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## SERVICE QUALITY, PERCEIVED VALUE AND TAKAFUL SUBSCRIPTION DECISIONS: THE MODERATING ROLE OF FINANCIAL LITERACY

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### Abstract:

Despite increasing awareness of takaful products, participation rates remain lower than expected, suggesting that awareness alone is insufficient to drive subscription decisions. Existing studies have largely examined service-related factors, perceived value, and financial capability independently, offering limited insight into how these factors jointly influence consumer behaviour. Grounded in the Theory of Planned Behavior (Ajzen, 1991), Consumer Value Theory, and Information Processing Theory, this study examines the effects of service quality and perceived value on takaful subscription decisions and investigates the moderating role of financial literacy. A quantitative research design was employed using survey data collected from 350 Malaysian consumers through convenience sampling. Data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM) to assess both direct and moderating relationships. The findings indicate that service evaluations and perceived benefits significantly influence subscription decisions, with perceived value emerging as the strongest predictor, while financial literacy strengthens both relationships by enhancing consumers' ability to evaluate product information and benefits. This study contributes to the literature by integrating service quality, perceived value, and financial literacy within a unified framework and demonstrating that financial literacy functions as both a direct determinant and a moderating mechanism in Islamic financial decision-making. Practically, the findings suggest that takaful operators should strengthen customer engagement, simplify product information, and communicate long-term protection benefits more effectively, while policymakers should expand targeted financial literacy initiatives to encourage greater participation in the takaful market.

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**Keyword:**

Consumer Behaviour, Financial Decision Making, Financial Literacy, Islamic Insurance, Service Quality, Takaful.



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## Introduction

The takaful industry, which is based on mutual cooperation, shared responsibility and risk-sharing principles has evolved into a significant part of the Islamic financial system providing Shariah-compliant risk protection to the market. Although the takaful industry continues to expand and Malaysian consumers are increasingly aware of takaful products the participation rates remain relatively low compared to conventional insurance products suggesting that awareness alone may not be enough to lead to actual subscription decisions as consumers find it difficult to evaluate the product benefits service quality and financial information (Pala et al., 2024; El Boudaly et al., 2025). Recent research also suggests that cognitive factors such as financial literacy and behavioural factors such as trust perceived value and consumer knowledge play an important role in determining the uptake of Islamic financial services and takaful products (Pala et al., 2024; Poan et al., 2022; Ali et al., 2024).

Studies on insurance and consumer behaviour have shown that consumers do not make purely rational choices about financial protection but are more likely to be swayed by need affordability trust and understanding of financial products (Masud et al., 2021; Pitthan and De Witte, 2021). Moreover, the concept of behavioural finance indicates that people make financial decisions based on their own subjective assessments and judgment especially when products are complex and intangible which means that consumers value perceptions trustworthiness and financial understanding are factors that may influence their subscription decisions (Lusardi and Mitchell, 2023; Harrison et al., 2021).

Previous studies have consistently recognised service quality as an important determinant of consumer behaviour in financial services because favourable service experiences enhance trust, reduce uncertainty, and strengthen confidence in financial institutions (Masud et al., 2021; Poan et al., 2022).

Likewise perceived value is a key driver in consumer decision-making because consumers tend to compare expected benefits with the costs of a product or service prior to purchase and value is the outcome of this comparison. Perceived value in financial services refers to how consumers evaluate financial protection product utility service benefits and utility where consumers are more likely to subscribe to takaful products if they believe that the benefits outweigh the financial and non-financial costs. Research has shown that value perceptions are

one of the most critical factors in consumer adoption of financial products and services including Islamic financial products (Pala et al., 2024; Sudarsono et al., 2021).

A third factor that influences consumer decisions is financial literacy which is the extent to which a person can acquire understand evaluate and apply financial knowledge when making financial decisions. The research suggests that being financially literate enhances the quality of insurance decisions facilitates participation in insurance markets enhances consumers ability to effectively evaluate financial products (Liu et al., 2021; Harrison et al., 2021; Tanjung & Cahyanti, 2025) and encourages informed financial planning and rational decision-making regarding financial protection products (Goyal & Kumar, 2021; Lusardi & Mitchell, 2023).

However, despite the acknowledged relevance of service quality perceived value and financial literacy in driving consumer behavior several important gaps exist in the existing takaful literature. First the previous literature has mostly focused on studying these variables individually thereby providing partial explanations of consumer behavior and takaful subscription decisions while little empirical evidence exists explaining how these variables interact at the same time within the same framework to influence actual subscription decisions (Goyal & Kumar, 2021; Lusardi & Mitchell, 2023).

Second while many studies have found that financial literacy is a significant predictor of financial behavior they have typically conceptualized it as a direct predictor rather than a moderator that could affect the strength of the impact of other decision-making variables as such little evidence has shown that financially literate consumers may react differently to service experiences and value perceptions when evaluating takaful products (Liu et al., 2021; Tanjung & Cahyanti, 2025).

Third previous studies have mostly examined the roles of awareness religiosity trust and behavioural intention in explaining Islamic financial services and takaful adoption while customer-centric determinants such as service quality and perceived value have received relatively less attention and the empirical evidence examining these relationships in the Malaysian takaful context is still scanty even though Malaysia is one of the most advanced takaful markets in the world (Maduku & Mbeya, 2024; El Boudaly et al., 2025; Shaikh et al., 2025).

These gaps are significant because even awareness-raising campaigns have not led to significantly higher takaful participation rates. The objective of this study is to propose a more integrated framework to explain the role of service quality and perceived value in takaful subscription decisions and the moderating role of financial literacy. To this end this study examines the effect of service quality and perceived value on takaful subscription decisions while financial literacy serves as a moderating variable drawing on the relevant literature on consumer behavior insurance decision-making financial literacy and Islamic financial services adoption.

## **Theoretical Foundation**

### ***Theory of Planned Behavior (TPB)***

One of the relevant theories for consumer decision-making behavior is the theory of planned behavior (TPB) developed by Ajzen (1991), which states that three determinants of behavioural

decisions are attitudes subjective norms and perceived behavioural control. If a person has positive attitudes toward a certain behavior, they receive social support for performing the behavior from important referent groups and they feel confident that they have the ability to perform the behavior then they are likely to engage in that behavior.

In the context of takaful TPB suggests that consumers will subscribe to takaful products if they hold positive attitudes towards the products are encouraged to purchase the products by their family members peers or religious communities and have confidence in their ability to evaluate financial products and make informed financial decisions. In fact, TPB has been employed in numerous studies on Islamic financial services to explain consumer adoption behavior and participation decisions such as Islamic insurance adoption (Raza et al., 2020). Hence TPB is a suitable theoretical base to explain takaful subscription decisions in this study.

### ***Consumer Value Theory***

Consumer Value Theory states that consumers judge products and services by comparing the benefits they are likely to receive with the sacrifices they will have to make to obtain them (the value they receive from products and services). Therefore people are more likely to adopt products that give them a positive benefit-cost evaluation and a sense of usefulness which in the context of takaful is an assessment of the extent to which takaful products are perceived to offer financial protection service benefits ethical compliance affordability and overall usefulness which influence whether consumers view takaful products as a viable alternative to conventional financial protection products.

Perceived value is a multidimensional construct with functional emotional social and value for money dimensions (Sweeney and Soutar, 2001) and previous studies in Islamic financial services have demonstrated that positive value perceptions play a significant role in adoption decisions and participation behavior (Pala et al., 2024; Shaikh et al., 2025). Hence Consumer Value Theory serves as a suitable theoretical framework to explain how perceived value is related to takaful subscription decisions.

### ***Information Processing Theory***

Information Processing Theory is a decision-making theory that assumes that the extent to which an individual can acquire interpret process and use information determines whether the decision will be made consumers are seen as information processors who gather and weigh available information before making decisions and differences in cognitive abilities mean that they will read product information evaluate alternatives and make choices differently.

Financial literacy is similar to Information Processing Theory because a financially literate consumer is more likely to understand financial concepts evaluate financial information and apply relevant knowledge when making financial decisions and therefore is more likely to be able to interpret information about financial products assess benefits and risks and make better financial decisions. Lusardi and Mitchell (2023) argued that financial literacy helps consumers process financial information, evaluate alternatives, and make better financial decisions. Consequently, financially literate consumers are expected to make more effective use of information and value propositions associated with takaful services.

## Literature Review

### *Takaful Subscription Decisions*

Takaful subscription decisions are actual decisions by consumers to participate in takaful schemes based on available information, perceived benefits risks and financial implications of the product. While takaful products are similar to insurance products in terms of protecting consumers against financial losses they are governed by Shariah principles that focus on mutual cooperation risk sharing and ethical financial practices and consumers may take both financial and non-financial factors into consideration when deciding whether to subscribe to takaful products. Research suggests that takaful adoption is driven by a mixture of behavioural cognitive and institutional factors including trust perceived benefits product knowledge religious commitment and financial capability (Poan et al., 2022; Masud et al., 2021), as well as organisational and behavioural factors (El Boudaly et al., 2025).

In many Muslim majority countries even though awareness and industry development have increased the subscription rate for takaful products is still not at its full potential indicating that awareness may not automatically translate into actual subscription decisions (Shaikh et al., 2025). Consumers often need to be confident and understand the product as well as have positive evaluations of the product before they are willing to participate in takaful (Shaikh et al., 2025).

### *Service Quality*

In the financial services context, the importance of service quality is considered to be one of the key drivers of behavior because customers often rely on service experiences to judge complex and intangible offerings. This construct is a representation of dependability responsiveness assurance professionalism and overall service effectiveness in the takaful industry. Because the financial protection benefits accrue in the future rather than at the moment assessments of provider performance often become the basis for decision-making.

Confidence and trust were found to play a significant role in insurance purchasing behavior (Masud et al., 2021) and takaful adoption (Poan et al., 2022) indicating that consumers are more likely to purchase protection products when providers are perceived as trustworthy and reliable.

In addition to operational performance customer provider interactions also serve as valuable informational signals. As many potential participants have limited technical knowledge about the product features (Sudarsono et al. 2021) it is relevant to note that adoption of Islamic financial services is positively correlated with positive evaluations of institutional credibility and effectiveness.

While the importance of service quality has been recognized research has several limitations most of the literature has focused on customer satisfaction trust or behavioral intention compared with subscription outcomes and has rarely considered the possibility that individual characteristics such as financial literacy could affect the interpretation and utilization of service information in the decision process.

In light of these factors' positive assessments of assurance responsiveness and reliability are anticipated to boost trust in takaful providers and promote increased participation. As a result, it is expected that takaful subscription decisions will be positively impacted by service quality.

### *Perceived Value*

Perceived value is the overall judgment an individual makes about whether the benefits received from a product or service are worth the sacrifices needed to obtain it in financial services this judgment considers not just monetary value but also usefulness protection convenience trustworthiness and long-term benefits and serves as a basis for decision-making when individuals are uncertain (Pala et al., 2024).

Consumer Value Theory states that people are more inclined to adopt products that offer favorable benefit-cost ratios. Pala et al. (2024) found that perceptions of usefulness and expected protection (ethical compliance) of Islamic financial services positively influence adoption supporting the notion that value considerations are significant in financial decisions. Sudarsono et al. (2021) also reported similar findings as they found that evaluations of product benefits and perceived usefulness significantly affect the adoption of Islamic banking services when people feel that a financial product offers them adequate protection and practical benefits, they are more likely to use the service even if they are not aware of the service. On the other hand, products that are perceived as offering few benefits relative to their costs are less likely to be adopted regardless of awareness levels (Sudarsono et al., 2021).

Studies on takaful adoption have also emphasized the role of perceived benefits in influencing participation decisions favorable evaluations of protection value and institutional trust contribute to willingness to participate (Poan et al. 2022) and perceived usefulness and organisational credibility are important considerations when evaluating takaful products (Shaikh et al. 2025) suggesting that value perceptions serve as an important mechanism through which product evaluations influence behavioral outcomes.

While there is extensive evidence for the role of perceived value the existing literature has some limitations such as a focus on behavioural intention rather than actual subscription decisions an almost exclusive focus on the impact of value perceptions on decision outcomes and a relative lack of attention to the role of financial literacy in moderating the impact of value perceptions on decision outcomes (El Boudaly et al., 2025).

Based on these considerations we expect that individuals who perceive higher benefits and lower costs would be more willing to purchase takaful products. In line with the findings of Poan et al. (2022) and Shaikh et al. (2025) positive value judgments are expected to enhance participation decisions and takaful subscription.

### *Financial Literacy*

Financial literacy is the ability to understand evaluate and apply financial knowledge to make financial decisions including financial concepts risk assessment budgeting and evaluating financial products (Lusardi & Mitchell, 2023). As financial environments have become more complex financial literacy has become a critical skill that helps individuals make better financial decisions and avoid costly mistakes.

There has been significant debate in the academic and policy literature regarding the importance of financial literacy as it can help individuals better understand financial products and effectively manage financial risk (Goyal and Kumar 2021) and be able to evaluate options consider long-term consequences and make prudent financial decisions (Lusardi and Mitchell 2023).

In insurance markets financial literacy has been found to be a key factor of participation decision and studies have shown that the higher the level of financial literacy the more likely a household will participate in insurance schemes (Liu et al., 2021), and the better the quality of the insurance decisions they make (Harrison et al., 2021).

Insurance demand is also affected by the perception of risks and benefits which is influenced by financial literacy (Pitthan and De Witte, 2021). They find that higher financial literacy decreases the impact of behavioural biases and increases the rationality of financial product evaluation which implies that financially literate consumers are less susceptible to decision-making errors and tend to make more rational assessments of financial protection products.

Given the nature of Shariah-compliant products financial literacy plays an even more significant role in Islamic financial services. The knowledge of takaful products is often based on both financial and Islamic financial principles which suggests that Islamic financial literacy contributes to the use of Islamic banking services (Pala et al., 2024). This finding is supported by Sudarsono et al. (2021) who also reported that knowledge and understanding play a significant role in adoption behaviour within Islamic financial institutions.

Recent evidence also indicates that financial literacy does not only affect direct decision-making outcomes but also impacts other decision-related factors Tanjung and Cahyanti (2025) found that financial literacy enhances the ability of consumers to assess insurance products and increases confidence in purchase decisions suggesting that financially literate consumers may be better equipped to interpret service information and evaluate value propositions than those who have lower levels of financial knowledge.

Although there has been a substantial amount of research related to financial literacy there are some significant limitations including that existing studies have mostly focused on financial literacy as a direct predictor of financial behaviour and relatively little has been done to examine the role of financial literacy as a conditional factor which may modify the relationship between service quality and perceived value on the consumer. El Boudaly et al. (2025) also stressed the need for a greater integration of behavioural and cognitive factors to better understand the takaful adoption and participation behaviour.

Taking these into account we expect financial literacy to have a direct effect on takaful subscription decisions by enhancing the ability of consumers to evaluate financial products and make decisions and higher levels of financial literacy may reinforce the impact of service quality and perceived value due to the fact that financially literate consumers are better able to interpret information evaluate benefits and assess financial protection alternatives (Lusardi and Mitchell 2023, Tanjung and Cahyanti 2025).

## *Hypotheses Development*

### *Service Quality and Takaful Subscription Decisions*

Service quality has always been considered a key driver of consumer behavior in financial services, and it contributes to higher levels of trust confidence and favorable evaluations of financial institutions. Because takaful products entail future financial protection and intangible benefits people often use service experiences as a way to judge provider credibility and product suitability therefore positive interactions with service providers can reduce uncertainty and increase confidence in takaful offerings.

Prior research has shown that service-related attributes, including reliability, responsiveness, and trustworthiness, contribute significantly to insurance participation and financial product adoption (Masud et al., 2021; Poan et al., 2022; Sudarsono et al., 2021).

Accordingly, the following hypothesis is proposed:

**H1: Service quality positively influences takaful subscription decisions.**

### *Perceived Value and Takaful Subscription Decisions*

Perceived value is the perceived balance of benefits received versus costs incurred when purchasing a product or service and Consumer Value Theory states that people are more likely to embrace products that offer greater value and meaningful benefits in the takaful context value perceptions might include judgments about financial protection usefulness of the product ethical compliance and overall utility.

Research has consistently shown that value perceptions play a significant role in product adoption and studies on Islamic financial services show that positive perceptions of the value of Islamic financial services influence adoption behaviour (Pala et al., 2024) adoption of financial products (Sudarsono et al., 2021) and willingness to participate in takaful schemes (Poan et al., 2022; Shaikh et al., 2025).

Based on these arguments, the following hypothesis is proposed:

**H2: Perceived value positively influences takaful subscription decisions.**

### *Financial Literacy and Takaful Subscription Decisions*

Financial literacy empowers people to comprehend financial terms, assess risks, compare options, and make financial decisions. Information Processing Theory posits that individuals with higher levels of knowledge and information processing abilities are better able to evaluate financial products and make rational decisions and existing studies consistently find that financial literacy is a significant factor in financial behavior with financial literates more confident and competent in their financial decisions (Lusardi and Mitchell 2023), more likely to participate in insurance markets (Liu et al. 2021) and make better quality insurance related decisions (Harrison et al. 2021).

Financially literate people should be better able to evaluate available options and make subscription decisions because takaful products require consumers to assess both financial and Shariah-related information.

Therefore, the following hypothesis is proposed:

**H3: Financial literacy positively influences takaful subscription decisions.**

*The Moderating Role of Financial Literacy in the Relationship Between Service Quality and Takaful Subscription Decisions*

While service quality can have a direct effect on the decision to subscribe consumers may not process service-related information in the same way. Individuals with different levels of financial literacy can process service information in different ways when making a decision with financially literate consumers having stronger analytical skills to evaluate service experiences and service information and having a smaller decision-making bias when evaluating financial products (Pitthan and De Witte, 2021) and a greater confidence when evaluating insurance products and making purchasing decisions (Tanjung and Cahyanti, 2025) which means that the effect of service quality on subscription decisions is anticipated to be stronger among individuals with higher levels of financial literacy.

Accordingly, the following hypothesis is proposed:

**H4: Financial literacy positively moderates the relationship between service quality and takaful subscription decisions.**

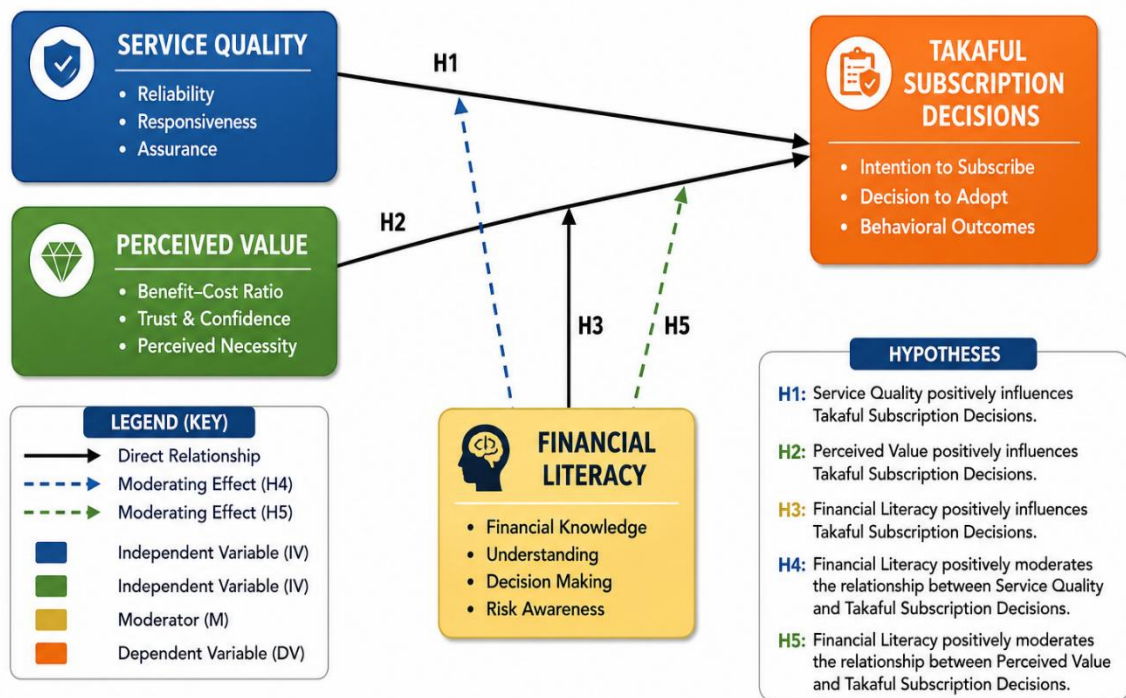
*The Moderating Role of Financial Literacy in the Relationship Between Perceived Value and Takaful Subscription Decisions*

Decision-making is influenced by perceived value because people weigh the costs and benefits of a product before embracing it. However, a person's capacity to comprehend and assess financial data may determine how much value information affects choices.

For example, Lusardi and Mitchell (2023) stressed that financial literacy empowers consumers to evaluate financial products and make better choices, and Liu et al. (2021) and Tanjung and Cahyanti (2025) argued that higher financial knowledge helps consumers make better insurance decisions and evaluate financial products more effectively. Hence, we expect financially literate consumers to react more positively to favorable value perceptions than those with lower financial literacy.

Thus, the following hypothesis is proposed:

**H5: Financial literacy positively moderates the relationship between perceived value and takaful subscription decisions.**



Note: The moderating role of Financial Literacy (H4 & H5) strengthens the impact of Service Quality and Perceived Value on Takaful Subscription Decisions.

**Figure 1: Proposed Conceptual Framework**

Source: Author

**Methodology**

**Research Design**

A quantitative research design was employed to test the relationships between service quality perceived value financial literacy and takaful subscription decisions among Malaysian consumers. A survey approach was used to collect respondents’ perceptions and behavioral responses in takaful participation. The hypotheses were tested using Partial Least Squares Structural Equation Modelling (PLS-SEM) through SmartPLS 4 which is suitable for predictive research complex research models and studies that include moderating effects (Hair et al., 2022).

**Sampling and Data Collection**

A structured questionnaire was distributed to Malaysian consumers, and a convenience sampling technique was used as the study included consumers who had a basic understanding of takaful products and were available during the period of data collection (Hair et al., 2022). A total of 400 questionnaires were distributed, and 350 usable responses were retained after data screening (response rate of 87.5%), which was sufficient to meet the minimum recommended sample size for PLS-SEM analysis and had adequate statistical power to examine direct and moderating relationships (Hair et al., 2022).

## *Measurement of Constructs*

Content validity and construct reliability were ensured by using multi-item measurement scales adapted from the existing literature and the measurement items were evaluated using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The study measured service quality using indicators related to reliability, responsiveness and assurance perceived value captured respondents' evaluations of the benefits and overall usefulness of takaful products financial literacy measured respondents understanding of financial concepts and their ability to make informed financial decisions and takaful subscription decision assessed respondents' willingness and likelihood to subscribe to takaful products.

## *Data Analysis Technique*

The data were analyzed using Partial Least Squares Structural Equation Modelling (PLS-SEM) using SmartPLS 4 software because PLS-SEM is appropriate for analyzing complex research models involving multiple latent constructs moderating effects and prediction-oriented objectives and does not require strict assumptions of multivariate normality (Hair et al., 2022). The analysis was conducted in two stages. The first stage was to evaluate the measurement model including indicator reliability (using outer loadings) and internal consistency reliability (using Composite Reliability (CR)) as well as convergent validity (using the Average Variance Extracted (AVE) where values above the recommended threshold indicate adequate construct validity) and discriminant validity (using the Heterotrait-Monotrait ratio (HTMT) which is considered a robust criterion for determining construct distinctiveness (Henseler et al., 2015; Roemer et al., 2021).

The second phase was the structural model assessment which included the examination of the hypothesized relationships between service quality perceived value financial literacy and takaful subscription decisions path coefficients t-values p-values effect sizes ( $f^2$ ) and the coefficient of determination ( $R^2$ ) and the predictive relevance of the model.

A bootstrapping procedure with 5,000 resamples was used to test the significance of the direct and moderating effects as bootstrapping is frequently suggested in PLS-SEM studies to ensure consistent estimates of standard errors and significance levels for hypothesis testing (Hair et al., 2022). Interaction term analysis was conducted to examine the moderating effect of financial literacy on the relationships between service quality and takaful subscription decisions, and between perceived value and takaful subscription decisions.

## **Results**

### *Measurement Model Assessment*

Reliability and validity of the constructs in the study were assessed using measurement model; indicator loadings and composite reliability (CR) were used to assess reliability and average variance extracted (AVE) was used to assess convergent validity. As shown in Table 1 all the indicator loadings were more than 0.70 suggesting that all indicators were reliable and the CR values ranged from 0.88 to 0.92 which was greater than the minimum 0.70 indicating that the constructs had good internal consistency reliability.

In addition, all AVE values were greater than 0.50 which indicates that the constructs explained more than half of the variance of their respective indicators and results showed satisfactory convergent validity. Collectively these results indicate that the measurement model had acceptable levels of reliability and validity and could be used for structural model assessment (Hair et al., 2022).

**Table 1: Measurement Model Results**

CONSTRUCT	ITEMS	LOADINGS	CR	AVE
SERVICE QUALITY	SQ1–SQ5	0.72–0.88	0.91	0.63
PERCEIVED VALUE	PV1–PV5	0.74–0.89	0.92	0.65
FINANCIAL LITERACY	FL1–FL4	0.70–0.86	0.88	0.60
TAKAFUL SUBSCRIPTION DECISION	TD1–TD4	0.73–0.87	0.89	0.62

Discriminant validity was assessed using the Heterotrait-Monotrait ratio (HTMT). The results indicate that all HTMT values were below the recommended threshold of 0.90 thereby establishing adequate discriminant validity among the constructs. These findings confirm that each construct measures a distinct conceptual domain and is empirically distinguishable from the others (Henseler et al., 2015; Roemer et al., 2021).

### *Structural Model Assessment*

The hypotheses were tested using a structural model. The results show that service quality has a positive and significant effect on takaful subscription decisions ( $\beta = 0.29$ ,  $t = 4.87$ ,  $p < 0.001$ ), supporting H1 which implies that positive perceptions of reliability responsiveness and assurance lead consumers to purchase takaful products.

As expected, perceived value was positively and significantly related to takaful subscription decisions ( $\beta = 0.41$ ,  $t = 6.12$ ,  $p < 0.001$ ) supporting H2. It was the most significant predictor suggesting that consumers prioritize the perceived value of takaful products.

Consistent with H3 financial literacy showed a positive and significant direct effect on takaful subscription decisions ( $\beta = 0.22$ ,  $t = 3.95$ ,  $p < 0.001$ ) indicating that individuals with higher levels of financial knowledge are able to better assess financial products and are more likely to subscribe to takaful schemes.

**Table 2: Structural Model Results**

Hypothesis	Path	$\beta$	t-value	p-value	Result
H1	SQ $\rightarrow$ TSD	0.29	4.87	<0.001	Supported
H2	PV $\rightarrow$ TSD	0.41	6.12	<0.001	Supported
H3	FL $\rightarrow$ TSD	0.22	3.95	<0.001	Supported
H4	SQ $\times$ FL $\rightarrow$ TSD	0.15	2.68	<0.01	Supported
H5	PV $\times$ FL $\rightarrow$ TSD	0.18	2.94	<0.01	Supported

**Table 3: Coefficient of Determination (R<sup>2</sup>)**

Construct	R <sup>2</sup>	Interpretation
Takaful Subscription Decision	0.62	Substantial

The coefficient of determination (R<sup>2</sup>) for takaful subscription decisions was 0.62, indicating that the proposed model explains 62% of the variance in the dependent variable. Based on the guidelines suggested by Hair et al. (2022) this level of explanatory power may be considered substantial demonstrating that service quality perceived value and financial literacy collectively provide meaningful explanations of consumers' takaful subscription decisions.

### *Moderating Effects of Financial Literacy*

Interaction term analysis was used to examine the moderating role of financial literacy. The results show that financial literacy significantly moderates the relationship between service quality and takaful subscription decisions ( $\beta = 0.15$ ,  $t = 2.68$ ,  $p < 0.01$ ) supporting H4 and the positive coefficient suggests that the effects of service quality are more pronounced for consumers with higher financial literacy.

Financial literacy was also found to significantly moderate the relationship between perceived value and takaful subscription decisions ( $\beta = 0.18$ ,  $t = 2.94$ ,  $p < 0.01$ ) supporting H5 suggesting that consumers with greater financial knowledge are able to assess value-related information and to translate positive perceptions of value into actual subscription decisions. In summary the findings suggest that in addition to being a direct predictor of takaful subscription decisions financial literacy also serves as an important boundary condition that enhances the effects of service quality and perceived value on consumer decision-making.

## **Discussion**

### *Service Quality and Takaful Subscription Decisions*

The results show that service quality is positively related to takaful subscription decisions (supporting H1) which implies that consumers are more likely to subscribe to takaful products when they perceive service providers as reliable responsive and trustworthy. Since financial protection products are intangible consumers may use service experiences as a key signal of provider credibility and product quality.

This result is in line with Masud et al. (2021) who argued that trust and confidence are important factors in insurance purchasing behaviour as well as Poan et al. (2022) who found that trust is still a major predictor of takaful adoption which demonstrates the impact of service-related experiences on reducing uncertainty and encouraging participation. This also supports Sudarsono et al. (2021) who showed that positive judgments of institutional effectiveness increase the acceptance of Islamic financial services.

Theoretically the finding is consistent with the Theory of Planned Behavior (Ajzen, 1991). For instance, positive service experiences could reinforce attitudes toward takaful providers and enhance perceived behavioural control by increasing consumers confidence in evaluating

financial products leading to greater willingness to participate in takaful when they perceive higher levels of service quality.

### ***Perceived Value and Takaful Subscription Decisions***

Findings showed that perceived value had a significant positive effect on takaful subscription decisions and was the strongest predictor in the proposed model which means that consumers attach high levels of importance to the benefits received from takaful products and are more inclined to subscribe to takaful products when they perceive the products to be useful beneficial and able to offer meaningful financial protection.

This finding is generally consistent with the literature on the adoption of Islamic financial services which have been shown to be positively impacted by value perceptions (Pala et al. 2024) perceived benefits and practical utility (Sudarsono et al. 2021) and perceived usefulness and organisational credibility (Shaikh et al. 2025).

More importantly the stronger influence of perceived value compared with service quality suggests that consumers attach more importance to perceived benefits than to operational service attributes in assessing takaful products this result may be due to the fact that takaful products are financial protection instruments in which case consumers might be most concerned with the value and protection they receive rather than service encounters alone and therefore favorable perceptions of product benefits may be more central in influencing subscription decisions.

The findings are also consistent with Consumer Value Theory which suggests that consumers make purchase decisions by comparing the benefits they expect from the product against the cost involved. In other words, the results suggest that consumers will be more likely to participate when they feel that takaful products provide substantial value and are commensurate with the protection benefits obtained for the amount of resources they are expected to contribute.

### ***Financial Literacy and Takaful Subscription Decisions***

As shown, financial literacy significantly and positively influences takaful subscription decisions supporting H3 which indicates that individuals with higher financial knowledge are better able to assess financial products understand risk protection mechanisms and make better decisions about participating.

This finding is in line with Lusardi and Mitchell (2023) who argued that financial literacy enhances the quality of financial decisions and Liu et al. (2021) and Harrison et al. (2021), who reported that financial literacy significantly enhanced insurance participation and the quality of insurance-related decision-making by increasing the ability of individuals to evaluate alternatives.

From the standpoint of information processing theory, the outcome shows that people who are more adept at processing information are better able to gather analyze and apply financial data when assessing takaful products. As a result, consumers who are financially literate are more likely to recognize the advantages of taking part in takaful and make wise subscription choices.

### ***Moderating Role of Financial Literacy***

The results also show that financial literacy significantly moderated the relationships between service quality perceived value and takaful subscription decisions such that consumers with higher levels of financial knowledge seem to be able to better interpret service related information evaluate product benefits, and use available information when making financial decisions although both moderating effects were statistically significant the interaction coefficients were smaller than the corresponding direct effects indicating that financial literacy enhances rather than displaces the impact of service-related and value-related assessments, i.e., consumers with higher financial knowledge are still influenced by positive service experiences and value perceptions when making takaful subscription decisions.

This observation is a significant contribution to the literature as prior studies have almost exclusively treated financial literacy as a direct predictor of financial behavior. The current findings indicate that financial literacy not only serves as a predictor of decision outcomes but also as a boundary condition that influences how consumers interpret and react to service quality and perceived value which extends Information Processing Theory to show that variations in financial knowledge not only impact decision outcomes but also the impact of decision related information.

From a practical standpoint the results suggest that enhancing financial literacy is not sufficient to enhance participation and that both institutional factors and consumer capabilities need to be in place to facilitate greater participation in takaful products.

### **Conclusion**

The findings demonstrate that favourable evaluations of product benefits and service experiences significantly encourage participation in takaful products, with perceived value emerging as the strongest determinant. Financial literacy further enhances consumers ability to interpret information and translate positive evaluations into actual subscription decisions.

The study advances the literature by providing a more comprehensive explanation of consumer behavior in Islamic financial services and by establishing financial literacy as both a direct determinant and a moderating mechanism in financial decision-making which extends the current knowledge of takaful adoption and provides empirical evidence from one of the most developed Islamic insurance markets worldwide.

### ***Practical Implications***

The results have significant implications for takaful operators and policymakers service providers should enhance customer engagement strengthen value communication and increase product transparency while simplifying product information to help potential participants make informed decision and policymakers should emphasize financial education initiatives to encourage greater use of Islamic financial services which may allow consumers to evaluate alternative products better and make better protection related decisions.

### ***Limitations and Future Research***

There are a number of limitations to acknowledge first, the study used a cross sectional design which means that they cannot establish causal relationships over time second, the study used convenience sampling which may limit the generalisability of the findings beyond the sampled population third, the study focused on a limited number of explanatory factors and did not include other variables such as religiosity trust perceived risk or digital adoption factors which may be relevant to participation behaviour. Future research may use longitudinal research designs, probability sampling techniques or comparative analyses across countries to increase the robustness and generalisability of the findings. Other behavioural and psychological determinants can also be added to provide a more comprehensive view of participation behaviour in Islamic financial services.

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**Ethics Statement:** This research was conducted in compliance with ethical research standards and guidelines for social science research with human subjects and all participants provided voluntary informed consent were made aware of the nature and purpose of the study before data collection began were guaranteed confidentiality anonymity and the right to withdraw at any time without penalty and no personal identifying information was collected.

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