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Does Perception Towards Insurable Risks Mediate the Relationship Between Firm's Leverage and General Takaful Demand?

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Abstract: This research investigated if perception towards insurable risks does mediate the association of firm leverage with general Takaful demand among small and medium enterprises (SMEs)established in Malaysia. As a result, two significant aspects; perception among firms and leverage, did display some essential relationships with general Takaful demand, indicating that leverage with higher values points towards greater capacity in substituting capital properties, besides forking out cash to pay for financing, as well as additional financing services. On top of that, the Takaful coverage that had been sought by firms demands more financing, primarily to protect these firms from specific risks. Other than that, perception exerted by firms towards insurable risk exemplified a strong mediation between leverage and general Takaful demand. With that, the outcome of the study displayed some implications for imminent and continuous general Takaful demand that focuses on enhancing the perception of SMEs, which could be attained by offering consistent and exceptionally excellent services. In fact, with better service provision, more SMEs would be encouraged to continuously subscribe to the various general Takaful products.

Key words: Leverage · Perception · General Takaful demand · SMEs

INTRODUCTION

The essential principles that are embedded in corporate risk management are: I) risk control and ii) risk financing, where insurance contracts emerge as integral aspect in risk financing. Insurance refers to services that offer protection to either individuals or organizations against contingencies and adversities that are uncertain, while Takaful, which is also an element of insurance protection, strictly adheres to the Islamic principles. With that, this particular concept has been inspired by the growing needs and demands among the Muslim community that seeks insurance protection that conforms to the Islamic law. In fact, history traces that this Takaful concept was first introduced in Sudan as early as in 1979 [1].

As for Malaysia, two types of insurance schemes are available: I) conventional insurance and ii) Islamic insurance (Takaful), where Bank Negara Malaysia (BNM) functions as the regulator for both these insurance schemes. Hence, individuals and various enterprises have options of purchasing insurance from either conventional or Takaful insurance schemes, where both schemes offer protection against numerous risks. Nonetheless, the emergence of Takaful insurance has created an alternative to the conventional insurance, thus acting as an incentive that could further drive SMEs towards successful management of risks. Moreover, both schemes are viewed as equal for no variance has been discovered in the behavior displayed by SMEs that opted either conventional or Takaful insurance scheme.

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Meanwhile, [2] claimed that leverage is indeed a vital predictor of general demand from the aspect of insurance. Furthermore, these SMEs have exhibited a positive correlation between insurance and leverage. Thus, firms with higher leverage are dependent on financing especially to support their business operations. Moreover, in the industry of trade and business, financing enables purchase of assets (machines/buildings) especially in boosting firm equity, as borrowers must purchase general insurance [2] and [3], particularly fire and other risk genres, which is indeed part of the condition depicted in the loan contract. Hence, comprehending the aspect of firm leverage and determining its operating capabilities could escalate the demand for general Takaful, particularly in Malaysia [2]. Besides, leverage is a significant factor for general Takaful demand as it is imminent in financing, where benefits and risks are weighed in to dictate the processes involved in operating a firm. Furthermore, leverage with higher values means easier substitution of capital assets, inclusive of payment for financing and its related extra services. Unfortunately, firms with exceeding debt leverage could fall into bankruptcy due to their higher capabilities. Hence, Takaful protection is definitely needed by such firms for protection from risks.

On top of that, firms reporting high leverage have been linked with bigger risk primarily because leverage is reflective of the debt used to finance operations in a firm [4]. Therefore, financing is increased in order to invest more in trade affairs without accumulating equity. Hence, Takaful protection is sought by firms, especially those with abundant financing chiefly for protection from lurking risks. In precise, subscribing to a Takaful product could be due to the capital structure of a firm, i.e. financial leverage [2]. As such, leverage is not only vital to protect trade affairs, but also more likely to influence the demand for general Takaful.

Nonetheless, although the correlation between leverage and general Takaful demand has been proven time and again, conflicts still emerge from this vivid relationship. This is because; the outcomes derived from prior researches have exhibited not only a positive relationship between leverage and general insurance demand [2-9], but also a negative link between the variables [10], while some others found nil association between the two significant variables [11] and [12]. Hence, the aspects of leverage and general Takaful demands that exist in a vivid relationship have been suggested as simplified and lack perspective. As such, this research looked into the perception of policyholders as an influential variable to investigate the impact of perception of policyholder upon general Takaful demand in a systematic manner. This is because; analyzing perception of policyholders towards insurable risk unravels their significant views upon assets in relation to their trade, which never fail in influencing their decision to subscribe to Takaful protection.

Besides looking into the element of leverage, this paper also lists the impact of leverage upon general Takaful demand focused on the behavior of purchasing Takaful exerted by entrepreneurs to protect their business against unwarranted corporate risks based on their understanding about risk management or mitigation. In other words, general Takaful is linked to improbability seen in future business, thus seeking assets protection. One way to look at this case is that firms can lose the money they spend on insurance premiums if their business assets are secured. However, if misfortune overshadows when these firms are without insurance coverage, insufficient savings could put a halt to their trading affairs. Thus, a general insurance policy should cover its holders with more savings than they have, hence emerging as a motivation among SMEs to purchase Takaful in hindering risks. However, the tendency of these entrepreneurs to undertake a certain level of risk for the sake of their business operations is lacking comprehension, especially involving business decisions. Furthermore, varied individuals could be instilled with differing viewpoints pertaining to insurable risks. Thus, this study contributes to the existing literature by determining the behavior exerted by SMEs towards Takaful products, in addition to listing the contributing factors to Takaful purchasing demand within the Malaysian multi cultural context.

History of Takaful Industry in Malaysia: In 1979, the concept of Takaful was first initiated in Sudan to adhere to the Muslim principles [13-15]. Later in the early 1980s, Malaysia adopted this Takaful concept especially to comply with the Muslim law, to become an alternative to conventional insurance and to complement the Islamic banks operations, which were founded in 1983. Moreover, the Malaysian National Fatwa Council suggested that the concept of then life insurance was invalid primarily due to the use of *Gharar* (uncertainty), *Riba'* (usury) and *Maisir* (gambling), which are forbidden in Islam. With that, the government had set up a Special Task Force to test the potential of establishing an insurance company that

adheres to Islamic law. Then, as recommended by the Task Force, the Takaful Act was enacted in 1984, hence establishing the first Malaysian Takaful operator in November 1984 [16].

In general, Takaful contributions have seen tandem growth with the economy boost. Besides, the global finance markets that are Islamic in nature, as forecasted by EY Global Takaful Insight in 2014, had been worth about US$2 trillion. On top of that, this global Takaful market grew by 14% in 2014 and had been estimated to hit a whopping US$20 billion by 2017.Additionally, economy that is strong should escalate *Takaful* contributions, while recession could cause a dip in the financial sheets. As for Malaysia, the Takaful industry has penetrated into the market by approximately 15%, which is deemed very low [17]. Nonetheless, the opportunity for the Malaysian Takaful industry to further penetrate into the market is wide if strong growth and demand are displayed in the near future. Furthermore, this 15% market penetration is projected specifically for the Takaful industry; dismissing general and family Takaful, which are equally significant due to their contribution to the Takaful industry growth. In addition, family Takaful displayed higher penetration by 0.6% (RM37.227 million)compared to general Takaful that contributed to only 0.1% or RM6.2045 million [17].Besides, as the general Takaful products are not widely subscribed by Malaysians, it is significant to determine and highlight the influential factors of general Takaful demand in lifting the Takaful industry.

Theoretical Background and the Research Model: The development of Capital Asset Pricing Model (CAPM) and the Prospect Theory are briefly reviewed because fundamental knowledge about the firm itself is believed to organize the determinants of corporate insuring behavior in a systematic manner in order to provide a better understanding of the major theories that support this study. Numerous research studies have studied the various dimensions of leverage by employing [18] Capital Asset Pricing Model (CAPM), especially in predicting and elaborating the functions of insurance policies in firms as dictated by entrepreneurs and the top management. Moreover, it had been found that viable insurance schemes can increase the value of a firm within a limited market by lowering both direct and indirect costs incurred by the firm in financial distress [19], besides reducing asset replacement [20] and under-investment issues [19-21], hence synchronizing both financial and investment activities purported in a firm. Furthermore, several researchers, in investigating general insurance demand, have examined the influence of leverage upon demand for general insurance [2, 3, 4], [7], [8], [11] and [12]. Other than that, some employed several existing frameworks to explain the gist of perception given by firms that affects decision-making, while others examined risk attitudes exerted by individuals [22] and [23]. Hence, this study concentrated on the influence of perception upon leverage and general Takaful demand among Malaysian SMEs by applying the Prospect Theory.

Hypotheses Development: The above subsection on theory and empirical results discussed the relationship between financial factors and corporate insurance demand. Since the research on Takaful operation is limited especially on general Takaful demand, this study employs the existing theory and empirical results from conventional insurance and Takaful demand to establish Takaful hypotheses. It forms the basis for the hypotheses of the study.

General Takaful Demand: SMEs that take loans to obtain business assets in Malaysia are demanded by the lawful financial institution to purchase insurance (e.g., fire insurance), while for some even before devising a purchasing contract (e.g., insurance for workman compensation). Additionally, some entrepreneurs (government contractors and suppliers)should also purchase insurance coverage from a panel of chosen insurers (e.g., government projects or tender must seek protection from *Takaful* operators). Although such insurance are required by law, it affects the perception of SMEs against insurable risks because they will see the importance of such protection. This will help them to understand more about the business protection. A clear understanding of the business property protection will change the perception of insurable risks.

Theoretically, the number of insurance units purchased and the price of insurance per unit obtained from firms do function as suitable measures, but in practical, it is difficult to determine the demand for insurance only by using accounting data. Furthermore, since insurance premiums consist of unit price and quantity, these purchased premiums could function as proxies to determine demand for insurance. Hence, annual Takaful contributions had been selected as the dependent variable in this study to represent insurable general assets.

Leverage: Debt used to finance firm assets is known as leverage. Thus, a firm with huge debt, exceeding its equity, is deemed to have greater leverage. Moreover, as debt escalates, leverage also increases to ascertain the finance required for business operations, hence dismissing equity increment. In line with this, [24] asserted that the most significant predictor for demand of general Takaful among SMEs is leverage duly because a firm with high debts would definitely require insurance protection for numerous risks. Other than that, [9] who summarized theories concerning corporate risk management, depicted that a favorable insurance scheme could increase a firm's value within a limited market via some ways. Thus, the hypothesis below is proposed:

H_1: Leverage provides positive effects on Takaful Demand by SMEs

Perception: The overall outcome concerning decision-making in relation to risk is in agreement with the Prospect Theory developed by [25] as well as [26], where entrepreneurs or firms would have either ignored or assumed that loss is incurred due to aversion loss. In fact, the Prospect Theory is deemed as the most functional theory at present times to guide the decision-making process under certain conditions [27] and [28].

Meanwhile, a report published by the BNM concerning demand of general insurance exhibited that most SMEs had decided to disregard their trade properties and liability risk through insurance coverage dismissal. This is mainly because entrepreneurs have become extremely conscious about lower probability risk like natural disasters [29]. It had been observed that the occurrence of calamities is low, but the severity is high if they take place. Hence, since natural calamities can incur high losses, many seek for the positive outcome from insurance purchase, which protects both the business and assets. Even though the Prospect Theory had been designed for entrepreneurs, this theory has been applied for firms as well. Thus, these risk attitudes exemplify varied implications towards insurance demand. Hence, when perception of firms upon insurable risks is identified, fellow insurers are provided with vital information pertaining to the firms, together with the related risks shadowing the present business.

On top of that, the survey instrument employed in this study gathered information pertaining to perception at firm level towards insurable risks, including its impact upon demand for general insurance, which rarely takes place in real and practical insurance-related decisions for this specific aspect has yet to be addressed in any empirical work [30]. In addition, this research on general insurance demand excludes attitude displayed by corporate magnates towards insurable risks. Other than that, [31-33] claimed that one who disseminates information about risks would start making judgments from the stance of advanced perception, which makes the process of decision-making more intricate like the decision of purchasing insurance to cover business operations determined by various insights about insurable risks, as observed in this study.

Furthermore, the variable embedded into the framework in the light of general Takaful demand is the Takaful contribution ratio that reflects the contribution of firms to many kinds of policies related to general Takaful, which is also a perception indicator for revealing risk. With that, the positively significant coefficient of this variable depicts that firms do seek for higher Takaful demand. In addition, literature also portrays that contribution of insurers to Takaful demand can be determined by analyzing their viewpoints towards insurable risk. Furthermore, [34] revealed that the perception of the insured towards insurable risk, such as flood insurance, emerges as continued demand to cover insurable risks. On top of that,[35] who analyzed the impacts of risk attitudes upon insurance demand, summarized that regardless of the attitudes towards risk, insurance demand could decrease with escalating price. Thus, it is hypothesized that:

H_2: Perception towards insurable risk has positive effects on Takaful demand.

Other than that, literature that depicts financial data (leverage) with attitudes dismisses the aspect of financial economic because many researchers prefer and rely on secondary data, while accounting data were employed to determine insurance demand. Thus, financial data have rarely shown any importance on attitudes, especially pertaining to perception upon firm. Nonetheless, literature concerning perception determined by leverage does exist. For instance, [36] measured risk perceptions, risk attitudes and asset specificity. Asset specificity items are reflective of "human in the hog" industry. Meanwhile, assets in the study refer to the secondary accounting data that provides the measures for leverage offarms, pointing towards a higher capacity for debt repayment, as displayed by higher leverage values. As such, the

outcome hints that leverage and perception, as provided by manufacturers about market risk, do have a vital link. Based on the results above, one can derive at the following hypotheses:

H_3: Leverage has significant effects on perception towards insurable risk

H_4: Perception towards insurable risk mediates the relationship between leverage and Takaful demand.

MATERIALS AND METHODS

Data Collection: This study had selected Malaysian SMEs that subscribed the general Takaful as represent the SME population in Malaysia. Hence, the list of sample was obtained from several malaysian general Takaful operators like Syarikat Takaful Malaysia Berhad, Etiqa Takaful Sdn Bhd, and Syarikat Takaful Ikhlas Sdn Bhd. On top of that, the Simple Random Sampling method was applied to select the respondents. Thus, some 400 self-administered questionnaires were disseminated to randomly chosen SMEs. As a result, a total of 278 questionnaires had been found usable, which represented 69.5% of response rate. As for the questionnaire, it consisted of two sections; the first was to obtain demographic information from the respondents (SMEs), whereas the second retrieved data that measured perception of management towards insurable risk.

Measures: The toolsapplied to measure the variables were derived from the literature. Besides, the accounting data were employed to measure leverage (debt to asset ratio), while the insurance premium (ratio of premium to total insurance spending) functioned as a proxy for insurance demand. On the other hand, insurable risk perceptions were gathered from focus group discussions that determined the viewpoints of SMEs upon risks. In fact, this focus group consisted of three Takaful operator managers who dealt with SMEs directly to offer advice concerning protection of insurance against assets and liability in conjunction to SME trade affairs.

Sample Profile: A total of two 278 SMEs had responded to the survey with higher participation from the small-sized firms (156 respondents or 56.1%), in comparison to that of medium-sized (122 respondents or 43.9%). Next, the duration of business operation showed that around 14.4% of the SMEs operated between 5 and 15 years, 50%between 5 and 15 years, while another 20.9% of SMEs had been established for more than 20 years. As for business genre, 61.25% of the SMEs were involved in the service industry like ICT related trades, while 38.8% were manufacturers (including agro-based) and those that served manufacturers. Regarding employees, about 49.6% of the SMEs employed less than 30 workers, while 32% had between 30 and 75 employees and only 18% percent reported more than 75 employees. Meanwhile, in terms of business ownership, 72.7% of SMEs were owned by Malay entrepreneurs, while 23% had Chinese owners. Hence, the generalization of this study is deemed valid based on size of business, duration of business operation, business sector, business ownership, as well as the number of workers employed by the SMEs, as illustrated in Table 1.

Table 1: The Profile of Respondents (SMEs)

Characteristics of Respondents	Frequency (n=278)	Percentage (%)
Size		
Small	156	56.1
Medium	122	43.9
Duration of Business Operation		
Below 05 years	40	14.4
05 – 10 years	76	27.3
11 – 15 years	60	21.6
16 – 20 years	44	15.8
Above 20 years	58	20.9
Business Sector		
Manufacturing (including agro-based) and MRS	108	38.8
Services, including ICT	170	61.2
Number of Employees		
Less than 30	138	49.6
30 – 75	90	32.4
More than 75	50	18.0
Ownership, based on ethnicity		
Malay	202	72.7
Chinese	64	23.0
Others	12	4.3

RESULTS AND DISCUSSIONS

By employing the multivariate statistical analysis method, known as Structural Equation Modeling (SEM),the listed research hypotheses had been examined chiefly because of the following reasons: (a) SEMis the Second Generation Method of multivariate analysis built specifically to address the limitations stumbled upon in Ordinary Least Squares (OLS) or also

known as Regression Analysis,(b) SEM has the ability to model and analyze the correlations between constructs and variables simultaneously, © SEM could model the mediator and also test the mediation effects within the model in an efficient manner and most importantly, (d) SEM could determine if a model best fits the data gathered [37-43]. In fact, the two models available in SEM are Measurement Model and Structural Model [37,38,39].

The Measurement Model: After gathering data for the latent construct,"Perception towards Insurable Risk" from the focus group discussions, the Exploratory Factor Analysis (EFA) procedure had been performed using data derived from the pilot study to ascertain the dimensionality of the items that measured the constructs, including their internal validity. With that, this study had successfully collected some 108 cases from the Pilot Study that derived from a series of meeting sessions with the firm owners. In fact, "Perception towards Insurable Risk"was investigated using eight items listed in the questionnaire.

Furthermore, the EFA procedure using Principal Component Analysis (PCA) with Varimax Rotation had been applied in this study to look into the eight items. Table 2 portrays the findingsobtained from Kaiser-Meyer-Olkin (KMO) and Bartlett's tests. The results indicated the significance of the Bartlett's Test of Sphericity (p-value < 0.000), while the measure of sampling adequacy displayed by KMO was 0.886, which is deemed as excellent for it exceeds the recommended value of 0.6 [37-39, 43]. Thus, the value obtained from the KMO and Bartlett's Tests, as depicted in Table 2, indicated that the study could further move to the next stage.

Table 2: KMO and Bartlett's Tests

	KMO and Bartlett's Test			
Construct	KMO	Chi-Square	df	Sig. (p)
Perception	0.886	4128.078	28	0.000

*p ≤ 0.5

In the next stage, the Exploratory Factor Analysis (EFA) procedure was carried out for items that specifically measured "Perception towards Insurable Risk" and its results are tabulated in Table 3.

Table 3: Total Variance Explained for Perception Items

	Initial Eigenvalues			Rotation Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.693	58.662	58.662	3.180	39.756	39.756
2	1.209	15.107	73.769	2.721	34.014	73.769

Table 4: The Rotated Component Matrix for Perception Items

	Perception	
Perception towards Insurable Risks	ATT 1	ATT 2
Need to have insurance coverage for third party liability		0.809
The company's financial performance and afford ability		0.820
The possibility of suffering a catastrophic fire or damage		0.734
Company assets that require insurance coverage		0.744
Need to have insurance coverage for employees in the event of some undesirable happening	0.823	
Insurance payments can be deducted from company taxes	0.888	
Public regulations (for example, solvency regulations, price regulations and others)	0.870	
Need to have insurance coverage for losses due to fire and machinery breakdown	0.816	

Table 5: Reliability Coefficients (Cronbach Alpha)

Construct (Perception)	No of items	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items
ATT1	4	0.827	0.838
ATT2	4	0.915	0.915

Furthermore, the related items were loaded into two components with the total variance explained at 73.769%, which has been deemed as adequate [44]. Besides, the findings shown in Table 4 point out that all the eight items did score factor-loading values exceeding 0.6; demonstrating the significance of all the items for successful construct measurement [37, 38, 39], [43] and [44].

Table 6: The Fitness Indices for Structural Model

Name of Category	Name of Index	Index Value	Comments
1. Absolute Fit	RMSEA	0.070	The required level is achieved
2. Incremental Fit	CFI	0.973	The required level is achieved
3. Parsimonious Fit	ChiSq/df	2.361	The required level is achieved

Table 7: The Fitness Indices for the Measurement Model for Each Construct

Construct	Item	Factor Loading	Cronbach Alpha (above 0.7)	CR (above 0.6)	AVE (above 0.5)
ATT	ATT1	0.72	0.894	0.834	0.720
	ATT2	0.96			
ATT1	AT11	0.72	0.839	0.854	0.594
	AT12	0.80			
	AT13	0.80			
	AT14	0.76			
ATT2	AT21	0.86	0.913	0.915	0.731
	AT22	0.91			
	AT23	0.89			
	AT24	0.75			

After that, the item internal reliability under specific component had been determined. In fact, internal reliability refers to the repetition of specific tests for measurement [45]. Thus, all scores derived from Cronbach's Alpha and Composite Reliability should exceed the recommended value of 0.7 [43] and [46].With that, Table 5 shows the values of internal reliability coefficient for components one (ATT1) and two (ATT2) in the light of perception, which display scores of 0.838 and 0.915, respectively.

Next, in determining the validity of construct in the measurement model, a Confirmatory Factor Analysis (CFA) was performed. The CFA looks into the elements of unidimensionality, reliability and validity of the measurement model [37-39], [43] and [47]. As a result, the CFA for fitness indices were GFI =.963, CFI =.983, TLI =.975, NFI =.970, RMSEA = 0.067 and Chi-Square/df =2.234. Besides, the fitness indices shown in Table 6 display the results of construct validity attained [37-39] and [43].

On the other hand, Convergent Validity reflects the extent to which the items that measure the constructs share high proportion of common variance [48]. In addition,[48] asserted that factor loadings and Average Variance Extracted (AVE) exceeding 0.5, as well as composite reliability (CR) at 0.7 or more, are deemed asviable. As a result, Table 7 exemplifies the model with adequate measurement. In brief, the examination of the measurement model portrayed solid evidence for several significant elements, for instance, Unidimensionality, Construct Validity, Convergent Validity and Composite Reliability, for the constructs that were examined in this study.

Structural Model: A structural model exhibits the causal dependency that occurs among the constructs investigated in a study, as presented in the hypotheses listed [37-43]. As such, SEM is commonly executed to test the direct effect and the mediator hypothesis. For that purpose, a boots trapping procedure is normally performed to validate the results obtained from the mediation test. Besides, this bootstrapping technique is recommended to address several potential issues derived from unmet assumptions, specifically those concerning indirect effect – the impact of independent variable upon dependent variable via mediator.

On the other hand, the standardized paths for coefficients displayed in the Structural Model are illustrated in Figure 1 and Table 8. Initially, the significant path from leverage to perception (β=.44, p <.001) demonstrated that firms that had high debts due to assets were assumed to possess higher leverage, as well as reasonably higher level of perception. Second, the significant impact of perception up on demand (β=.24, p<.001) proved that increased perception towards insurable risks escalated Takaful protection demand. Lastly, the significant direct impact exhibited by leverage upon demand (β=.54, p<.001) showed that higher firm leverage led to increased Takaful protection demand.

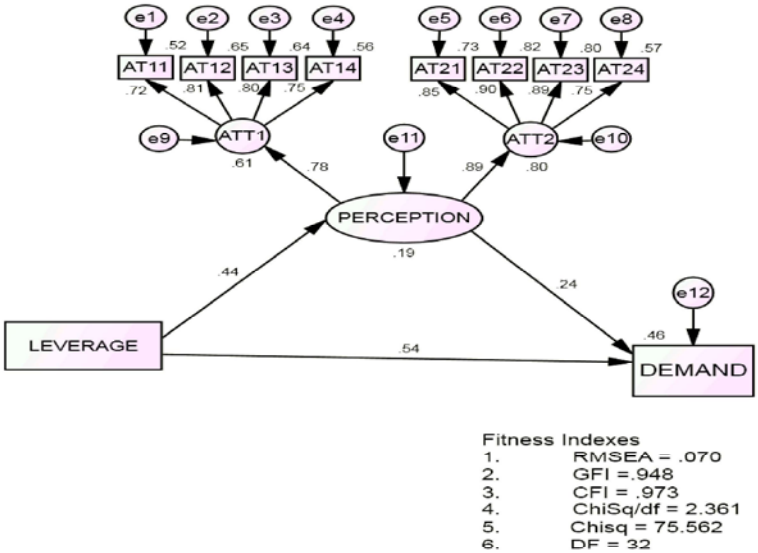

Fig. 1: The Standardized Estimate for every path in the Structural Model

Table 8: The Regression Weights and their Significances

			Estimate	S.E.	C.R.	P	Result
PERCEPTION	<---	LEVERAGE	0.436	0.064	5.504	***	Significant
DEMAND	<---	LEVERAGE	0.536	0.038	10.314	***	Significant
DEMAND	<---	PERCEPTION	0.240	0.056	3.927	***	Significant

Note: ***p<0.001

Table 9: The Degree of Mediation

Predictor	Mediation	Criterion	Direct Effect	Indirect Effect	Total Effect	Degree
LEVERAGE ->	PERCEPTION ->	DEMAND	.536***	.104***	.640***	Partial

Note: ***p<0.001

Table 10: Perception as a Mediator

Predictor	Mediation	Criterion	Indirect Effect	Lower CI	Upper CI	Supported
LEVERAGE ->	PERCEPTION ->	DEMAND	.104***	. 046	. 187	Yes

Note: ***p<0.001

Upon testing hypothesis H_4, the important level of the mediating (perception) impact had been determined by employing the bootstrapping technique, where 1000 bootstrap re-sampling and bias-corrected confidence intervals had been conducted [49]. Besides, the indirect impact means the extent to which modification in the predictor variable (leverage)alters the criterion variable (demand)via mediator variable (perception). The direct effect, on the other hand, is defined as the extent to which alteration in the predictor variable (leverage)is directly linked to the criterion variable (demand) without any mediator (perception). Hence, the sum of direct and indirect impacts should be equivalent to the total effect. Hence, this particular study adhered to the suggestions offered by [50] to determine the level of mediation; either partial or full mediation. As a result, the significance of both the indirect and direct effects reflected partial mediation. Other than that, if the indirect and total effects had been significant, but otherwise for direct effect, full mediation is revealed. Moreover, Table 9 tabulates the direct, indirect and total effects, as well as the degree of mediation portrayed by the hypothesized paths.

On top of that, the indirect impact of leverage upon demand via perception was indeed essential (indirect effect =.536, 95% lower bootstrap CI=.104, upper bootstrap CI=.640, p<.001). Therefore, hypothesis 4 purported in this study is supported. Besides, perception was also found to partially mediate the correlation of leverage with demand. Table 10 further presents the outcomes related to hypothesis 4.

The model employed in this research portrayed that the aspects investigated; leverage and perception, could explain approximately 46% of the variance in conjunction to Takaful demand. Besides, as leverage indicates the amount of debt used by a company to finance its assets, high leverage is reflective of higher debt, in comparison to equity. Hence, higher debt requires Takaful coverage (a condition required by the finance companies to offer loans to traders).In fact, the result obtained from this study is in line with the findings retrieved from studies conducted by [2,3,4],[7],[9] and [12], in which all the studies did discover a significant correlation of leverage with demand for insurance.

On top of that, this study also determined the association of leverage with perception towards insurable risk, where a significant correlation was pointed out. As a matter of fact, this finding is in agreement with that found by [36], who revealed that leverage was linked significantly to risk perceptions, risk attitudes and asset specificity. Thus, this study had successfully verified the correlation between insurable risk perception and Takaful insurance demand.

Furthermore, it was found that higher insurable risk perception led to enhanced knowledge and comprehension displayed by SMEs concerning risks related to business assets and liabilities. This enlightenment escalates the demand for Takaful protection, which is also consistent with the findings obtained by [34] and [35].

In addition, the findings strongly suggest that positive stance towards insurable risk escalates Takaful insurance demand. Thus, Takaful operators should strengthen their marketing strategy to be more effective in order to convince SMEs about their products, as well as its impact upon insurable risks like business properties and liabilities. With that, the impact of perception upon leverage against Takaful request displayed support towards the psychological premise, where SMEs can offer a sense of relief with coverage of trade properties and liabilities. Hence, perception is one of the many ways to promote insurance demand [34] and [35]. Moreover, this particular study offers confirmation that the significance is beyond dispute for insurable risk perception, especially in mediating the correlation between leverage and Takaful demand. Besides, perception towards insurable risk has emerged as a mechanism between leverage and Takaful demand. Nonetheless, even though recent studies have asserted their confirmation for the relationship between leverage and Takaful demand among SMEs, one essential reason behind this outcome is that the prior studies mentioned above could apply perception towards insurable risk when carrying out decision-making maneuvers by SMEs in the industry, but failing to display awareness of protecting trade properties and liabilities.

Therefore, the implications of the outcome could be categorized into two elements: theoretical and practical. As from the theoretical stance, this research adds to the growing body of literature for it focuses on demand for general Takaful. It also contributes to the evidence that supports the determinants of insurance demand, especially within the Malaysian Takaful context. Meanwhile, from the practical stance, since leverage has emerged as the most significant predictor of general Takaful demand, Takaful operators should begin devising vigorous strategies to enhance awareness among Malaysian SMEs about insurable risk with the focus placed on enhancing the perception of SMEs as the second most important determinant associated to general Takaful demand. For instance, fast and efficient services like payment of claims and risk management advices, could generate better and positive perception by SMEs to continuously purchase Takaful as their main business protection strategy. In contrast, any misperception that arises pertaining to service issues could negatively influence the intention to seek Takaful protection, thus affecting the future of general Takaful demand. Despite of the valuable outcomes derived from this study, limitation on the samples was not addressed by the researcher due to the enforcement of financial regulations, as directed by the BNM (BAFIA and FSA),which prohibits disclosing client information. As a consequence, the researcher was not permitted to view or to customize the required samples.

CONCLUSION

In summary, this study revealed that the two aspects; leverage and viewpoints of insurable risks, are indeed essential predictors for demand of general Takaful. In fact, the strongest predictor for both general Takaful demand and perception is leverage. Such outcome suggests that Takaful operators should seriously look into enhancing the perception of insurable risk upon general Takaful demand especially to boost awareness and convince SMEs about Takaful products via effective strategies. Additionally, this study discovered that perception of SMEs towards insurable risk is also vital as an indicator for continuous Takaful demand; thus, focus must be placed on enhancing SMEs' perception, which could be attained by providing excellent services in order to

ascertain continued purchase of Takaful products. Other than that, more researches have to be conducted to address the limitations of this study with the hope of achieving fundamental comprehension regarding Takaful demand among Malaysian SMEs.

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