



APPLICATION OF ISLAMIC FINANCIAL INSTRUMENTS IN THE INSURANCE MARKET

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Abstract

This article examines the application of Islamic financial instruments in the insurance market. The article provides a detailed explanation of the essence of the takaful system, its differences from conventional insurance, historical development, main models, and practical aspects. The article analyzes takaful models such as mudaraba, wakala, waqf, and hybrid models, and demonstrates their practical application through examples. Furthermore, the article highlights the specific features of various takaful products, including vehicle, property, health, education, pension, and life takaful. Based on statistical data, the article describes the current state and future prospects of the global takaful market and analyzes the possibilities of implementing takaful in Uzbekistan.

Keywords: Islamic finance, takaful, insurance, mudaraba, wakala, waqf, interest-free insurance, Islamic financial instruments, mutual assistance, halal investments, Islamic insurance products.

Introduction

Today, one of the rapidly developing areas of the global financial market is the Islamic finance system. An important branch of Islamic finance is Islamic insurance (takaful). Islamic financial instruments differ from traditional finance and insurance sectors in their compliance with Sharia principles.

The takaful market is developing rapidly at the international level and is considered a promising sector, with the market volume of \$32.85 billion in 2024 projected to reach \$57.86 billion by 2029. The main factors for this growth are the increase in the Muslim population worldwide, growing interest in Islamic financial services, rising demand for Sharia-compliant insurance products, and the development of digital



technologies. This article examines the essence of Islamic insurance, its practical aspects, market dynamics, and prospects for the sector through various analyses.

Main Section

Takaful derives from the Arabic word "kafala," meaning "mutual guarantee" or "mutual protection." Takaful is an insurance system organized in accordance with Sharia law, based on principles of mutual assistance, cooperation, and solidarity among participants.

Table 1 Historical development of Takaful

Period	Key events
1979	The first takaful company - "Islamic Insurance Company" was established in Sudan
1984	The first takaful company in Malaysia - "Syarikat Takaful Malaysia" began operations
1985	"Islamic Arab Insurance Company (IAIC)" was established in Saudi Arabia
1991	The first International Takaful Conference was held
2005	Takaful standards were developed by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions)
2010	The first online takaful services were launched
2015	Widespread introduction of microtakaful products
2020	Development of digital takaful platforms (InsurTech)
2023	Spread of takaful products in Europe and the USA

Traditional insurance systems usually include elements prohibited by Islamic Sharia such as interest (riba), uncertainty (gharar), and gambling (maysir). Therefore, applying this system in Muslim countries and communities adhering to Islamic traditions is problematic. To solve this problem, the takaful system has been developed based on Islamic financial instruments, where participants contribute their shares to a common fund, and compensation is paid from this fund to participants who have suffered losses. Unlike traditional insurance, profit-making is not the main goal in takaful; instead, ensuring social justice and mutual assistance are priorities. The operator (takaful company) only receives a service fee, while the remaining profit is distributed among participants or directed to charitable causes.



Table 2 Key differences between Takaful and conventional insurance

Aspect	Takaful	Conventional Insurance
Essence	Mutual assistance and cooperation	Transfer of risk to another party
Contract type	Tabarru (charity) and mudaraba (partnership)	Purchase of risk for a certain payment
Fund ownership	Participants	Insurance company
Profit distribution	Distributed among participants	Belongs to company shareholders
Investments	Only in Sharia-compliant sectors	Without restrictions
Risk management	Risk sharing	Risk transfer
Management	Takaful operator + Sharia board	Only insurance company
Transparency level	High (participants can see all reports)	Medium (only financial reports)
Payment accounting	Charity (tabarru)	Commercial payment
Expenses	Usually lower	Usually higher
Returnable portion	Surplus from operations is distributed to participants	Surplus is not returned

In practice, there are several takaful models that differ in fund management and profit distribution mechanisms. The main takaful models and their practical applications are analyzed below.

1. Mudaraba model. In this model, takaful participants act as capital owners (rabb-ul-mal), while the takaful operator acts as a manager (mudarib). Profit is distributed in a pre-agreed ratio (e.g., 70:30 or 60:40). Participants contribute their funds to the takaful fund, and the operator carries out investment activities.

Practical application: *Syarikat Takaful Malaysia Berhad* company in Malaysia manages family takaful products based on the mudaraba model. Under this model, investment income is distributed 70% to participants and 30% to the company.



2. Wakala model. In the wakala model, the takaful operator acts as an agent (wakil) on behalf of participants and receives a certain fee for managing the fund. This fee is usually set at 1-2% annually, and all profits belong to the participants.

Practical application: *Abu Dhabi National Takaful Company* uses the wakala model for general takaful services. The company receives a wakala fee of 1.5% of assets annually, as well as an additional incentive (performance fee) of 25%.

3. Waqf model. In this model, participants and the takaful operator establish a waqf (charitable fund). Participants donate their shares to the waqf fund, and the takaful operator manages the fund in accordance with Sharia rules. The waqf model is based on principles of collective responsibility and charity.

Practical application: *Pak-Qatar Family Takaful Limited* company in Pakistan applies this model. The company allocates initial capital as waqf, and participants direct their contributions to this waqf.

4. Hybrid model (Wakala-Mudaraba). The hybrid model combines wakala and mudaraba models. Typically, insurance operations are carried out on a wakala basis, while investment activities are based on mudaraba. This approach allows the takaful operator to effectively manage the fund.

Practical application: *Takaful International Company* in Bahrain implements the hybrid model. The company receives a 1.8% wakala fee for insurance operations and a 25% mudaraba share from investment income.

Takaful models offer different forms of financial relationships between participants and takaful operators. The mudaraba model is based on the distribution of investment income, while the wakala model relies on the operator's service fee mechanism. The waqf model is based on the principle of charity, and the hybrid model combines the advantages of both approaches. In different countries, each model is applied according to its legal and market conditions.



Table 3 Takaful products and their practical application

Types	Content	Practical example	Distinctive features
Vehicle takaful	Coverage for traffic accidents and auto risks	<i>Etiqa Takaful (Malaysia)</i> - 250,000+ vehicles	Charity mechanism, bonuses for customers who reduce risk
Property takaful	Protection of residential and commercial buildings	<i>Qatar Islamic Insurance</i> - 85,000 homes	Direct repair, Sharia-compliant services
Health takaful	Medical services and treatment expenses	<i>SALAMA (UAE)</i> - 180,000 families	Preventive check-ups, halal medicines
Education takaful	Children's education fund	<i>Takaful Brunei</i> - 45,000 children	Investment plan, additional coverage for Islamic educational institutions
Pension takaful	Financial protection in old age	<i>Prudential BSN Takaful (Malaysia)</i> - 120,000 people	Long-term savings, flexible payments
Life takaful	Protection in case of death or disability	<i>Takaful Keluarga (Indonesia)</i> - 350,000 families	Interest-free payments, waqf options
Microtakaful	Affordable insurance for the underprivileged	<i>Microtakaful Pakistan</i> - 1.2 million farmers	\$4.5 million compensation to 78,000 farmers affected by drought

Takaful products are aimed at providing financial protection for various aspects of human life and differ from traditional insurance systems in their Sharia compliance and risk-sharing mechanisms. General takaful protects assets such as vehicles, property, and health, while family takaful provides long-term financial stability through education, pension, and life insurance. Additionally, microtakaful helps strengthen economic protection for underprivileged segments of the population.

The takaful market developed at a growth rate of 11.8% between 2024-2025, with market volume increasing from \$32.85 billion to \$36.74 billion. Between 2025-2029, the growth rate is projected to reach 12.0%, with market volume expected to reach \$57.86 billion. These figures indicate that the takaful sector is developing steadily and at a high rate.

In the geographic distribution of the takaful market, the Asia-Pacific region is leading and is expected to remain the fastest-growing region in the future. This is mainly due to the large Muslim population in this region (e.g., Indonesia, Malaysia) and the development of the Islamic financial services market.

More than 85% of Uzbekistan's population consists of Muslims, indicating significant potential for introducing Islamic financial services in the country. In his Address to the Oliy Majlis on December 29, 2020, President Shavkat Mirziyoyev emphasized



the need to create a legal framework for Islamic financial services. Currently, existing legislative opportunities can be used to implement takaful in the country. For example, the Law "On Insurance Activities" includes the concept of mutual insurance, which can serve as a basis for applying the takaful system.

Conclusion

The application of Islamic financial instruments in the insurance market not only meets the needs of the population adhering to religious beliefs but also serves to ensure economic stability and social justice.

Implementing the takaful system is of significant importance for Uzbekistan. With more than 85% of the population being Muslim, there is great potential for developing Islamic financial services in the country. Islamic insurance not only serves as financial protection but also helps to increase financial literacy among the population, develop a savings culture, and ensure financial stability.

By developing the takaful system in Uzbekistan, it is possible to diversify the financial services market, increase the level of financial protection for the population, and ensure financial inclusivity. In addition, the takaful system serves to meet the population's need for Islamic financial services while also contributing to the financial stability of the state.

In the process of implementing the Islamic insurance system, it is important for Uzbekistan to use the experience of countries with extensive experience in the takaful field, such as Malaysia, UAE, and Indonesia, as well as to strengthen cooperation with international Islamic financial institutions. This will have a positive impact on the development of Islamic finance in the country and, thereby, on economic growth.

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