



# Takaful: Principles, Practices, and Global Growth

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## Abstract

This article explores Takaful, an Islamic insurance scheme adhering to Sharia principles. It examines its unique features compared to conventional insurance and its role within Islamic banking. Additionally, it highlights Takaful's expansion globally, especially in countries like Malaysia, Pakistan, Indonesia, Turkey, UAE, and Great Britain.

**Keywords:** takaful industry; family takaful; general takaful; global Islamic finance; Mudarabah; murabahah

## 1. Introduction

In 2020, the global Islamic finance sector demonstrated steady growth, with total assets expanding consistently. Despite the challenges posed by the pandemic, the industry experienced a notable 14% increase in its assets during the first year. Subsequently, in the following year, the growth surged even further, reaching an impressive 17% rise. This robust expansion elevated the sector's assets to US\$ 4 trillion, surpassing pre-Covid levels [1].

Today, Takaful stands as the predominant form of insurance across most Muslim nations. The burgeoning demand for Takaful insurance within Muslim-majority countries emerges as a key driver propelling its expansion. Many of these countries are witnessing a surge in middle-class incomes alongside robust economic growth. As individuals witness improvements in their financial circumstances, there's a heightened inclination towards leveraging insurance to safeguard their assets and well-being. Within this landscape, Takaful presents itself as a Shariah-compliant option for citizens. Furthermore, the equitable distribution of investment profits among participants serves as a catalyst in driving the Takaful insurance market.

However, the lack of standardization within Takaful insurance, attributable to regional disparities, poses a hindrance to market growth. Variations in regulatory frameworks, Shariah boards, and operational practices across different countries and regions contribute to this lack of uniformity. Consequently, operating on an international scale becomes challenging for Takaful operators, impeding the emergence of a unified global Takaful market.

Moreover, limited consumer knowledge and awareness about Takaful represent significant barriers to the market's development. Despite a notable increase in Takaful engagements within Muslim-majority nations, there remains a considerable segment of the global population, including Muslims residing in non-Muslim countries, that remains underserved by this service or lacks coverage from Takaful products. This untapped market encompasses regions characterized by sizable Muslim populations, such as Central Asia, Southeast Asia, Africa, Europe, and North America, where awareness and demand for Shariah-compliant financial solutions are on the rise [1,7].

## 2. literature review

In light of these dynamics, the forecast for the Takaful insurance market holds promise, presenting substantial revenue opportunities for growth.

The introduction of Takaful, or Islamic insurance, to economies has garnered significant interest and discussion across various contexts. Takaful has experienced notable growth in countries with substantial Muslim populations, including Malaysia, Indonesia, Saudi Arabia, the UAE, Bahrain, and Pakistan [2,3]. The potential advantages of Takaful encompass the attraction of funds from non-Muslim sources into national financial systems, heightened foreign investments from Middle Eastern and Southeast Asian nations, and the facilitation of economic growth through job creation and value addition to participants and businesses [4,5]. Research on Takaful demand in Pakistan has revealed a positive correlation between macroeconomic indicators and the demand for Takaful services [6]. Furthermore, studies focusing on the Malaysian Takaful sector have identified a favorable relationship between Takaful and real economic expansion, particularly before the implementation of the Islamic Financial Services Act (IFSA) in 2013. In summary, the integration of Takaful into economies holds promise for fostering economic growth, stimulating investments, and delivering ethical insurance solutions.

In ensuring the economic growth of the country, it is crucial to identify existing problems and shortcomings in the industry of capital market development, meanwhile to improve comprehensive policies to address them. In addition, it is advisable to develop practical recommendations for the use of foreign market development in national practice,

effectively using foreign experience. Based on the content of our study, we will first focus on the significance of capital market development in ensuring economic development [7, 8].

### 3. Data analysis.

In this section, we present economic mathematical calculations regarding the introduction of Takaful in our country. It is acknowledged that our country lacks professional Takaful enterprises and practical experience in this regard. While a few microfinance organizations attempt to operate on Takaful principles, they do not offer professional financial services to the populace and have only recently begun operations. Consequently, the statistical data derived from these entities are inadequate for econometric assessment purposes, as reliable results cannot be obtained from such data.

Given this limitation, we opted to draw parallels with Malaysia, a Muslim-majority country with a similar size and population mentality to ours, and recognized as an advanced nation in the Islamic finance sector. Malaysia's central bank, along with leading financial institutions, provides annual reports and systematic analyses on Islamic insurance relations, offering reliable and orderly information. Leveraging statistical data from the annual reports of the Malaysian Takaful Association and macroeconomic and financial indicators from the official website of the World Bank, we conducted our analysis.

Our objective is to elucidate the relationship between key economic and financial indicators, namely the Gross Savings Ratio, satisfaction rate of insurance claims, and annual growth of family and total Takaful assets. To identify these relationships, we selected the Gross Savings Ratio in Malaysia as a dummy variable. Subsequently, we explored how independent variables influence the outcome factor through econometric modeling.

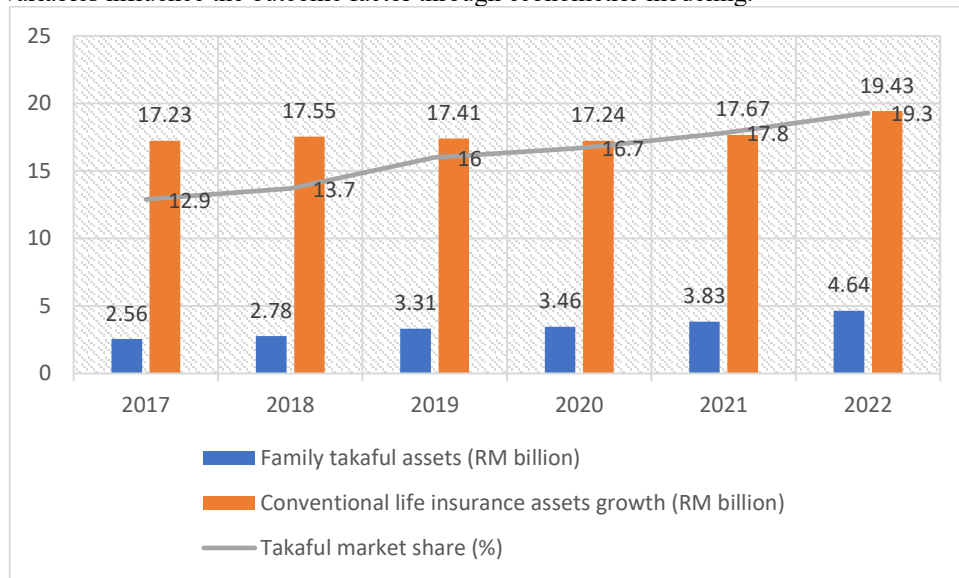


Figure 1: Family takaful and conventional insurance assets in Malaysia

Over the years from 2017 to 2022, there is a clear trend of growth in Family Takaful assets. The values increase gradually from 2.56 RM billion in 2017 to 4.64 RM billion in 2022.

Similarly, there is a consistent growth in Conventional Life Insurance assets, with values ranging from 17.23 RM billion in 2017 to 19.43 RM billion in 2022.

The Takaful market share also demonstrates an upward trend, rising from 12.9% in 2017 to 19.3% in 2022. This suggests an increasing adoption and acceptance of Takaful within the insurance market over the years.

Overall, the table illustrates the growth and expansion of the Takaful industry alongside conventional insurance, indicating a rising prominence and market share for Takaful products within the insurance sector.

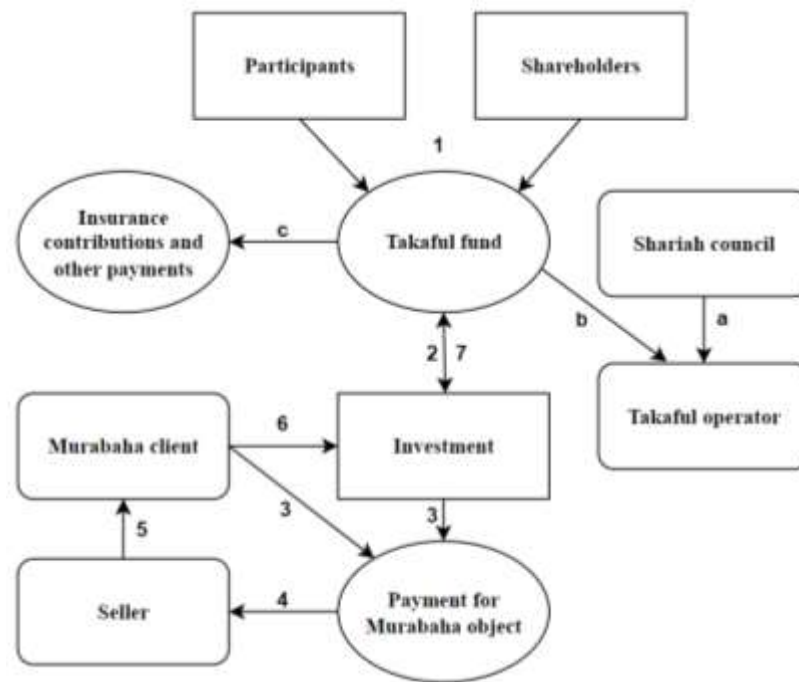


Figure 2: Mudaraba with investors and murabaha with clients working mechanism.

- a. The Shariah Council consistently supervises the Takaful process.
- b. The Takaful operator receives the service fee from the fund.
- c. Insurance premiums and other payments are paid from the fund.
1. Contributors and Takaful participants direct their money to the fund.
2. This amount is then directed as an investment.
3. The Murabaha client and the fund implement the payments for the Murabaha object together.
4. Payment is made for the negotiated object to the seller.
5. The Murabaha object is given to the Murabaha client.
6. The Murabaha client returns the funds to the investment based on term payment, whereby the Murabaha customer pays by adding an annual margin.
7. The amount returned from the investment is then returned to the fund.

## 6. Conclusion

In conclusion, it is important to emphasize that Takaful operates in accordance with Sharia principles as an insurance scheme. While different Islamic scholars and organizations may offer varying definitions, its fundamental concept of "Reciprocal contribution or assistance" remains consistent. Islamic insurance differs significantly from conventional insurance, particularly in terms of risk sharing, profit sharing, and contract terms. Within the Islamic economy, Takaful plays a crucial role and is considered a distinct business model within Islamic banking and investment activities. While relatively young compared to other sectors of the financial industry, Takaful is rapidly evolving and gaining traction worldwide, with notable presence in countries such as Malaysia, Pakistan, Indonesia, Turkey, UAE, Great Britain, and others.

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