

operations, the focus on human resources and talent capabilities is critical to fostering business success. According to Bontis (1998), the growing influence of human capital is among defining characteristics of the modern economy, which has now gained considerable attention from influential factors such as economic rivalry. One of the components in intellectual capital, which is capital employed, significantly influenced the profitability of financial institutions (Bontis et al., 2000). If an organisation does not understand the importance of its intellectual capital, it may indulge in unfavourable workforce recruitment activities, creating an outlay of valued staff. It could be recommended that intellectual capital seems in order to have become an essential aspect to encourage enterprises to improve their performance. This is especially in an industry that acts as a major contributor to the Malaysian economy (Shamsudin et al., 2013).

As the insurance industry acts as a key contribution for the service sector towards Malaysia's economic growth, the financial performance of insurance operators in Malaysia must go through an ongoing inspection in order for the insurer to give constant protection for other individuals, industries, and sectors in Malaysia. Hence it is essential to assess insurance companies' profitability. The most effective ratios to measure the profitability index are Return on Assets (ROA) and Return on Equity (ROE). Both are the most critical metrics to determine how successfully a company's management team is fulfilling the function of managing the resources entrusted to it (Masa'deh et al., 2015). ROA allows investors to calculate how management uses its assets or capital to create more revenue, while ROE acknowledges how their investments produce revenue. If ROA is stable and the leverage rates are rational, the manager will be able to make great investment returns for shareholders upon strong ROE. The importance of both profitability ratios is that a robust ROE is a significant predictor that management seems to be doing an excellent work of earning profits

through stakeholders' capital provided ROA is healthy as well as credit ratios are appropriate. The ROE implies that management is offering investors higher-good value for money. On the other hand, a strong ROE might offer investors a misleading picture regarding the business's prospects if the ROA is inadequate or the organisation is massively in deficit.

Many prior pieces of evidence either analysed family or a general takaful line of business. The reason to study the relationships between profitability ratios and RBC, VAIC, and claim ratio is that these factors are the main contributors that have big impacts on insurance and the takaful sector. Whereby claim ratio focuses on the claim paid level, RBC as the main indicator to preserve their capital level, and VAIC can improve both management and knowledge assets. Thus this indicates these three factors highly influence the profitability of takaful or insurance companies. Therefore, this study fills in the gap by discovering the factors such as claim ratio, RBC, and intellectual capital that will significantly improve the financial performance of takaful operators in terms of ROA and ROE in order for takaful operators to realise the importance of considering those factors to earn good profitability achievement.

1.3 Research Aim

This paper intends to analyse the effect of claim ratio, RBC, ROA, and ROE towards takaful financial performance in Malaysia since such factors should be considered in order to maintain their performance without experiencing significant financial difficulties. In addition, this paper also aims to investigate further the impact of intellectual capital on the performance of takaful operators to achieve sustainability in various aspects of the insurance industry.

1.4 Research Objectives

- 1) To compute the financial performance of takaful operators in Malaysia through Claim Ratio, RBC, VAIC, and profitability ratio approaches.
- 2) To determine the relationship between Claim Ratio, RBC, VAIC, and takaful operators' financial profitability through Pearson correlation.
- 3) To analyse the effect of Claim Ratio, RBC, and VAIC towards takaful operators' financial profitability using Panel Data Regression.

1.5 Research Questions

- 1) What are the values of Claim Ratio, RBC, VAIC, ROA, and ROE of takaful operators in Malaysia?
- 2) What is the relationship between Claim Ratio, RBC, and VAIC and financial profitability of takaful operators can be determined?
- 3) How does the Claim Ratio, RBC, and VAIC affect the ROA and ROE of takaful operators in Malaysia?

1.6 Scope and limitation of the Study

The coverage of this study is listed companies of takaful operators under BNM. The data from annual reports during the year 2015 until 2019 were collected. This study will evaluate analysis performance using Claim Ratio, RBC, and VAIC, which means it will derive outcomes based on their financial statements. Then, proceed to panel data analysis in order to determine whether claim ratio, RBC, and intellectual capital have a significant impact and relationship towards the financial profitability of selected takaful operators. Besides, as intellectual capital will also be used and it focuses on the company's internal organisation, it is important to know its impact on companies' performances other than reports on figures.

However, there are still limitations in this study. This research relates to the analysis techniques for the financial performance of the insurance sector only. Basically, there are a total of 15 takaful operators that have been registered as licensed financial institutions under BNM. However, in this study, they will be analysed according to each type of fund or the nature of their business so that the performance evaluation can be observed in a clearer picture. Therefore, for takaful operators who run families, takaful business consists of 11 operators meanwhile general business consists of 6 general takaful operators. Since the data to compute RBC in 2019 are insufficient, we shortened the RBC computation for general takaful funds from the year 2015 until 2018 only. Apart from that, we use values based on the shareholder's fund of each takaful operators' financial statement. This is to standardise the computation of their profitability using ROA and ROE as some values are not available if it is based on the type of funds. This also applies to the computation of intellectual capital, as it involves some management expenses such as employee cost, depreciation, and amortisation, which are only available based on shareholder's funds. Moreover, to avoid any

insignificant result in regression analysis, only 3 out of 6 general takaful operators have been selected along with all 15 family takaful operators due to containing sufficient data on all three factors, which are claim ratio, RBC, and VAIC for the five years' period.



1.7 Significance of the Study

This study is worth conducting as it can help insurance companies, investors, bankers, and analysts to get a clearer picture of the Malaysian takaful market's current status by running a proper and thorough analysis of their financial statements. It also helps researchers or rating firms to discover whether the VAIC is useful in evaluating the performance of insurance companies so they can apply and improve this method in the future. This research also helps students and business people that are interested in finance or insurance to get better knowledge and to guide them in more crucial future research on this topic whereby financial performance is a common financial indicator that has been widely used.

1.8 Research Flowchart

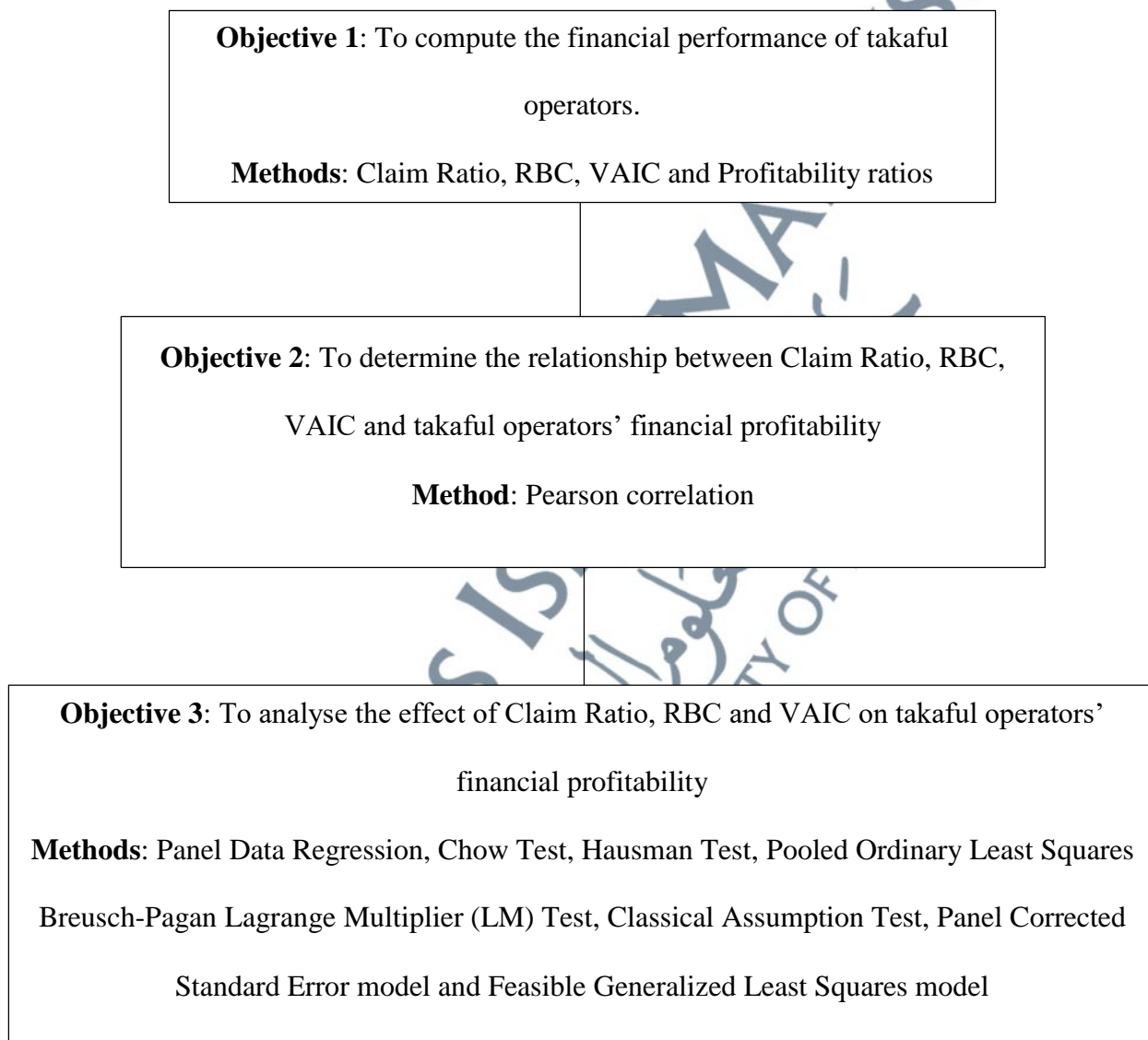


Figure 1.1: Research Flowchart

1.9 Conclusion

In conclusion, basically, this chapter explains the background of the study related to the insurance sector. We also provide some information about the financial performance of takaful operators and the challenges that have been faced currently. Next, the study of our research relates to the application of Claim Ratio, RBC, and intellectual capital methods. Thus, the problem statement describes the performance of takaful operators and how we are going to assess it using those methods. Besides, the research questions and objectives are related in order to complete the study according to the main objectives. Even so, this study still encounters some limitations due to the availability of data in each company's financial statements.

CHAPTER II: LITERATURE REVIEW

2.1 Introduction

In the previous chapter, we have briefly introduced the study to the readers. Therefore, information on the insurance industry, the structural behaviour of takaful insurance, and the factors that affect their performances will be explained in this chapter. In addition, this chapter also consists of the financial indicators and their impacts on the takaful industry, respectively. Next, to assess the financial performance of companies, Claim Ratio, RBC, Intellectual Capital (IC), ROA, and ROE that will be used in this study will be explained in this chapter.

2.2 Overview of Takaful Operators in Malaysia

The nature of the insurance business is divided into two types, conventional insurance, and Islamic principles-based, takaful, which is led by the conventional insurer and takaful operators, respectively. Both firms are under Bank Negara Malaysia (BNM) supervision. BNM adopts a risk-based supervisory strategy for insurers and takaful to ensure the integrity and financial soundness of the insurance industry. Risk analysis and risk management evaluation perform the essence and level of the insurer's supervisory operation. BNM uses different approaches to ensure the insurance company's financial flexibility and better secure the policyholders, including issues guidelines, imposed regulations and set frameworks on assets and liabilities valuation, solvency regulations, and risk management practice to observe conventional performance insurance and takaful companies.