

ENHANCING ESG INTEGRATION IN TAKAFUL THROUGH FINANCIAL EDUCATION: CASE STUDY OF FINANCIAL LITERACY PROGRAMME IN A TAKAFUL OPERATOR

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Abstract: *The integration of Environmental, Social, and Governance (ESG) factors has emerged as a critical aspect of the Takaful industry, driven by growing social and environmental consciousness among customers. This study investigates the effectiveness of a financial literacy program implemented by a takaful operator in Malaysia, aiming to enhance customers' financial literacy and raise their awareness of ESG considerations. The program provided guidance on individuals' financial cycles, starting from earning money, cash flow management and budgeting, protection via Takaful products, savings, investment, wealth purification, and estate planning. This research evaluates the programme's impact through surveys and interviews conducted with trainees and assesses its efficacy in improving financial literacy and promoting ESG awareness. The findings demonstrate that the financial education program successfully enhanced financial literacy levels and raised ESG awareness among the target group and the public. The study concludes by highlighting the significance of financial education programs as valuable tools for fostering ESG integration in the Takaful industry and suggests effective techniques for developing such initiatives.*

Keywords: Environmental, Social, and Governance (ESG), Takaful, financial literacy, Gen Z, B40

1. Introduction

Recently, the integration of Environmental, Social, and Governance (ESG) factors has gained significant importance in the Takaful industry. The inclusion of ESG considerations in Takaful operations not only aligns with these principles but also addresses the growing demand from socially and environmentally conscious customers. Financial education programs have emerged as a promising strategy for effectively incorporating ESG factors into the Takaful industry. These programs aim to enhance customers' financial literacy while raising their awareness of ESG considerations and empowering them to make informed financial decisions that align with their social and environmental values. By providing individuals with knowledge

and skills to navigate financial matters while considering ESG factors, Takaful companies can play a vital role in promoting sustainable development.

ESG stands for “Environmental, Social and Governance.” ESG can be described as a set of practices (policies, procedures, metrics, etc.) that organisations implement to limit negative impact or enhance positive impact on the environment, society, and governance. In recent years, investors have become more aware of the importance of ESG criteria in their strategic and operational decisions. As a result, many businesses have begun to integrate ESG into their operations and business strategies. ESG can be considered a subset of sustainability, which is defined by the UN World Commission on Environment and Development as ‘meeting the needs of present generations without compromising the ability of future generations to meet their own needs’.

Financial education programs have proven to be effective tools for improving financial literacy levels and equipping individuals with the skills necessary to manage their finances. However, their potential to enhance ESG integration within the Takaful industry has received little attention. This study focuses on evaluating the impact of a financial literacy program implemented by a Takaful operator in Malaysia with the specific goal of enhancing customers' financial literacy and raising awareness of ESG considerations.

The financial literacy program offered by the Takaful operator aims to provide trainees with comprehensive guidance on various aspects of financial management. The trainees received practical advice on individual financial management, budgeting, saving, and investing in financially viable socially conscious item. Additionally, they were educated on sustainable financial practices, emphasizing the importance of responsible investment and the positive impact of such decisions on society and the environment.

The integration of ESG considerations into financial education programs presents a unique opportunity for Takaful companies to foster a more socially and environmentally responsible approach among their customers. By actively promoting ESG awareness and knowledge, Takaful providers can contribute to sustainable development while meeting the evolving needs and preferences of their clients.

This study utilizes a mixed-methods approach, combining surveys, interviews, feedback forms, and pre- and post-tests to evaluate the effectiveness of the financial literacy program. The data collected from the trainees provide valuable insights into the impact of the program on their financial literacy levels and ESG awareness. By analyzing these findings, this study aims to uncover the potential of financial education programs as effective tools for enhancing ESG integration in the Takaful industry.

Ultimately, this study aims to contribute to the existing body of knowledge on the role of financial education programs in promoting ESG integration in Takaful operations. By understanding the impact of such initiatives, Takaful companies can refine their approaches and develop targeted strategies to meet the demands of socially and environmentally conscious customers. Furthermore, the findings of this study can serve as a foundation for developing effective financial education programs that incorporate ESG considerations and contribute to sustainable development in the Takaful industry.

2. Methods

The programs were carried out in two focus groups: Generation Z (Gen Z) and B40. Gen Z is a group of students consist of Millennials and Generation Alpha. The generation has been

raised in digital technology and has easy access to the Internet since a young age. Their birth years started in the late 1990s and continued until the 2010s. Gen Z is a suitable focus group as they are still studying and in transition into working environment after finishing their studies. Thus, this generation could benefit from the program and would be able to apply knowledge on money management and personal financial management. In addition, the B40 group was targeted to join the programme in order to equip them with financial knowledge, in addition to instil the motivation to become entrepreneurs.

The Financial Education and Literacy Program was developed to provide awareness and equip target groups with individual financial management. The topics covered started with earning money, cash flow management and budgeting, protection via Takaful products, savings, investment, wealth purification, and estate planning. Half-day training sessions were conducted by explaining the modules, group discussions, and quizzes. After that, the practical session of financial management is experienced through the demonstration of the Muamalat Interactive Game (MIG ©). Muamalat Interactive Game (MIG ©) was developed by Fakulti Ekonomi dan Muamalat, Universiti Sains Islam Malaysia (USIM).

Muamalat Interactive Game © (MIG ©) is an innovation that incorporates the concepts and operations of retail products offered by Islamic banks. This game involves trainees (contracting parties) using retail muamalat Islamic banking products for personal financial management. These financial products utilize Islamic contracts, such as ijarah, tawarruq, rahnu, musharakah mutanaqisah, murabahah, and other supporting contracts. This game features interactive muamalat transactions between the contracting parties playing the game. This game is a fun learning activity that is useful for Islamic banking retail product users, Islamic finance practitioners, especially the front-liners marketing Islamic financial products and students in Fiqh Muamalat, Islamic finance, Islamic banking, and Islamic accounting courses, as well as the general public interested in Islamic finance. MIG © can assist players in visualizing the Shariah concepts applied in the contracts mentioned. This is because, currently, there is a lack of awareness among users of Islamic banking products about Shariah-compliant product features. This game also promotes ways to invest in halal investments and creates social awareness of the ummah in Shariah compliant banking.

The Trainees will play a few rounds of the MIG © game and apply theories that have been learned earlier. MIG © game is a financial board game in which trainees are exposed to daily and monthly financial transactions, such as receiving salary and paying monthly commitments such as house rent, car, takaful, and investment activity. This board game differs from other financial board games as it encourages players to record each transaction in the cash flow and asset management records. In addition, the winners are determined by 60% of the players' contribution to Sadaqah House and 40% of their assets. This board game focused on Ukhrawi elements, which trainees would need to donate and contribute to the Sadaqah house. It encourages players to give sadaqah and helps those in need.

The combination of the developed modules and practical games using the MIG © board game is a good combination as the trainees will be able to relate the learning and apply it while playing the board game. After completion of the games, the trainees were given a post quiz and feedback form. Pre- and post-quizzes were monitored to check their knowledge and understanding of the program. A feedback form was distributed to gain feedback on program effectiveness, training delivery, learning modules, and administration of the training.

3. Finding and argument

In 2022, a few sessions were conducted with 200 people for each focus group. The trainees were mainly from the universities, community college and government institution that provides technical and vocational training to youths. In the B40 group, the trainees were teachers, entrepreneurs, and the public.

Below is the score for the pre and post-test:

No	Group	No of pax	Category	Pre-Assessment Score (%)	Post-Assessment Score (%)	Percentage Increase/Decrease (%)
1	Group A	29	GenZ	49%	63%	28%
2	Group B	28	GenZ	57%	71%	25%
3	Group C	25	GenZ	40%	49%	23%
4	Group D	60	GenZ	30%	55%	81%
5	Group E	90	GenZ	68%	74%	9%
6	Group F	23	B40	44%	56%	28%
7	Group G	160	B40	65%	78%	20%
8	Group H	17	B40	42%	54%	27%

Based on the scores, we could see that the program increased the knowledge and awareness of the trainees, ranging from 20% to 81%. The questions were mainly tested on basic knowledge and terminology used in financial literacy. The results showed a positive outcome in that financial literacy training could increase the awareness of the trainees besides equipping them with financial knowledge on how to manage individuals' income.

On the other hand, this program has a limitation in that it can cater to a small group of trainees. For future improvement, the researcher will work with the Takaful operator and training provider to cater to a larger group of trainees in order to educate the public on financial education and to give more awareness to the public.

The financial education and literacy programs incorporated various ESG considerations to create a comprehensive impact. Environmental (E) considerations were evident through the program's integration of digital technology and online resources, promoting a paperless approach, and reducing the need for physical materials, such as record keeping and cash flow monitoring in apps or excel documents. Furthermore, the program emphasized sustainable financial practices, such as budgeting and investing, encouraging trainees to make conscious choices regarding their consumption and resource utilization, indirectly promoting environmental responsibility.

In terms of social (S) contribution, the program targeted two distinct groups: Generation Z (Gen Z) and the B40 community, representing individuals from diverse socioeconomic backgrounds. By providing financial education to students and the B40 community, the program aimed to empower students with the knowledge and skills needed for personal financial management, fostering economic inclusion and social mobility. Emphasis on entrepreneurship within the B40 group further promoted economic empowerment and self-sufficiency, contributing to both social and financial well-being.

Governance (G) considerations are an integral part of a program's development. The program ensured proper governance and oversight, thereby guaranteeing the accuracy and effectiveness of the training modules. The use of the Muamalat Interactive Game (MIG ©), developed by Fakulti Ekonomi dan Muamalat, Universiti Sains Islam Malaysia (USIM), exemplified the programme's commitment to adhering to the governance and standards of the Islamic finance industry. By promoting ethical financial practices and raising awareness of Shariah-compliant banking, the programme encouraged trainees to engage with financial institutions that uphold strong governance principles.

By combining these ESG considerations, the financial education and literacy program aims to create a holistic impact. It prioritized environmental sustainability through digital integration, fostered social inclusion and economic empowerment among Generation Z and the B40 community, and maintained strong governance practices through program development and utilization of the MIG © game.

4. Conclusion and Suggestion

In conclusion, the financial literacy program conducted to enhance ESG integration in Takaful demonstrated its value in promoting awareness and understanding among individuals. By equipping trainees with financial management skills and knowledge, they were more likely to appreciate the importance of Takaful products and consider subscribing to them. The program highlighted the connection between financial cycles, management, and the need for Takaful's coverage and protection. It has served as a means to educate the public and raise awareness of the significance of Takaful.

It is crucial for Takaful operators to remain attentive and adapt to current trends and societal behaviors. They should stay updated on market dynamics to effectively penetrate the market and address the evolving customer needs. Financial education will continue to play a vital role in spreading Takaful's awareness and encouraging individuals to make informed decisions regarding their financial well-being.

To further enhance ESG integration in Takaful and expand the reach of financial education, several actions need to be taken, such as collaboration and partnerships. Takaful operators should foster collaboration with educational institutions, community organizations, and other stakeholders to expand the reach of financial education initiatives. By leveraging existing networks and resources, they can establish partnerships that enable them to reach larger audiences and disseminate knowledge more effectively. Collaborative efforts include joint workshops, seminars, or educational campaigns focused on ESG integration in Takaful.

In addition, a customized program based on various demographics would be beneficial as it could cater to different needs and preferences in different target groups. Takaful operators should consider adapting their programs to various demographics, such as young adults, families, or entrepreneurs, to provide relevant and targeted content that resonates with their unique financial challenges and aspirations. Customization could involve incorporating case studies, real-life scenarios, and interactive exercises that make the learning experience more engaging and relatable.

Embracing digital platforms and tools can also help enhance the accessibility and engagement of financial education programs. Takaful operators should invest in developing interactive online modules, mobile applications, and virtual training sessions. These digital tools can cater to the digital preferences of a target audience and provide flexibility in learning.

Features, such as gamification, quizzes, and progress tracking, can enhance user engagement and motivation.

By continuously evaluating the effectiveness of financial education programs, gathering feedback from trainees, and implementing improvements based on this feedback, Takaful operators can ensure that the programs remain relevant and impactful. Additionally, investing in research and innovation, such as collaborating with academic institutions and industry experts, will enable Takaful operators to remain at the forefront of emerging trends and best practices in financial education and ESG integration.

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