

## **Retaining Customers through Islamic Relationship Marketing Practice: Findings from Malaysian Takaful Industry**

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### **Abstract**

In recent times, the ability to maintain good and quality relationships with customers has become a competitive advantage for a company. In this context, a few marketing scholars have suggested that retaining customers is much more profitable than acquiring new ones. Parallel with the objective of Relationship Marketing (RM) which is to minimize the lost of profitable customers by ensuring future customer retention, this research is conducted to introduce a new concept of Islamic Relationship Marketing (IRM) and investigate its influence towards future customer retention. By selecting 755 customers of Malaysian Takaful industry and utilising structural equation modelling as statistical method to achieve the research objective, it is found that customers in this industry intend to remain with the same Takaful operator and agent for long term period given that they practice the Islamic ethical behaviour and build strong relational bonds (social, structural, and financial bonds) with the customers. Besides that, the application of social exchange theory in the research framework have been proven in this research whereby the practice of Islamic relationship marketing in the Takaful industry would give positive affect towards future customer retention. Overall, the results of this research would urge Takaful operators and agents to be more concerned with the marketing approach that they utilise which basically must parallel with the maqasid Shari'ah as to ensure future customer retention. These factors are also important in helping Takaful to remain competitive in the market for the long term.

Key words: Customer Retention, Islamic Relationship Marketing, Takaful industry, Takaful Customer, Structural Equation Modeling

### **Introduction**

Given a stiff competition among Malaysian Takaful operators to tap into untapped Malaysian market, proper and right marketing approach is said to be the most important. In this context, they are advised to employ any marketing approach that accordance with Shariah parallel with the objective of Takaful products. Unfortunately, it is observed that there are commission-based agents whose goal is to sell Takaful products that offer them high commissions, and in doing so, tend to neglect the needs of their customers. Some agents sell both Takaful and conventional products simultaneously, and some of them tend to promote conventional products by informing their customers that the Islamic products are complex, unattractive, and expensive.

Accordingly, it is agreed that marketing practices in the Takaful industry mirror the practices of conventional insurance operators. Takaful agents too tend to focus more on selling Takaful products and services rather than promoting the objectives of Takaful. A recent study conducted by Mohamed et al. (2013) indicates that marketing practices is now become the most important factor in the Takaful industry because it gives such huge impact to the penetration rate of the industry. This was the view shared by 20 Takaful managers in Malaysia (Mohamed et al., 2013). Furthermore, the approach used to market Takaful products should be based on Islamic norms whereby the intention of

the marketers is to assist the customers by offering them a variety of Takaful products suitable with their needs (Marhanum, Nurdianawati, Siti Salwani, & Saodah, 2012).

Lacking in the practice of Islamic norms in dealing with the customers has increased the number of customers surrendered their Takaful policy each year. It is observed that the number of customers who surrendered their Family Takaful Scheme has increase since 2006. In five years; between 2006 and 2010, the highest number was recorded in 2010 in which approximately 139,021 customers surrendered their Family Takaful Scheme (Bank Negara Malaysia, 2010). In addition, in a recent report by Milliman, it was reported that the surrender rate of the Family Takaful Scheme continued to increase till 2011. In proportion to total number of policies, 7.4 percent of its customers have surrendered their policies (The Global Family Takaful Report, 2013). Much emphasis was given to the Family Takaful scheme as it had recorded a compound annual growth rate of 32 percent within a 5 year-period between 2007 and 2011 during which, Malaysia dominated both regional and international markets for this type of Takaful scheme (Ahmad Rizlan, 2013).

Apparently, the increase in the number of Family Takaful customers surrendering their policies, has affected the slow rate of Takaful penetration in Malaysia despite the strong support the industry has received from the Malaysian government. Between 2005 and 2010, the Takaful penetration rate has increased by only a small percentage, from 5.7 percent in 2005 to 13 percent in 2012 (Mohd Irwan, 2013). In a recent study by Mohamed, Syed Othman, and Kamaruddin (2013), where twenty Takaful managers were interviewed, it was verified that the most influential factors that influenced the low rate of Takaful penetration are distribution channels (90 percent of the interviewees agreed), and marketing practices (85 percent of the interviewees agreed). Therefore, this research was conducted to address this issue of marketing by proposing a measure of Islamic relationship marketing and examine its influence on customer retention. After introduction, some related literatures on Takaful and marketing perspective is discussed. It is followed by research framework and hypotheses developed in this research. Next, research methodology, data analysis, and findings are discussed. Finally, conclusion and suggestions for future research is presented in this research.

## **Related Literatures**

### **The Development of Malaysian Takaful Industry**

The initial idea to introduce Takaful in Malaysia came from a meeting of the Malaysian National Fatwa Committee on 15 June 1972, during which the permissibility of conventional insurance practices was discussed. The committee considered conventional insurance as a void contract because it involved elements prohibited in Islam such as *gharar* (uncertainty), *ribā* (interest), and *maisir* (gambling) (Hendon, Zuriah, & Sharifah Sakinah, 2009). Therefore, the committee viewed that in order to cater for the increasing demand for insurance products among Muslims in Malaysia, an alternative *Sharī'ah* compliant insurance scheme must be introduced.

Reacting to this suggestion, the Malaysian government established a special task force in 1982 to identify the religiously unacceptable elements of existing insurance practices, and the feasibility of establishing a *Sharī'ah* compliant alternative (Lim et al., 2010). Within the same year, the idea to introduce Takaful was proposed (Hendon et al., 2009). The Takaful act was enacted two years later, in 1984, and in the same year the first Takaful operator was established under the name Syarikat Takaful Malaysia Berhad (Bank Negara Malaysia, 2012; Lim et al., 2010). All the above-mentioned events are important milestones in the first phase of the development of the Takaful industry, during which the main concern was to develop the industry's infrastructure.

The second phase was initiated in the early 1990s with the commencement of the second Takaful operator known as Takaful Nasional Sdn. Bhd. The company was the first company to use an agency system in order to expand the Takaful industry's marketing channels. The ASEAN Takaful Group and ASEAN Retakaful International Ltd were also formed around the same time. The industry

expanded significantly during this phase that by the year 2000, there were 124 Takaful branches and over 4000 Takaful agents nationwide (Bank Negara Malaysia, 2012). And in 2001, Bank Negara Malaysia further reinforced the Takaful industry through its Financial Sector Master Plan, in which among the objectives was to boost the capacity of Takaful operators via the legal, *Shari'ah*, and regulatory framework of the industry.

The number of Takaful operators increased tremendously during the third phase of the development of the industry between 2001 and 2010. Overall, by 2010, there were eight Takaful operators and four Retakaful operators in the industry (Mohd Tarmidzi, 2010). In addition, the industry achieved a 27 percent growth in net Takaful contributions between 2005 and 2010 (Mohd Razif, 2011b). The Malaysian Takaful industry has therefore, emerged as a major player in Asia, and a formidable competition to conventional insurance products in Malaysia.

Interestingly, the success achieved by Takaful operators has attracted conventional insurance companies; both local and international, to apply for Takaful license from Bank Negara Malaysia. To date, there are 12 Takaful operators; nine of them local and three foreign operators (Bank Negara Malaysia, 2013). These operators are running their business based on different Takaful operational models. The next section explains the main operational models adopted by various Malaysian Takaful operators.

### **Takaful: Marketing Practices**

In general, as reported by Bank Negara Malaysia, there are five channels of marketing in the Malaysian Takaful industry. They are direct marketing, agency force, bancaTakaful, brokers, and other channels. The two most important and beneficial distribution channels as experienced by the industry are through agency and banks (Bancatakalul) (Mohd Irwan, 2013: *The World Family Takaful Report*, 2013). Records show that in 2005, Bancatakalul contributed 20.4 percent of the overall Takaful market, and the agency force contributed about 19.3 percent (Bank Negara Malaysia, 2005). Both channels of marketing basically, utilise marketing personnel to approach the public. This indicates that the industry still needs human capital or marketing agents to attract public attention. This was proven in studies by Hairul Azlan, Saiful Azhar, and Hafiz Majdi (2004), and Htay and Hanna (2012), in which, they concluded that the agency system is the most beneficial model for both operators and customers.

Existing researches, on the other hand, have made extensive efforts to compare Takaful with conventional insurance. For the most part, marketing practices in the Takaful industry mirror the practices of conventional insurance operators. Takaful agents too tend to focus more on selling Takaful products and services rather than promoting the objectives of Takaful. A recent study conducted by Mohamed et al. (2013) indicates that marketing practices is now become the most important factor in the Takaful industry because it gives such huge impact to the penetration rate of the industry. This was the view shared by 20 Takaful managers in Malaysia (Mohamed et al., 2013). Furthermore, the approach used to market Takaful products should be based on Islamic norms whereby the intention of the marketers is to assist others by offering them a variety of Takaful products (Marhanum, Nurdianawati, Siti Salwani, & Saodah, 2012).

### **Roles of Takaful Agents**

In view of the fact that the hybrid model is now the most popular model in the Takaful market, Takaful agents will continue to play a significant role in disseminating Takaful products and providing quality services to the public. An 'agent', according to the Concise Oxford Thesaurus (2007), is a 'representative'. In the context of the insurance industry, an agent is a representative of the company that appoints him/her. A Takaful agent is a person who passes the required Takaful

examination and has been endorsed by a Takaful operator to market its products and provide services on behalf of the company.

A Takaful agent is responsible for disseminating knowledge of Takaful to Muslims and Non-Muslims, and assisting his/her customers in all circumstances in relation to their financial well-being (IBFIM, 2011). He/she must be thoroughly prepared and well informed of all the necessary information, skills and strategies required in order to properly execute his/her responsibilities. Takaful agents are also required to be vigilant and responsible for any losses arising from their carelessness (Frenz & Soualhi, 2010).

The agents are considered to be “the cornerstone for building a solid edifice of any life insurance company” (Das, 2004, p. 50). They are on the frontline, on behalf of Takaful operators, in facing the public. In addition to disclosing full information to customers, agents are also responsible for informing customers of the risks involved in their investments (Das, 2004; Hairul Azlan et al., 2004). From the Islamic perspective, Islam emphasizes the role of agents in Al-Qur’ān and also in the *ḥadīth* of Prophet Muhammad (P.B.U.H) in which agent as a trustee has responsibility to fulfil the demand of other party on his/her behalf. Besides, the Takaful Act 1984 and the current Islamic Financial Services Act (IFSA) have also clarified the responsibility of Takaful agents to the operators and customers.

### **Relationship Marketing from the Islamic Perspectives**

The subject of RM has received great attention in Western studies. However, Asian literature addressing this topic remains scarce. Although research in RM is a popular marketing topic and has escalated in the past three decades (Palmatier et al., 2006), research on this subject from the Islamic perspective is very limited. This subject is interesting from the Islamic perspective because since from the very beginning, Islam has actively defined the types and forms of relationships. The unique nature of Islamic relationships is practiced by means of vertical and horizontal interactions. Through the concept of Tawheed, the vertical interaction of human beings with the creator is emphasized (Yusuf, 2010; Arham, 2010). Meanwhile, the horizontal interaction highlights the interaction among human beings and also with other creations (Yusuf, 2010).

In the context of IRM, Kartajaya and Sula (2006, p. 27) define Islamic marketing as “a strategic business discipline which directs the process of creation, offering, and exchanging values from one initiator to the stakeholders in which the whole process should be in accordance with the muamalah principles in Islam”. Additionally, Islamic marketing, according to Wilson (2012, p. 6) is “an acknowledgement of a God-conscious approach to marketing from a marketer’s and/or consumer’s perspective which draws from the drivers or traits associated with Islam”.

Islamic marketing perceives the marketer as a professional who embodies religious values (Kartajaya & Sula, 2006), feels accountable to God (Hassan et al., 2008), and is moderate and generous in dealing with customers (Yusuf, 2010; Hassan et al., 2008; Kartajaya & Sula, 2006; Rice, 1999). Conversely, unethical behaviour such as inequality, injustice, exploitation and cheating are completely impermissible in Islamic marketing (Rice, 1999; Hassan et al., 2008).

IRM thus can be interpreted as the marketing process that emerged for the purpose of building relationship between marketer and consumer based on the Islamic guidance towards Allah’s (God the Almighty) blessing. There are a number of Qur’anic verses that stress on relationship building. In Surah an-Nisa’ verse 1, for example, Allah (God the Almighty) reminds Muslims to forge good relationships among themselves.

O people! Fear your Lord Who created you from a single soul and made its mate from within it, and from that pair spread many men and women and fear Allah in Whose name you ask for (your rights) and pay attention to the ties of relationship. Undoubtedly Allah is watching you all time (Qur’an, an-Nisa’: 1)

From the Islamic perspective, RM is not only concerned with human relationships as proposed by Western studies, but it engages with the ultimate relationship between humans and their Creator. In Islam, there is a connection between these relationships because the consequence of worshipping Allah (God the Almighty) rests in an individual's positive behaviour which influences the relationship with his/her fellow friends. Islam also emphasises on the role of ethics or '*akhlak*' in relationship building. The practice of Islamic ethics was portrayed by Prophet Muhammad (peace be upon him) throughout his entire life. He has become the model of Islamic ethics as mentioned in the following verse from the Qur'an:

Undoubtedly, you have the best in the following of the Messenger, for him who hopes for Allah and the Last Day and remembers Allah much (Qur'an, al-Ahzab: 21)

In this context, Prophet Muhammad (peace be upon him) had practiced Islamic ethics throughout his life including in his business practices. He had become the role model for Muslim believers. Four Islamic ethics or practices that were highlighted in Islam and the exercised by Prophet Muhammad (peace be upon him) are As-Siddiq (truthful), Al-Amanah (trustworthy), At-Tabligh (never withholding what has been revealed), and Al-Fathanah (knowledgeable or intelligence). Basically, these four Islamic ethics have become prominent elements in RM practices. The study further exemplifies these four Islamic ethics that should be applied in the IRM context particularly by Takaful agents as they represent the entity of Islamic insurance.

Accordingly, both Muslim and non-Muslim Takaful agents are encouraged to be honest and true in dealing with customers, be responsible and trustworthy when making promises to the customers, deliver any information required by customers, and also be knowledgeable about customers, products, and the market. Basically these marketing practices have become the common responsibility of all marketing agents and the execution of these Islamic aspects of marketing may enhance the performance of marketers as they receive positive feedback and commitment from the customers. It will guarantee that the marketers are successful in building good relationship with their customers, ensuring future customer retention either for the marketers or the company.

## **Research Framework**

This section defines the proposed Islamic relationship marketing framework used in this research. The framework proposes a measurement of Islamic relationship marketing using four constructs: Islamic ethical behaviour, social, structural, and financial bond. It is further confirmed by utilizing social exchange theory developed by Thibaut and Kelley (1959) and Homans (1961). Homans (1961, p. 12) defined social exchange theory as "the premise that human behaviour or social interaction is an exchange of activity, tangible, and intangible". The theory is suitable for this research as there is social interaction between Takaful agent and their customer, and it involves both tangible (contribution in terms of money) and intangible (services provided by the agent) aspects. According to Anderson & Narus (1984) and Eiriz and Wilson (2006), social exchange also means there is interpersonal relationships between the parties (customer-agent relationship), and this is in line with the context of this research as well. Furthermore, this theory has utilised the outcome matrix that demonstrates the behaviour of each party as resulting from the behaviour of the other party (Anderson & Narus, 1984).

Specifically, the research framework consists of four independent constructs of Islamic relationship marketing (Islamic ethical behaviour, social, structural, and financial bonds) and customer retention as a dependent variable. Please refer to Figure 1 for details of the research framework.

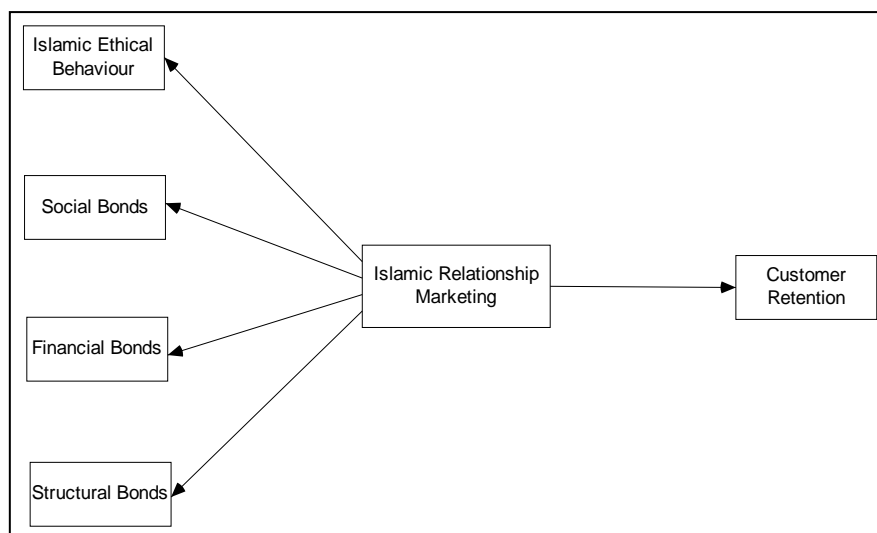


Figure 1: Research Framework

## Methodology

A research can be designed qualitatively, quantitatively, or with mixed qualitative-quantitative methodology. This present research is designed quantitatively where the data for the study is collected through a survey based on self-administered questionnaires. The questionnaires basically measure all variables in the research framework and gather demographic information of the respondents. Some of the measurements are adopted and adapted in the context of the Takaful industry while some other measurements are developed for this research based on views gathered from focus group interviews.

Three series of focus group interviews were conducted with academicians and industry players before the final questionnaires were finalized and distributed. It was done to ensure the right and proper questionnaire is constructed in the context of the Takaful industry. Based on the feedback and suggestion from focus group members, the final set of questionnaires was distributed to a small sample of Takaful customers as a pilot study. The pilot study was conducted to test the questionnaires and measurement items for clarity and understanding. It is a necessary step in the data collection process to identify any problems with the research instrument, and to determine the content and face validity of the measures used in the questionnaires. In this process, a few marketing and Shariah scholars were involved, as well as 189 Family Takaful customers. Upon the successful completion the pilot test, the final survey was conducted. The respondents are Family Takaful customers of eleven Takaful operators in various locations in the Klang Valley. Data collected were analyzed using two statistical analyses software.

The selection of suitable data analysis tool is very important to ensure the validity and reliability of the final results. Thus, based on the research objectives and nature of the final data, this research utilized two statistical tools, which are Statistical Package for Social Sciences (SPSS) version 19 and Analysis of Moment Structures (AMOS) version 16. Meanwhile, types of analysis conducted include descriptive statistics, and exploratory and confirmatory factor analysis. Next section presents results of data analysis performed in this research.

## Results

### Background of Respondents

A total of 755 cases (Family Takaful customers) successfully passed the entire data screening process. Out of the number of customers who participated in this research, the highest response was recorded from Prudential-BSN Takaful Bhd. with 92 responses, which equals to 12 percent of total

respondents. This is followed by Great Eastern Takaful Bhd. (83 responses), Etiqa Takaful Bhd. (76 responses), and others. Meanwhile, the lowest response recorded was from AmFamily Takaful Bhd. where the response rate was less than 50 percent of questionnaires distributed (43 responses).

It is observed that respondents in this research are quite balanced between males (47 percent) and females (53 percent). This balance would eliminate any suspicion of response bias in terms of gender. In terms of age, most of the respondents were from the middle group age, which is the age group between 26 and 30 years-old (30 percent), and between 31 and 35 years-old (25 percent). The rest belong to the age groups 36-40 years (18 percent), 21-25 years (14 percent), 41-45 years (7 percent), and 46-50 years (4 percent). Only a few of the respondents were from the youngest group (below 20 years = 0.3 percent), and the oldest group (above 50 years = 2 percent).

Nevertheless, consistent with an earlier prediction for the context of this research (Takaful industry), the majority of the respondents are Muslims (86 percent) and Malays (85 percent). Only a small number of non-Muslims participated in this research. For example, 6 percent of the customers are Buddhists (48 respondents), 4 percent are Christians (30 respondents), 3 percent are Hindus (21 respondents), and the remaining five customers are from other religions (0.7 percent). In addition, more than half of the respondents were married (60 percent), and worked in the private sector (66 percent).

### The Effect of Islamic Relationship Marketing Practice towards Customer Retention

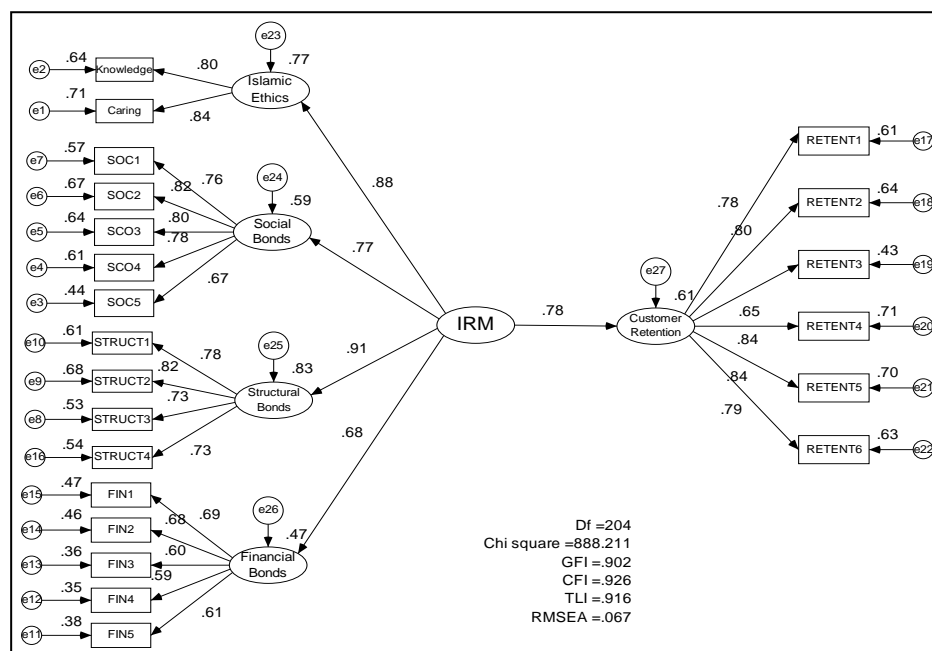


Figure 2: Structural Model for the Effect of Islamic Relationship Marketing Practice on Customer Retention

As illustrates in Figure 2 above, results of SEM shown that the model have achieved all the fit indices where GFI = 0.902, CFI = 0.926, TLI = 0.916, and RMSEA = 0.067 given the df = 204, and chi square (CMIN) = 888.211. Accordingly, all the measures support the model fit assumption, thus the model is proceed to the next level which is the interpreting of the parameter estimated by SEM. Based upon the value of Regression Weights', it is confirmed that the regression model of Islamic relationship marketing in the customer retention prediction is significantly different from zero at the 0.001 level. In details, when the Islamic relationship marketing goes up by 1 standard deviation, it will influence the increase of customer retention by 0.782 standard deviations.

Other interpretation is made on the squared multiple correlation ( $R^2$ ) value for the dependent construct of this research which has arrow coming into it, which is customer retention. From the SEM

results,  $R^2$  customer retention is 0.611 which means 61.1 percent of customer retention can be explained by the Islamic relationship marketing practices as a whole. In conclusion, the Takaful agents' Islamic relationship marketing which measured by their Islamic ethical behavior, social, structural, and financial bonds have significantly proven to affect the future customer retention. This result provides a clear picture to the industry on the significance of the practice relationship marketing in accordance with the Islamic norms.

## **Conclusion**

It is realized that there is intense competition among companies to attract customers' attention in the current financial services industry. This phenomenon provides the motivation for companies to gain competitive advantage, and the most significant approach is by creating strong relationships with customers (Gilaninia et al. 2011). Furthermore, in order to survive in the industry, companies need to at least maintain their existing customers (Omar & Ali, 2010; Shamsudin et al., 2010; Palmatier et al., 2008; So, 2007).

The same circumstances occur in the Malaysian Takaful industry in which there are now many Takaful operators and a variety of Takaful products available. In this situation, Takaful operators must have strategic plans to boost their position in the industry, and this can be done by offering special services with social benefits to the customers via the relationship marketing approach (Gwinner et al., 1998). It is important that operators take great care of their customers' needs and maintain good relationship with them because customers are their most profitable asset. Therefore, to raise profit and performance, operators have to ensure strong and long-term relationship with their customers (Berry, 1983; Gummesson, 1987; Gronroos, 1994; Ndubishi, 2003).

Accordingly, the need to engage and build strong relationship with customers is obvious in the Takaful industry. This is due to the nature of the industry; an industry that offers intangible financial services and complicated products to customers that would require direct relationship with the operators or their representatives (Takaful agent). Besides, it is crucial in the context of the Takaful industry since among its objectives is to promote a sense of brotherhood and mutual benefits in the society. This is parallel with the definitions of relationship marketing, which is to build, enhance, and maintain strong relationship with customers (Morgan & Hunt, 1994).

Another important point to justify the practice of relationship marketing in the financial services industry is that it could in fact lower the cost of attracting a new customer. An example given by Recheld & Sasser (1990) suggests that a company's profit would increase by 25 percent by maintaining only 5 percent of existing customers. This would affect positively the financial services industry since generally the industry is categorised as offering high-risk products that require long-term relationship with customers (Ennew & Binks, 1996). Once a company is successful in building a good reputation with its customers, the company will have a sustainable competitive advantage over others. The practice of relationship marketing is also agreed to compliment the traditional marketing approaches such the 'marketing 4Ps', in which the end result would be to build long-term relationship with customers. This will eventually, increase sales performance and at the same time, enhances customers' trust, commitment, and retention. In this instance, it is proven via the findings of the current research whereby the agents need to practice the Islamic relationship marketing as it may enhance the future customer retention.

The current research could be enhanced using mixed-methodology with both qualitative and quantitative research designs. Since Islamic relationship marketing is still relatively new to marketing literatures, the concept can be further explored qualitatively by interviewing industry experts and marketers. Findings from these studies can be conceptualised and confirmed through surveys and other quantitative methods. On this point, given the time constraint, the current research relied only on previous literatures to develop its theoretical framework, and survey on Takaful customers for data collection.



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