

## The Influence of Microtakaful Products on Halal Small Business Sustainability

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**Abstract:** Due to their size, halal small businesses normally face catastrophes in their operations with insufficient protection and knowledge of risk management. While microtakaful has opened a new paradigm of micro protection for halal small businesses, the extent to which microtakaful products have contributed to the sustainability of halal small businesses is yet to be explored. Hence, this study explores a range of microtakaful products that can contribute to the sustainability of halal small businesses. To achieve this objective, a survey questionnaire was designed and used to collect data from 238 halal small business owners and managers in Klang Valley, Malaysia. Using multiple regression, the results show a positive and significant influence of disability and family microtakaful products on halal small business sustainability. Whereas property and health microtakaful products were found to be insignificantly related to the sustainability of halal small businesses. Thus, this study recommends that disability and family microtakaful products are the basic forms of risk management tools that are crucial for the sustainability of halal small businesses in Malaysia.

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## 1. Introduction

Takaful products are essentially Shari'ah-compliant financial instruments designed based on mutual agreement among the parties involved to protect their common interests against damages from unforeseen circumstances (Salleh, 2016). Recently, there have been strong demands for Shari'ah-compliant protection solutions, resulting in the sustained growth of the takaful industry (Bank Negara Malaysia [BNM], 2019). However, despite the growth, takaful penetration of low-income earners in Malaysia is considerably slow, with only 30.3% of the population subscribing to the takaful policy (Md Husina, 2019). As a result, microtakaful, which is an alternative risk management tool to conventional microinsurance, was designed

to meet the financial protection needs of low-income earners as well as for the sustainability of Small and Medium Enterprises (SMEs) (Jaffer *et al.*, 2010; Salleh & Padzim, 2018a).

The Malaysian economic landscape provides excellent potential for microtakaful to strive as it is expected to play a crucial role in meeting the protection needs of SMEs and promoting financial inclusion among low-income earners. While stressing that it is crucial for SMEs, Ahmed (2016) revealed that microtakaful for micro-enterprises is important in providing this sector's protection and financing needs. Sendut (2019) stated that Malaysia's low-income segment comprises citizens who fall into the bottom 40% (B40). The B40s generally work in the informal sector, such as micro and small businesses (Mottain, 2018), which account for more than 1.1 million businesses operating in Malaysia in 2020, according to SME Corporation Malaysia (2021). As an important sector of the Malaysian economy, Ismail *et al.* (2012) highlighted a need for appropriate takaful products to protect SMEs against risks. With the effect of Covid-19 on halal small businesses, subscribing to microtakaful products by the owners of halal small businesses is expected to minimise the risks confronting them and contribute to the sustainability of their halal small businesses. Thus, there is a need to ascertain whether subscribing to microtakaful products contributes to halal small business sustainability.

Meanwhile, it has been established by the Malaysia Islamic Financial Centre (MIFC) (2014) that the global halal economy and the Islamic finance industry are natural economic partners with huge potential to expand further. Focusing on the halal industry, the global Muslim population's growth is accompanied by the demand for halal products and services (Tahir *et al.*, 2016; Wilson *et al.*, 2013). Due to their sizes, halal small businesses normally face catastrophes in their operations with not enough protection and knowledge of risk management (Crovini *et al.*, 2020; Ibrahim *et al.*, 2015; Md. Jadi *et al.*, 2014; O'Regan *et al.*, 2005; Salleh *et al.*, 2017; Santoro *et al.*, 2021). Halal industry dimensions that meet the needs of administrative groups, researchers, and the public play an important role in halal industry development and remain an important part of national economic activities (Department of Statistics Malaysia [DOSM], 2017). As documented by Ahmed (2016), there is a strong positive relationship between economic growth and the growth of micro protection on the one hand; micro protection has greater returns on small business growth rate on the other hand, especially in developing countries. Thus, the sustainability of halal small businesses and their influence on the economy can be harnessed if they subscribe to appropriate protections.

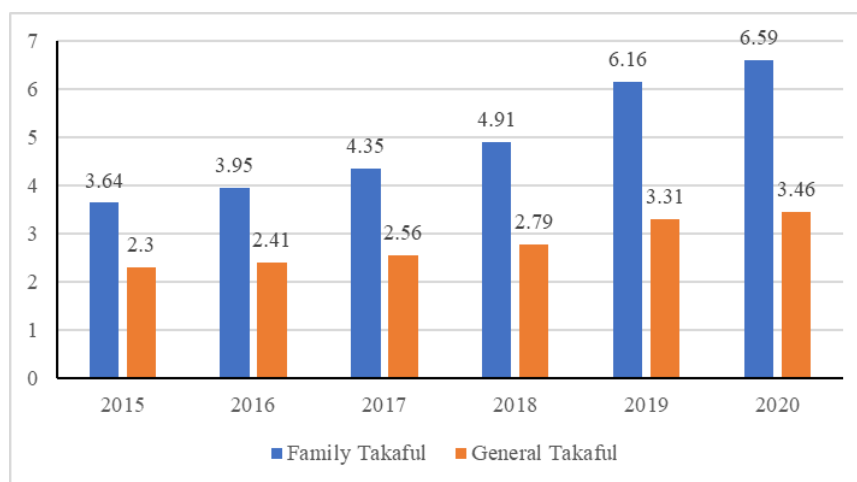
Furthermore, through the designated microtakaful products, halal small businesses and low-income people will have access to a wider range of protections (Frankfurt School of Finance & Management, 2016). Hence, microtakaful products offer opportunities for small businesses to sustain themselves in the market (Sukmana & Hidayat, 2014). Based on the above argument, microtakaful products are critical for achieving a sustainable halal small business, particularly in avoiding unforeseen disruption.

Thus, subscribing to the appropriate microtakaful products is important for the sustainability of halal small businesses in Malaysia since doing that can safeguard them against losses. Hence, this study aims to examine the influence of microtakaful products on halal small businesses' sustainability. Conducting this study is crucial given that the Malaysian economy is highly dominated by the informal sector, where the majority are small businesses.

## 2. Literature Review

### 2.1 Trend in Microtakaful Product

In Malaysia, microtakaful was established in 2007 with cooperation between Takaful Ikhlas, Takaful Malaysia, Selangor Zakat Centre, Farmers Malaysian Union, and other agencies. The monthly deposit payment is usually deducted from the zakat payment for the poor to pay the premiums of the policies and, in return, pay the benefits in case of death, disability, chronic diseases, costs of burial, and the costs of hospitals (Ahmed, 2016). Figure 1 shows the performance of the Malaysian takaful industry, including the growth level of microtakaful products according to the Malaysian Takaful Association's (MTA) (n.d.) annual reports from 2015 to 2020.



**Figure 1.** Takaful Industry Performance.

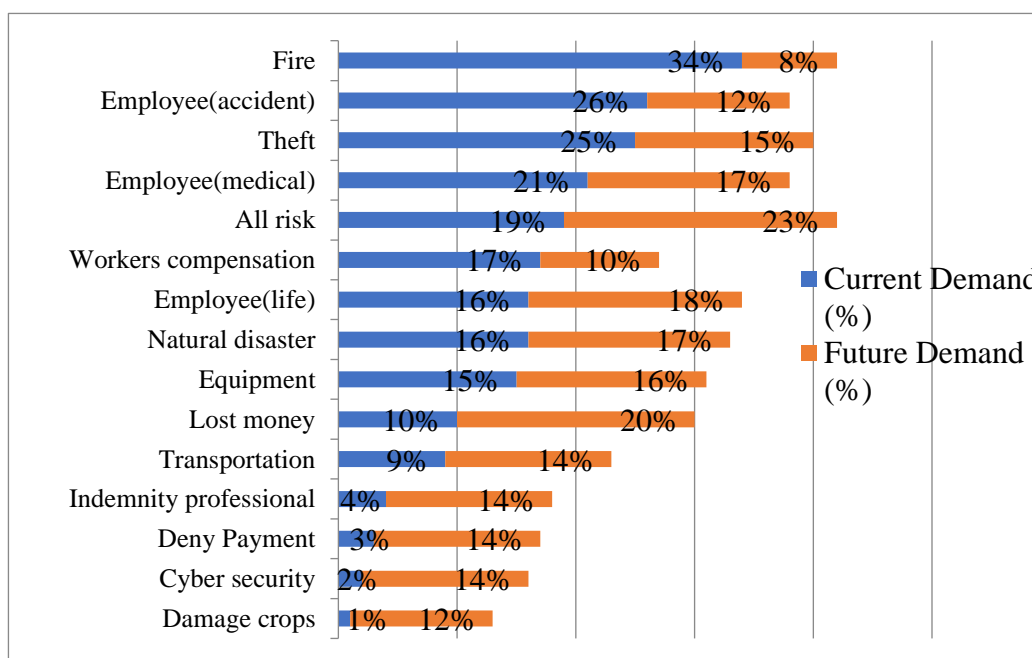
Source: Malaysian Takaful Association (MTA) annual reports from 2015 to 2020.

In a study by Ismail *et al.* (2012), it was stated that Syarikat Takaful Malaysia, Takaful Ikhlas, and Etiqa Takaful were among the earlier takaful operators that first introduced microtakaful schemes in Malaysia. Micro Insurance Network (2021) also documented other existing microtakaful products, such as AIA i-Starter Plan, Lindungi, and Agro Mabrur-I. Abdul Wahid (2015) indicated that there are a few similar other products, namely 1Malaysia micro-takaful protection plan (1MMPP), paddy takaful protection, takaful for Indonesian maids, and i-BRIM (Takaful Berkumpulan Rakyat Malaysia).

While there are different microtakaful products, the takaful penetration trend in Malaysia, with its 60% Muslim population, is still low despite its expanding growth (Lim, 2019; NST

Business, 2019). Bangaan Abdullah *et al.* (2019) informed that the subscription to microtakaful among the B40 people is still low despite the availability of affordable microtakaful products as low as RM0.14 per day and RM50 per year, such as Perlindungan Tenang, Takaful Hayati, Tabarru' Koperasi Scheme, Takaful Nelayan, SSPN-i Plus, and Sihat Selangor. Thus, this shows the challenges faced in promoting these schemes despite their benefits to the vulnerable and small businesses.

Takaful operators have significantly transformed their business landscape to boost growth, expand highly skilled manpower, and accelerate innovation (“Huge potential”, 2019; Tuah, 2017). This suggests that the supply side (the takaful operators) has increased its focus on the low-income segment for financial protection, as indicated by the regulator (Bank Negara Malaysia, 2016). Figure 2 presents a report by Kandasamy *et al.* (2018), showing that there will be a future demand for insurance and takaful. The figure shows that medical or health-related cost is the highest potential to be subscribed in the future, followed by life (family) protection, asset-based protection (such as natural disaster, fire, equipment, transportation, loss of money, theft and crops damage, all risk, employee), and disability protection (injury, accident, workers compensation), as it is associated with job-related risk.



**Figure** Error! No text of specified style in document.. Current and Future Demands for Insurance and Takaful.

Source: Kandasamy *et al.* (2018).

## 2.2. Microtakaful Products and the Sustainability of Halal Small Businesses

Microtakaful products are risk mitigation strategy designed for low-income earners, individuals and business entities, in exchange for low premium for financial stability or

business sustainability (Haroun & Yusoff, 2019; Ismail *et al.*, 2012; Salleh & Padzim, 2018b; World Bank, 2017). Ahmed (2016) revealed that microtakaful products are an important development tool for developing countries due to their capacity to finance catastrophe victims and assist micro-enterprises. Ismail *et al.* (2012) employed in-depth interviews to investigate some selected micro-enterprises and concluded that the significant role of microtakaful products is yet to be explored.

Apart from protecting micro-enterprises, microtakaful products offer an innovative approach to mitigate risk, especially to overcome natural losses and enhance productivity as well as sustainable growth (Ahmed, 2016; Alidini, 2014). Fersi and Boujelbene (2016) noted that microtakaful products are an essential solution for achieving sustainable development and alternative solutions for halal small businesses and low-income households.

Malaysia, with its most advanced applicable takaful regulations, is constantly striving to enhance the growth of microtakaful in the market by establishing a regulatory framework and introducing innovations in the distribution arrangements to ensure balanced and sustainable economic growth (Bank Negara Malaysia, 2016; World Bank, 2017). Through the microtakaful products, the vulnerable ones who are the most at risk and small businesses would have access to basic protection, which may arise due to loss of income, thereby improving their standard of living and business sustainability.

Several studies with different objectives have been conducted to evaluate the influence of micro protection on small businesses. For example, the study of Parmar *et al.* (2014) indicated that the impact and effectiveness of micro protection, such as microtakaful, have been gaining attention from several entities, particularly academicians, micro protection providers, and government agents. As a result, Parmar *et al.* provided a guideline to determine the positive impact of microinsurance products where researchers justified those different segments have different impacts, such as reductions in vulnerability, changes in asset accumulation, and improved health status. As such, the present study will expand the discussion on the influence assessment of microtakaful within the context of halal small business sustainability.

Meanwhile, to evaluate the most influential risk coverage, a qualitative study on microtakaful by Ismail *et al.* (2012) indicated that the expected coverage for small businesses includes death, disability, accidents, injury, or medical purposes. In addition, similar other studies have discussed various risks that can be covered under micro protection, including affordable health protection (Chankova *et al.*, 2008; Cofie *et al.*, 2013; Noubiap *et al.*, 2013; Panda *et al.*, 2015); property, health, disability, and family (Khan, 2006); agriculture (Yanli, 2009); and funeral coverage (Ahmed, 2016; IFSB & IAIS, 2015). Therefore, this study uniquely extends the findings of Usman (2012) and Khan (2006), which classified microtakaful products into four distinct groups: property, health, disability, and family. In other words, this study examines the influence of property, health, disability, and family on halal small

businesses' sustainability in Malaysia.

Since the main reason for the establishment of microtakaful is to overcome the worries of vulnerable individuals and halal micro and small businesses operating for sustainability, especially in developing countries, this study intends to reveal the microtakaful products that influence the sustainability of halal small businesses. Besides, the researcher was triggered to carry out this topic because of the protection gaps in the halal industry, where several halal small businesses lack protection against unforeseen risks. To actualise the reasons behind this study, the main determinants of halal small business sustainability considered in this research are as follows: properties microtakaful products, health microtakaful products, disability microtakaful products, and family microtakaful products.

### **3. Materials and Methods**

This study adopts a quantitative research design and performs a quantitative analysis of the data collected to offer a justifiable conclusion and recommendation for this study. Like other studies, the researchers have subscribed to a positivist philosophical assumption in the course of this research. The target population for this research is halal small business owners and managers who subscribed to microtakaful protection in Klang Valley, Malaysia (Jaiyeoba *et al.*, 2021; 2022). Moreover, a non-probability sampling technique was adopted for this study since the actual population is unknown due to the lack of information to determine the actual size of halal small businesses. This technique is suitable given the cost and limitations to reach samples. Due to the unavailability of the total number of halal small businesses, the subservice sector was selected for this study.

Additionally, a survey questionnaire comprising a total number of 46 items was developed based on the studies of Salleh and Padzim (2018), Ishak (2020), and Htay *et al.* (2015). The survey questionnaire used close-ended questions with predetermined options of answers for respondents to choose from. For the answer options, this study has adopted the Likert-type scales ranging from strongly disagree to strongly agree. Furthermore, several demographic questions were also incorporated into the developed questionnaire to understand the respondents from whom the data were collected. Before subjecting the developed questionnaire to data collection, experts, researchers, and practitioners were engaged for face and content validity. Following this, a pilot study involving 61 respondents from halal small businesses was conducted.

To analyse the data collected from the respondents, the researchers employed various analyses, including descriptive analysis, exploratory factor analysis, and multiple regression, in addition to data screening. Specifically, descriptive analysis was conducted to enable the researchers to report the summary of respondents' demographic profiles, and exploratory factor analysis was performed to reduce items in the questionnaire to manageable sizes. At the same time, multiple regression was undertaken to test the relationships between the dependent and independent variables.

## 4. Results

### 4.1. Descriptive Analysis

Table I summarises the frequency statistics of gender, age, education level, religion, and years in service. As shown, the total number of female respondents is 127 (53.4%), and the total number of male respondents is 111 (46.6%). This result indicates that more data were collected from female respondents than male respondents. With respect to the age category, more data were collected from the respondents within the 26–35 age group with 88 (37%), followed by the respondents within the 36–45 age group with 76 (31.9%), while the lowest age group of respondents from whom data were collected is 56 with 16 (6.7%). Regarding the respondents' level of education, analysis shows that more data were collected from Diploma holders with 73 (30.7%), followed by Degree holders with 72 (30.3%), while the lowest group, in terms of the educational level of respondents from whom data were collected are those below SPM with 4 (1.7%). Finally, more data were collected from respondents who have been working with halal small businesses or own halal businesses for six to 10 years with 53 (22.3%), while the lowest group from whom data were collected in terms of years in service is 11–15 with 38 (16%).

**Table 1.** Respondents' Demographic Profiles.

No.	Socio-Demography	Item	Frequency (n)	Percent (%)	Cumulative Percent (%)
<b>By Item:</b>					
1	Gender	Male	111	46.6	46.6
		Female	127	53.4	100.0
		Total	238	100.0	
2	Age	16–25 years	30	12.6	12.6
		26–35 years	88	37	49.6
		36–45 years	76	31.9	81.5
		46–55 years	28	11.8	93.3
		>56 years	16	6.7	
		Total	238	100.0	100.0
3	Education Level	Below SPM	4	1.7	1.7
		SPM	57	23.9	25.6
		Diploma	73	30.7	56.3
		Degree	72	30.3	86.6
		Master	8	3.4	89.9
		PhD	24	10.1	
		Total	238	100.0	100.0
		5	Years in Service	1–5 years	43

No.	Socio-Demography By Item:	Item	Frequency (n)	Percent (%)	Cumulative Percent (%)
		6–10 years	53	22.3	40.3
		11–15 years	38	16	56.3
		16–20 years	52	21.8	78.2
		>20 years	52	21.8	
		Total	238	100.0	100.0

#### 4.2. Exploratory Factor Analysis (EFA) and Reliability Analysis

Exploratory Factor Analysis (EFA) is another analysis applied to the data collected for this study. As discussed, EFA is one of the multivariate statistical methods. It is commonly used to identify the smallest number of hypothetical constructs (also called factors, dimensions, *etc.*), which can parsimoniously explain the covariation observed among a set of measured variables (also known as observed variables, manifest variables, *etc.*) (Hair *et al.*, 2010). In addition, EFA is also commonly used to reduce the items to manageable sizes and determine the appropriate use of data for further analyses. Among several competing EFA methods, Principal Components Analysis (PCA) based on Varimax orthogonal rotation was selected and used for this study.

In addition, 34 items were used to measure the four independent variables and one dependent variable consisting of halal businesses sustainability, property microtakaful product, health microtakaful product, disability microtakaful product, and family microtakaful product. Meanwhile, the results of the preliminary tests, such as Kaiser-Meyer-Olkin (KMO), Bartlett's Test, communalities, and several others, suggest that EFA can be performed for this study. Besides, the KMO result of 0.945, which measures sampling adequacy, shows that the sample is adequate. Hair *et al.* (2010) indicated that values between 0.9 and 1.0 are considered strong. As for Bartlett's Test of Sphericity, the result indicates a significant ( $\chi^2 = 9837.391$ ,  $df = 561$ ,  $p = 0.001$ ), suggesting no concerns for multicollinearity. Besides, the finding also suggests that the variable is significantly correlated, and that matrix is not an identity matrix.

Furthermore, the values of communalities, which measure the amount of variance that each variable shared with the other variables included in the analysis, indicate that further analysis can be performed on the data collected for this study. Following this, the EFA was used to generate five factors, which accounted for the cumulative variance of approximately 79.92% with eigenvalue greater than 1.0 (6.39%, 5.74%, 5.60%, 5.06%, and 4.38%). Given that the



rotated sum of squared loading is above 60%, the researcher can be confident that this value is reliable.

### 4.3. Multiple Regression Analysis

Finally, Table 2 presents the results of multiple regression undertaken to test the influence of microtakaful products on halal small business sustainability. The results show that disability microtakaful product ( $\beta = 0.300$ ,  $t = 4.187$ ,  $p = 0.001$ ) and family microtakaful product ( $\beta = 0.479$ ,  $t = 8.172$ ,  $p = 0.001$ ) are positively and significantly related to halal business sustainability. Whereas property microtakaful product ( $\beta = 0.000$ ,  $t = 0.007$ ,  $p = 0.994$ ) and health microtakaful product ( $\beta = 0.035$ ,  $t = 0.490$ ,  $p = 0.624$ ) are positively but insignificantly related to halal business sustainability, indicating that both do not significantly influence the sustainability of halal small businesses in Malaysia. These findings suggest that if owners and managers of halal small businesses subscribe to the disability microtakaful product and family microtakaful product, such subscription will contribute to the sustainability of their halal small businesses.

Nonetheless, subscribing to property microtakaful products and health microtakaful products will not necessarily contribute to the sustainability of halal small businesses. The unstandardised coefficients indicate that for a unit of change in the disability microtakaful product and family microtakaful product, the dependent variables (halal business sustainability) will change by 34% and 57%, respectively. In summary, two independent variables (disability microtakaful and family microtakaful products) out of four are positively and significantly related to the dependent variable — halal small business sustainability.

Therefore, the results show that subscribing to disability microtakaful product, such as credit disability microtakaful product, and family microtakaful product, such as an endowment plan that provides maturity value upon the end of the term, by the owners and workers of halal small businesses will contribute to the sustainability of their businesses. In addition, the more the participants use disability microtakaful products, such as credit disability microtakaful products for loans, the more the sustainability of halal small businesses since credit disability microtakaful products cover the loan during the borrower's difficult period. Similarly, the more the participants subscribe to family microtakaful products, such as endowment scheme which gives a maturity value at the end of the period, the more the sustainability of halal small businesses since this scheme includes affordable saving instruments to protect the participants when they are in a difficult situation.

**Table 2.** Multiple Linear Regression Analysis of Halal Small Business Sustainability.

Predictor variable	$R^2$	Adj. $R^2$	$F$	$p$	Constant	Gradient	$t$	$p$
Model	0.527	0.519	64.894	<0.05	0.321			
Property Microtakaful						0.001	0.007	0.994
Health Microtakaful						0.044	0.490	0.624
Disability Microtakaful						0.337	4.187	0.001
Family Microtakaful						0.567	8.172	0.001

## 5. Discussion of Findings and Implications

The results of multiple regression analysis indicate that property microtakaful product is insignificantly related to business sustainability. This is inconsistent with earlier studies, such as Usman (2012), where it was ascertained that property microtakaful product is crucial for microenterprises operating for sustainability. In terms of the features of this product, this result extends the study of Salleh *et al.* (2017), where it was disclosed that the features of the product make it unattractive to halal small businesses, leading to low penetration rate to property risk protection. However, with further innovation, in terms of product coverage and distribution, property microtakaful products may play an important role in contributing to the sustainability of halal small businesses.

Moreover, multiple regression analysis results show that health microtakaful product is insignificantly related to halal small business sustainability. This finding is inconsistent with the studies of Usman (2012), where it was maintained that micro protection helps microenterprises to remain sustainable. This result is also inconsistent with the study of Salleh *et al.* (2018), which claims that health micro protection is highly demanded among the poor. In contrast, the finding suggests that health microtakaful product is not highly demanded by halal small businesses, but reveals why health protection gaps exist and why more people are left unprotected (Bevere *et al.*, 2021). Therefore, small businesses need to be exposed to the importance of this product through proper engagement and outreach programmes to educate them on affordable health protection.

In addition, the multiple regression results show that disability microtakaful product is positively and significantly related to halal business sustainability. This finding supports the developed hypothesis that the disability microtakaful product is positively and significantly related to halal business sustainability. This finding supports the finding of Mosley (2009), where it was concluded that micro protection helps customers, especially during difficult events, such as when participants have a temporary disability resulting in credit disability problems. Micro protection can act as cover for loan repayment. This finding also supports the existing study by Cohen and Sebstad (2005) on demand and supply as the driving force

for subscribing to micro protection. It also supports the studies of Usman (2012) on the benefits of disability microtakaful for the sustainability of microenterprises.

Furthermore, the result of multiple regression for family microtakaful products shows positive and significantly related to business sustainability. This is consistent with the study on social structure, old age, and demand for takaful by Abdul Rahman (2009) maintains that people are concerned about their old ages for survival in the absence of no income or economic shock. Another consideration is that workers are protected by the national compulsory contributions through the existing social protection to deal with the longevity risk, according to Choong and Firouz (2020). Thus, small businesses involved in informal work, such as self-employed, prefer this product at an affordable price as a compliment to the existing compulsory social protection due to its benefits. Thus, this finding suggests that family microtakaful product is significantly related to the sustainability of halal small businesses.

Therefore, the implication of this study is important as the first of its kind that examines the influence of microtakaful products on the sustainability of halal small businesses. The significant influence of disability and family microtakaful products on the sustainability of halal small businesses will help takaful operators to prioritise these products to become attractive to halal small businesses. Finally, the research instrument developed and used to collect data is probably the first of its kind and can be used by future researchers without validating the items again since they have been validated in this research. Similarly, policy makers are called upon to monitor the efficiency and effectiveness of microtakaful products on halal small businesses segment, especially to avoid the destruction of wealth, lack of productivity, slow economic growth, and loss of manpower. The implication to the practitioners shows that this study would help halal business owners and workers comprehend the benefits of subscribing to microtakaful products. This study has important implications for takaful operators by calling on them to improve their operations and design innovative products, especially given the vast halal businesses in emerging countries. This study will provide a guide to the halal industry to develop a knowledge direction for all players, from halal business owners to the public, on the importance of microtakaful products to a more harmonious economy.

## **6. Conclusions**

The study indicates that disability microtakaful products and family microtakaful products positively and significantly influence the sustainability of halal small businesses in Malaysia. Based on these findings, it can be concluded that these variables directly and strongly influence the sustainability of halal small businesses. These findings conclude that managing the risk with appropriate protection tools with specific microtakaful products to mitigate the risks facing the underserved segment will significantly help sustain the growth of halal small businesses. Thus, this evidence further strengthens the parallel concept between risk

management and microtakaful products, which should be utilised to develop a social security model to achieve long-term sustainable growth for individuals and institutions and a tool for community development. It can also be concluded that microtakaful products are essential in meeting short-term and long-term risks by halal small businesses.

While conducting this research, the researcher faced several limitations, such as time constraint and meeting the completion plan as scheduled, since halal small business operates widely in Selangor. Another issue that contributed to the difficulties faced is that the exact number of small halal businesses is almost unknown and very difficult to access. Furthermore, since this research is not funded, insufficient funds make it difficult for the researcher to travel around Selangor to collect more data from more participants. As a result of this limitation, most of the data used for this research were collected through Google Forms. Similarly, the data used for this study were drawn from Klang Valley. Although this state is an economic hub of the country, the researcher admits that the opinions of the respondents from this single state may not represent the opinions of other small business owners and workers from other parts of the country. Consequently, this limits the generalisability of this research's findings.

This study suggests that further improvements are expected to increase our understanding of the influence of microtakaful products on the sustainability of halal small businesses. Hence, it will make perfect sense for future research to address the shortcomings of this study in such a way that contributes to the discourse, awareness, and knowledge to the public and private sectors on the influence of microtakaful products on the sustainability of halal small businesses. In doing this, future researchers may adopt different methodological approaches, such as qualitative or mixed methods, and conduct extensive studies in this area of study. Moreover, future researchers, especially those from different economic settings, are called upon to conduct similar studies on the influence of microtakaful products on the sustainability of halal small businesses from entirely different countries. Such studies would help to establish that only two microtakaful products perfectly contribute to the sustainability of halal small businesses. Finally, there is a need for more studies on the contribution of microtakaful products in the segment with a high number of vulnerable people, such as the gig economy in the halal industry in Malaysia. Such studies need to be addressed, as subscribing to microtakaful products can serve as an income replacement and sustainability for a particular population segment.

**Conflicts of Interest:** The authors declare no conflict of interest in this work.

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