benefit from economies of scale, size alone does not significantly drive financial performance. The findings support the Pecking Order Theory, highlighting a preference for internal financing over external borrowing.
The study also highlights the pivotal role of Islamic finance in enhancing the Malaysian economy. Malaysia's comprehensive Islamic finance strategy has significantly contributed to the development of its financial sector and broader economy. The takaful industry, supported by sectoral improvements and growth in the number of takaful policies, is expected to continue expanding and prospering, positioning Malaysia as a global leader in Islamic finance.

This research suggests increasing the sample size and extending the observation period in future studies to enhance the robustness of results. A larger dataset over more years would better capture the factors influencing the financial performance of Malaysian takaful firms. Future research could also delve deeper into the relationships between return on equity and leverage and their impact on financial performance, as past studies have not explored these variables in detail.

Additionally, future studies could incorporate variables such as digitalization, risk management practices, regulatory changes, and macroeconomic factors to provide a more comprehensive analysis. Such factors could yield actionable insights for policymakers and takaful firms. Exploring firm-specific strategies for optimizing liquidity and leverage could also contribute to practical recommendations for improving financial performance.

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