



Takaful insurance as an infrastructure for developing the Islamic financial services industry – a case study of takaful insurance in the United Arab Emirates

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Takaful insurance; Takaful market; Islamic financial services; Islamic finance.

Abstract

This paper investigates the role of takaful insurance in supporting and advancing Islamic financial services, with a particular focus on regional market dynamics. In Africa, the takaful sector remains relatively marginal and operates alongside conventional insurance systems, with Sudan standing as a notable exception due to its fully takaful-based insurance framework. Several countries in the region have experienced substantial currency depreciation, which has negatively affected the valuation of takaful contributions when denominated in US dollars. Conversely, the Gulf region retained its position as the largest global takaful market in 2022, reflecting a more resilient and mature market structure. In the United Arab Emirates, takaful insurance represents a core component of the Islamic finance ecosystem. The findings indicate that takaful insurance provides a diversified range of financial products addressing both individual and corporate needs—particularly in health and property coverage—thereby enhancing the breadth of Islamic financial services. Furthermore, the investment of takaful funds in Shariah-compliant projects contributes to the promotion, sustainability, and expansion of the Islamic economy.

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1. Introduction

The global financial markets have undergone profound transformation in response to rapid technological advancement and the information and communication revolution. These markets have increasingly become the primary channels for mobilizing financial resources through a wide range of financial institutions and instruments. Among the most prominent of these institutions are banks, which play a central role in safeguarding and allocating funds. However, a fundamental critique of conventional financial markets and banking systems lies in their reliance on interest-based transactions, which are prohibited under Islamic law. This structural limitation has generated a growing demand for alternative Islamic financial markets founded on Shariah-compliant principles.

While the Islamic banking industry has demonstrated notable success in recent decades and has contributed meaningfully to the development of Islamic economic theory, a further challenge has emerged in the establishment of comprehensive Islamic financial markets. Such markets must be structured in accordance with the principles of Islamic economics and operate within the regulatory and ethical framework of Shariah. Achieving this objective would enhance the autonomy of the Islamic financial system from its conventional counterpart, while strengthening both its Shariah legitimacy and economic efficiency.

Within this context, the growth and expansion of the takaful insurance industry—as a viable alternative and competitor to conventional insurance—has provided strategic support for the broader development of Islamic finance. By offering risk-sharing mechanisms grounded in mutual cooperation and ethical investment, takaful has contributed to the diversification and deepening of Islamic financial services. Nevertheless, despite its increasing global presence, the takaful industry continues to face a range of structural, regulatory, and operational challenges. Addressing these challenges requires the adoption of effective strategies and institutional mechanisms capable of overcoming existing constraints and fostering the sustainable development of the takaful sector.

1.1. Main Research Problem

In light of the above, the central research problem of this study can be formulated as follows: **To what extent does takaful insurance in the United Arab Emirates contribute to the development of Islamic financial services?**

1.2. Research Questions

- 1) What is the conceptual and operational framework of takaful insurance?
- 2) What are Islamic financial services, and what are their defining characteristics?

1.3. Research Hypotheses

- 1) Takaful insurance is a cooperative risk-sharing system based on the principles of mutual assistance and solidarity among participants, which distinguishes it from conventional insurance models.
- 2) Islamic financial services consist of a set of financial products and services that comply with Shariah principles and aim to meet the financial needs of individuals in a manner consistent with Islamic ethical and religious values.

1.4. Significance of the Study

The significance of this study lies in clarifying the concepts of takaful insurance and Islamic financial services, as well as examining the extent to which takaful insurance contributes to the development and diversification of Islamic financial services within financial markets. By addressing both conceptual and practical dimensions, the study seeks to enhance understanding of the role of takaful in strengthening the Islamic finance industry.

1.5. Research Methodology

This study adopts a theoretical research design based on descriptive and analytical approaches. The descriptive method is employed to outline the conceptual foundations of takaful insurance and Islamic financial services, while the analytical method is used to examine and interpret relevant previous studies and academic literature related to the subject. This methodological framework enables a systematic assessment of the role of takaful insurance in supporting the development of Islamic financial services.

2. Previous Studies

1). Biraz (2021) conducted a study entitled “The Role of Takaful Insurance Institutions in Covering the Risks of Islamic Financial Institutions.” This study aimed to identify the main types of risks faced by Islamic financial institutions and to highlight the role played by takaful insurance institutions in mitigating and covering these risks. The analysis focused on the insurance services provided to Islamic banks, Islamic investment funds, and Islamic capital markets as mechanisms for enhancing operational stability and financial performance. The findings revealed that Islamic financial institutions are exposed to a wide range of risks in the course of managing and investing funds, which necessitates reliance on takaful insurance institutions to reduce and manage such risks. The study concluded that the existence of takaful insurance institutions has become increasingly essential due to their ability to provide Shariah-compliant insurance coverage for most financial risks and to mitigate their adverse effects when they occur.

2). Bouzourine and Firoz (2020) examined the issue in their article entitled “Requirements for Developing the Takaful Insurance Industry to Support the Islamic Financial Industry: A Case Study of the Saudi Arabian Experience.” The authors emphasized that the takaful insurance industry represents one of the fundamental pillars of Islamic finance, as it constitutes a legitimate alternative to conventional commercial insurance. This is largely due to the Shariah-compliant insurance coverage it offers to individuals and institutions. The study noted that many countries have adopted takaful insurance either as a fully integrated system or alongside conventional insurance. Despite its expanding global presence, the takaful industry continues to face several structural and operational challenges. The authors argued that addressing these challenges requires intensified efforts to develop and strengthen the industry, particularly by drawing on successful experiences such as that of the Kingdom of Saudi Arabia, where takaful insurance has witnessed significant growth and institutional maturity.

3. Theoretical Framework of Islamic Financial Services

3.1. Concept of Islamic Financial Services

Islamic finance promotes the use of participatory financing instruments as a Shariah-compliant alternative to interest-based financing. This approach encourages cooperation between financiers and investors in a manner that supports economic activity, thereby establishing an intrinsic link between the financial system and the real economy and aligning their outcomes. In this context, Islamic finance integrates financial transactions with productive economic activity, ensuring that both systems evolve in a mutually reinforcing manner.

Scholars in the fields of Islamic economics and Islamic banking have contributed to the development of a range of participatory financing instruments designed to replace conventional interest-based mechanisms. These instruments can be broadly classified into four main categories (Rashid, 2014). Among the most prominent of these instruments is *musharakah* (partnership financing).

3.1.1. **Musharakah (Partnership Financing)**

Musharakah is defined as a contractual agreement between two or more parties, whereby each party contributes a known share of capital to a joint venture. All partners possess the right to participate in the management and disposition of the invested capital, based on their status as co-owners of the project. Profits are distributed according to pre-agreed ratios, while losses are borne in proportion to each partner's capital contribution. *Musharakah* can be divided into two main types:

a). Diminishing Musharakah: Diminishing *musharakah* is a partnership arrangement between two parties, typically an Islamic bank and another party, whether an individual or a corporate entity. Under this arrangement, the partner is granted the right to gradually acquire the bank's share in the jointly owned project, either through a single payment or through periodic installments. Importantly, the partner's share of the realized profits is not treated as part of the repayment of the bank's capital share. Over time, as the financing is repaid, ownership of the project is progressively transferred to the partner, who ultimately becomes the sole owner of the asset or enterprise.

b). Permanent Musharakah: Permanent *musharakah* refers to a partnership in which the financed project assumes a stable legal form, such as a joint-stock company, limited partnership, partnership limited by shares, or general partnership, depending on the nature and scale of the project. In this structure, the Islamic bank contributes a portion of the project's capital, thereby becoming a partner in both management and supervision. Profit-sharing is conducted according to the ratios agreed upon in advance, while each partner's ownership share remains fixed throughout the duration of the project or the company, as specified in the contractual agreement.

3.1.2. Financing Instruments (Tawzi' or Project-Based Investments)

Financing instruments in Islamic banking represent a specialized form of partnership in which the bank provides financial or in-kind resources—such as equipment, land, real estate, or other assets—to support a specific project. The project owner utilizes these resources to carry out predetermined operations within an agreed timeframe. Upon completion, the results or profits generated from the project are distributed between the project owner and the financier according to pre-agreed ratios. In the event of a loss, the financier bears the financial burden, while the project owner contributes labor and effort without compensation. Among the most important forms of project-based financing are *mudarabah* and *muzara'ah*.

a). Mudarabah (Profit-Sharing Partnership)

Mudarabah is closely related to *musharakah*, with the key distinction that in *mudarabah*, the capital is provided solely by the investor, whereas in *musharakah*, both parties contribute capital. The contract specifies each party's share of profits, creating a partnership that combines financial resources and managerial or technical expertise. *Mudarabah* enables capital owners who are unable to manage their funds effectively to benefit from the expertise of those who lack capital but possess the necessary skills.

Definition: *Mudarabah* is a contract between two or more parties in which one party contributes the capital while the other provides labor or expertise, and the profits are shared according to an agreed-upon ratio.

Types of Mudarabah:

- **Private Mudarabah:** Both capital and labor are provided by a single individual.
- **Joint Mudarabah:** Involves multiple capital providers and multiple labor contributors.
- **Unrestricted Mudarabah:** The investor grants the manager full discretion to choose the type of investment or trade.
- **Restricted Mudarabah:** The investor restricts the use of funds to a specific investment or trade predetermined by the investor.

Conditions of Mudarabah:

1. The capital must be clearly defined and provided in monetary form.
2. The mudarib (manager) is not liable for the capital in case of loss unless negligence or misconduct is proven.
3. The bank may request a guarantee from the mudarib to secure compliance with agreed conditions.
4. Profit-sharing ratios must be pre-determined as percentages of profits, not fixed amounts, to reflect actual earnings.
5. The time and location of the mudarabah may be agreed upon by the parties.

b). Muzara'ah (Agricultural Partnership)

Muzara'ah is an agricultural financing arrangement in which the Islamic bank provides land for cultivation, without necessarily supplying additional funds. The landowner or farmer undertakes the cultivation, and the resulting produce or profits are shared according to pre-agreed ratios and conditions. This type of financing is particularly suitable for small, medium, and even large-scale agricultural projects, as it is time-bound and focused on specific productive activities.

3.1.3. Ijarah (Leasing)

Ijarah refers to a financing arrangement in which an Islamic bank provides productive equipment or machinery to a project owner for use in production in exchange for a rental payment. This mechanism constitutes a form of asset-based financing without overburdening the project owner with investment capital. Ijarah can be categorized into two main types:

a). Operating Ijarah

This involves the lease of fixed assets for a predetermined rent. The Islamic bank bears the costs of maintenance and repairs, while the project owner is responsible for the proper use of the leased assets.

b). Ijarah Muntahia Bittamleek (Lease-to-Own)

This type of lease is similar to operating Ijarah but includes a promise to transfer ownership of the leased asset to the lessee at the end of the lease period for a pre-agreed price. It effectively combines the benefits of leasing with eventual asset ownership.

3.1.4. Islamic Sales (Bay' Operations)

Islamic banks also engage in sales transactions with their clients to finance commercial and economic activities. Among the most significant instruments under this category is Murabaha.

Murabaha (Cost-Plus Financing)

In a Murabaha transaction, the Islamic bank purchases goods required by a project owner and sells them to the client at cost plus a pre-agreed profit margin. The bank handles the purchase, transportation, and delivery of goods, relieving the client from upfront financing and import-related complications.

Key Principles of Murabaha:

1. The sale price must be clearly defined.
2. The profit margin must be known to both seller and buyer.
3. The asset sold must be tangible goods; cash cannot be sold through Murabaha.
4. The underlying contract must be valid; if it is void, the Murabaha is invalid.

Types of Sales (Bay’):

- **Bai’ al-Muqayadah (Barter):** Exchange of goods for goods without monetary payment, common before the widespread use of money.
- **Bai’ al-Sarf (Exchange Sale):** Sale of price for price, either spot or deferred, including:
 - a. **Bai’ al-Salam:** Sale of a commodity in exchange for deferred delivery of the same or another commodity; also referred to as forward sale.
 - b. **Bai’ al-Ajal (Deferred Payment Sale):** Immediate delivery of goods with delayed payment.
 - c. **Bai’ al-Musa-wamah (Negotiated Sale):** The buyer is unaware of the seller’s cost; profit or loss is undisclosed. Permissible if it does not fall under prohibited sales like Bai’ al-Mustarsal.
 - d. **Bai’ al-Amana (Trust-Based Sale):** The cost of the goods is disclosed to the buyer, and the sale price is agreed upon accordingly.

3.2. Components of the Islamic Financial Industry

The Islamic financial industry is composed of four main components, each of which plays a critical role in providing Shariah-compliant financial services:

3.2.1. Islamic Banks

Islamic banks conduct conventional banking activities while adhering to Islamic legal and ethical principles. They accept deposits under the rules of al-kharaj bil-dhaman (investment with guaranteed principal) and al-ghurm bil-ghumm (profit associated with risk) and allocate these funds to trade and investment activities in accordance with the objectives and detailed provisions of Shariah law (Ba’al, 2003, p.16).

3.2.2. Islamic Investment Funds

Islamic investment funds are managed under strict Shariah guidelines that govern the assets, liabilities, and operations of the fund. These guidelines are explicitly outlined in the fund’s prospectus, which serves as the offer upon which investors participate. The contractual terms and conditions signed by both the fund manager and investors at subscription ensure compliance with Islamic financial principles.

3.2.3. Islamic Sukuk (Shariah-Compliant Securities)

Sukuk represent the transformation of income-generating, illiquid assets into tradeable securities that are backed by these underlying assets. Sukuk are then sold in financial markets while adhering to Shariah-compliant trading rules, enabling investors to participate in income streams without engaging in interest-based transactions (Amara, 2011).

3.2.4. Takaful (Islamic Insurance)

Takaful is a cooperative system in which a group of participants collectively assumes risk and potential losses through a non-profit pool or fund with an independent financial account. Contributions (premiums) and investment income are collected into this fund, from which compensation and operational expenses are disbursed. Any surplus is managed and invested by a specialized company in accordance with Shariah principles (Daghi, 2010, p.12).

4. Nature of Takaful (Islamic Insurance)

4.1. Concept of Takaful

Definition of Takaful

Takaful is a cooperative insurance system in which participants voluntarily contribute all or part of their premiums to a collective pool. The primary purpose of this pool is to provide financial compensation to participants who suffer losses or damages, while the role of the Takaful company is limited to managing the insurance operations and investing the funds in accordance with Shariah principles (Al-Sayed, 1998).

Takaful may also be defined as a group insurance contract under which each participant agrees to pay a specified amount of money on a voluntary donation basis. These contributions are used to compensate those who experience a loss, in line with the principles of mutual assistance and solidarity. The insurance operations are managed by a specialized company acting as an agent for a predetermined fee, which is fixed at the beginning of each financial year and stipulated in the contracts, and paid from the participants' contributions.

4.2. Core Principles of Takaful

Takaful is founded upon several essential principles that distinguish it from conventional insurance:

- **Principle of Solidarity and Mutual Cooperation:** Takaful operates as a cooperative system based on solidarity and mutual assistance, aligning closely with the objectives and higher purposes (maqasid) of Shariah. This principle ensures the equitable distribution of risk among participants through compensation paid from the collective pool of contributions.
- **Principle of Voluntary Contribution (Tabarru':** Participants contribute funds voluntarily without expectation of direct compensation, intending to support fellow participants in the spirit of benevolence and ethical responsibility.
- **Principle of Separation of Funds:** A fundamental principle of Takaful is the strict separation between the participants' fund and the shareholders' fund, recognizing them as two independent financial entities. This ensures transparency, accountability, and compliance with Shariah.
- **Principle of Surplus Distribution:** The Takaful surplus is not considered a profit; rather, it represents the remaining value from contributions and investment returns after deducting claims, re-Takaful costs, and statutory reserves. This surplus rightfully belongs to the participants, reflecting the cooperative nature of the system.
- **Principle of Shariah Governance and Oversight:** Since Takaful operations are governed by Islamic law, companies must employ qualified Shariah experts to ensure full compliance with ethical and legal requirements. A permanent Shariah supervisory board monitors all activities, issues binding rulings, and guarantees that operations adhere to the principles of Islamic insurance.

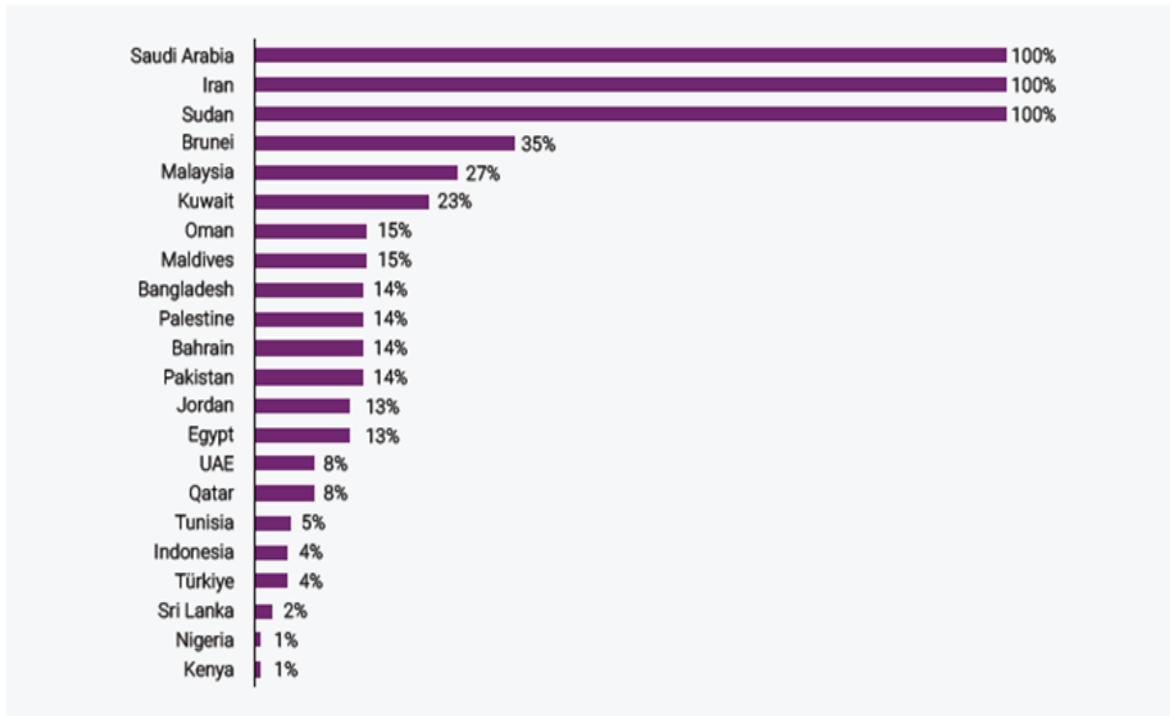
4.3. Trends in the Global Takaful Market

The global Takaful sector has demonstrated significant growth in recent years. Contributions increased by 16.1% in 2022, reaching USD 30 billion, compared to an annual growth of 5.4% in 2021. Over the past twelve years (2011–2022), the industry recorded a compound annual growth rate (CAGR) of 6.4%.

The remarkable growth in contributions in 2022 was largely driven by strong sectoral performance in several key markets, including the Kingdom of Saudi Arabia, which accounted for approximately 44% of global Takaful contributions during the review period.

The industry's growth prospects remain robust in many countries, with rising demand for Takaful products driven by increasing risk awareness in the post-COVID-19 era and the implementation of mandatory health coverage plans in several jurisdictions. These developments underscore the continued expansion of Takaful as a central component of the Islamic financial system.

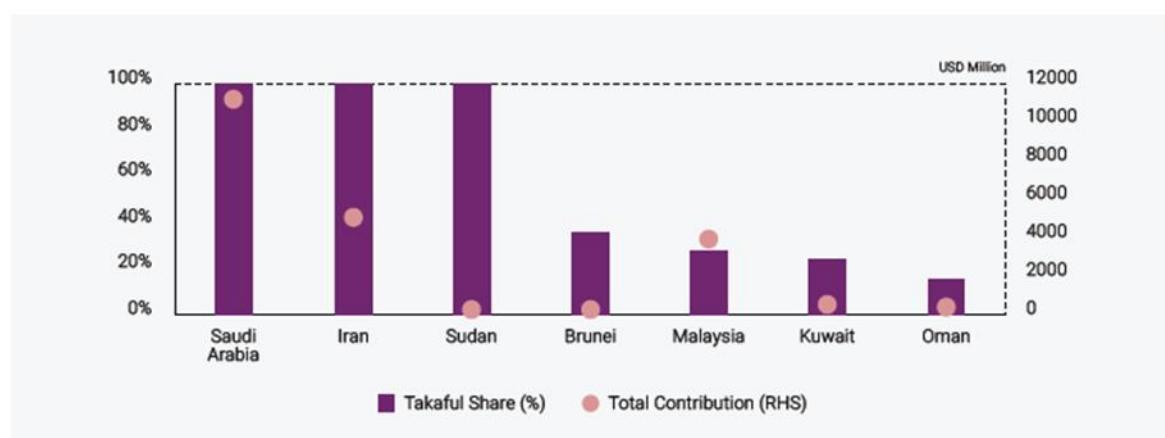
Figure 1: Share of Takaful Sector Activities Compared to the Insurance Sector in 2020



Source: IFSB Secretariat workings based on data culled from PSIFIs, various RSAs' websites, annual financial reports of takaful firms, and other publicly available sources.

The chart illustrates countries where Takaful contributions accounted for at least 1% of the total insurance premiums in 2022. The map also highlights that three countries—Iran, Saudi Arabia, and Sudan—operate fully-fledged Islamic insurance markets, each with its distinctive model. In contrast, other countries provide Islamic insurance alongside conventional insurance companies, reflecting a coexistence of both systems within their financial markets.

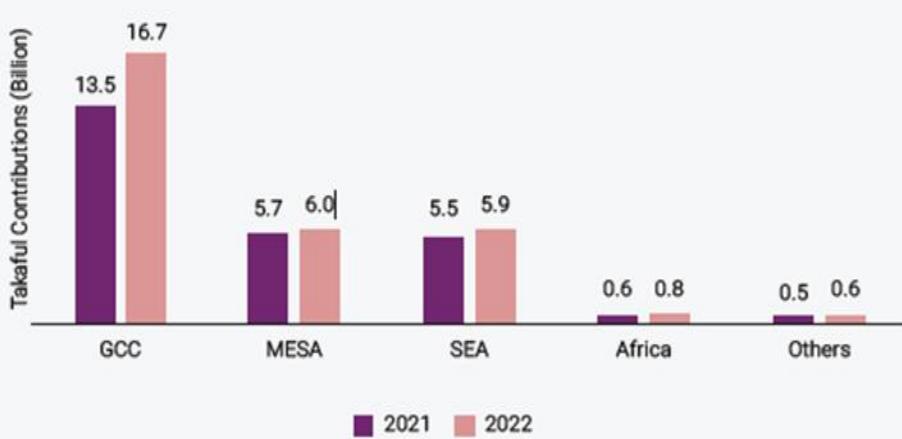
Figure 02: Contribution of the seven largest Takaful markets in 2022



Source: IFSB Secretariat workings based on data culled from PSIFIs, various RSAs' websites, annual financial reports of takaful firms, and other publicly available sources.

From Figure 2, it can be observed that the seven largest Takaful markets, which together account for approximately 95% of global contributions, are Saudi Arabia, Iran, Sudan, Brunei, Malaysia, and Indonesia. General Takaful operations represent the majority share (82.6%) of total contributions in 2022, amounting to approximately USD 22.4 billion.

Figure 3: Takaful contributions by major region (US\$ million) for 2021-2022



Regarding the geographical distribution, Figure 3 illustrates that global Takaful contributions at the end of 2022 were primarily concentrated in four regions: the Gulf Cooperation Council (GCC) countries, accounting for 55.7% (USD 16.7 billion); the Middle East and South Asia, contributing 20.0% (USD 6.0 billion); Southeast Asia, representing 19.6% (USD 5.9 billion); and Africa, with 2.6% (USD 0.8 billion). Other regions together accounted for 2.0% (USD 0.6 billion) of total global contributions.

❖ Gulf Cooperation Council (GCC) Region

The Takaful sector in the GCC region maintained its position as the largest Takaful market in 2022, accounting for 55.7% of global contributions. The sector experienced robust year-on-year growth of 24.4%, reaching USD 16.7 billion

in 2022. This represents a significant post-pandemic recovery across most countries in the region, primarily driven by rising oil prices, increased government investment in economic diversification, and heightened demand for health coverage due to the introduction of additional mandatory health plans. Price adjustments for Takaful products also supported growth, particularly in the retail lines, which had seen substantial reductions during the pandemic.

In Saudi Arabia, the sector recorded an annual contribution growth of 26.9%, reaching USD 14.2 billion (SAR 53.4 billion), representing approximately 87% of total GCC contributions. The Takaful sector in Qatar showed remarkable growth of 72.5%, with contributions totaling USD 527 million, far exceeding the 7.7% growth reported in Oman. In Bahrain, Takaful contributions slightly declined by 4.9%, amounting to BHD 61.6 million (USD 23.1 million) compared to BHD 61.1 million (USD 23 million) in 2021. This decline was primarily due to a 6.7% decrease in health and medical lines, which remain the largest contributor, accounting for 37.5% of total contributions.

Motor and health insurance lines represented the largest portion of Takaful operators' portfolios in the region. For instance, in Saudi Arabia, these two lines together accounted for 79.1% of total contributions in 2022, with year-on-year increases of 26.7% and 26.8%, respectively. The growth is largely attributed to the introduction and expansion of mandatory medical and health insurance lines across the region.

Regarding Family Takaful, its market share in the GCC remains relatively small compared to General Takaful. Consistent with previous years, Family Takaful accounted for approximately 20% of total Takaful contributions in 2022. Over the past two years, the pandemic played a key role in expanding Family Takaful lines, particularly for companies affected by employee mortality, which is expected to continue driving demand upward. Group protection has become an attractive feature for employees, especially younger and educated segments. Consequently, the Family Takaful line in Saudi Arabia experienced significant growth in 2022, with a 9.7% increase compared to 2021. In Oman, a double-digit growth rate of 28.7% was recorded, reflecting strong consumer confidence, product innovation, and market appeal. Similar trends were reported in Kuwait and Bahrain. On average, Family Takaful penetration across the GCC markets reached 1.48% in 2020.

• Africa Region

The Takaful sector in Africa currently represents a marginal market, operating alongside conventional insurance, with the notable exception of Sudan, which has maintained a fully-fledged Takaful system for over four decades. The sector remains in an emerging phase, gradually developing in countries such as Egypt, Morocco, Algeria, Tunisia, Libya, Kenya, Nigeria, Senegal, South Africa, Gambia, Mauritania, Ethiopia, and Zambia.

Many countries in the region have experienced significant currency depreciation, which has affected the value of Takaful contributions when converted into U.S. dollars. In Sudan, total Takaful contributions reached SDG 60 billion, marking a 78% increase compared to SDG 22.3 billion (USD 48.85 million) in 2020. General Takaful continues to dominate the market, accounting for 98% of contributions, while Family Takaful activity ranges between 1.4% and 2.4%. Given that three of the seven recently licensed operators are purely life and medical insurance companies, it is expected that new entrants will further drive Family Takaful growth. However, the Sudanese Takaful market currently faces challenges due to ongoing factional conflict. Nevertheless, the sector remains promising, particularly in agricultural insurance, livestock insurance, micro-Takaful, and medical coverage.

In Egypt, reported Takaful contributions amounted to USD 278.1 million (EGP 8.2 billion) in 2022, reflecting a substantial increase of 118.1% compared to EGP 3.76 billion in 2021. Consequently, Takaful contributions accounted for 18.7% of total market premiums, up from 12% in 2021. Family Takaful dominates the Egyptian market, representing 58% of total contributions, with post-COVID-19 growth driven by increased awareness of protection and reliability offered by Takaful operators. Collaboration between Takaful companies and microfinance institutions has further enhanced access to insurance coverage through diversified policy lines.

In Tunisia, contributions from the three Takaful operators slowed to 12% in 2022, down from 22% in 2021, reaching USD 60 million (TND 175 million). Growth in Takaful contributions exceeded the overall insurance sector's premium growth of 6.5% during the same period. Currently, Takaful operators' contributions represent around 6% of total sector premiums. With a majority Muslim population, Takaful holds significant potential, provided challenges such as regulatory updates, digital transformation, specialized market growth, product innovation, and inflation are addressed. In Morocco, licensed Takaful operators generated USD 2.18 million (MAD 11.8 million) in contributions in 2022, marking the first year of operations. Family Takaful accounted for 84%, fire insurance 10%, and individual investment Takaful lines 5%. Regulatory frameworks came into effect in October 2021, when seven participatory banks were

licensed to offer Takaful products covering accidents, fire, natural elements, glass breakage, water damage, family protection, and investment. Authorities anticipate that collaboration between Takaful operators and participatory banks will expand product offerings, enhancing financial inclusion for citizens seeking alternatives to conventional insurance. In Algeria, the Takaful market is expected to gain momentum following the issuance of an executive decree by the National Insurance Council (CNA) in January 2021, outlining general conditions for Takaful operations. At the beginning of 2022, licenses were granted to Takaful operators. Previously, Salama Insurance Algeria was the only company among 23 insurers providing Takaful products.

In Tanzania, the Insurance Regulatory Authority (TIRA) issued Takaful guidelines effective May 2022, covering sales channels and digital platforms, including e-aggregators. These regulations are expected to improve insurance accessibility, penetration, and employment opportunities.

In Côte d'Ivoire, SAAR Assurances launched a Takaful window, SAAR TAKAFUL, offering Shariah-compliant insurance products certified by an independent Shariah board, thereby enhancing customer satisfaction and market penetration. Muslims constitute 42% of the country's population.

In South Africa, a limited number of companies currently offer Takaful products, indicating a niche market with expansion potential. Large health insurance providers have recently begun offering Shariah-compliant health insurance products, signaling market recognition of the value of Islamic-compliant offerings. Currently, there is no dedicated Takaful regulation, and Muslim policyholders are subject to conventional insurance law and supporting regulations. Legislative adjustments made in 2010 aligned Islamic and conventional financing for tax purposes, but no significant subsequent changes have occurred.

5. Takaful Sector in the United Arab Emirates (UAE)

Takaful (Islamic insurance) constitutes a significant component of the insurance industry in the UAE, which has established itself as a regional leader in this field. The country has hosted Takaful operations since 1979, following the establishment of the first dual-system Takaful company.

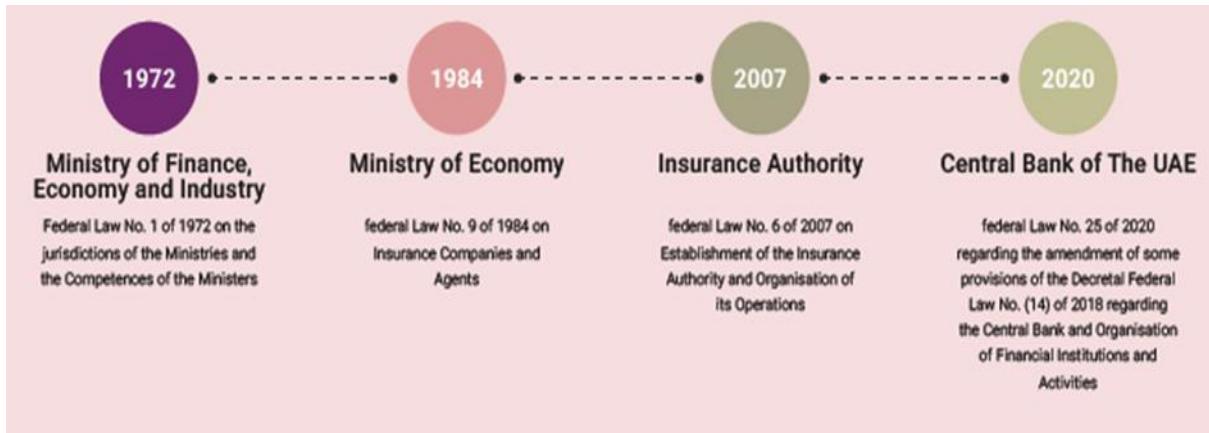
5.1. Emergence of Takaful in the UAE

Takaful was introduced to the UAE insurance market with the founding of the Arabian Islamic Insurance Company (Salama) in 1979. Since then, numerous Takaful providers have entered the market to meet the growing demand for Shariah-compliant insurance solutions. In 2015, the UAE witnessed the world's first full conversion of a conventional insurance company to a fully-fledged Takaful operator, with Arab Scandinavian Insurance (ASKANA-Takaful). More recently, there has been an increase in mergers and acquisitions among Takaful providers, aiming to create larger and more efficient Takaful companies.

5.1.1. Regulatory Landscape of Takaful in the UAE

The UAE has experienced significant regulatory and supervisory developments, particularly with the issuance of Federal Law No. 25 of 2020, which mandated the integration of the Insurance Authority into the Central Bank of the UAE (CBUAE). This reform is part of the UAE's strategic objective to transform the regulatory landscape, enhance the stability of the financial system, and protect the interests of policyholders and the public.

Figure 04: Evolution of insurance regulatory bodies in the United Arab Emirates



Source : Takāful Insurance Report 2022, Central Bank of the UAE

The regulatory framework for Takaful in the UAE has evolved progressively over several decades, reflecting the government's commitment to developing a robust and Shariah-compliant insurance sector:

- 1972: Federal Law No. 1 of 1972 established the competencies of ministries and ministers under the Ministry of Finance, Economy, and Industry.
- 1984: Federal Law No. 9 of 1984 governed insurance companies and their agents under the Ministry of Economy.
- 2007: Federal Law No. 6 of 2007 established the General Authority for Insurance and regulated its operations.
- 2020: Federal Law No. 25 amended certain provisions of Federal Law No. 14 of 2018, integrating the insurance regulatory authority into the Central Bank of the UAE, thereby enhancing oversight of financial institutions and activities.

In 2010, the UAE became the first country in the Middle East and North Africa (MENA) region to issue regulations specifically addressing Takaful. These regulations were further updated in 2022 to define the minimum requirements for Takaful operators, ensuring their financial soundness and compliance with Shariah principles.

Another significant development in Takaful regulation is the introduction of standardized Shariah governance for Takaful companies. This framework establishes the minimum requirements for companies to ensure compliance with Islamic law in all objectives, operations, and activities. It strengthens existing Shariah governance practices, particularly internal Shariah controls, by transitioning from a single-line oversight model to a three-lines-of-defense approach, thereby enhancing risk management and operational integrity.

Three-Lines-of-Defense Approach in Shariah Governance

The three-lines-of-defense model represents a modern and structured framework to ensure Shariah compliance in Takaful operations:

1. **First Line of Defense - Business Line:** The business line is responsible for implementing clear policies, procedures, and controls, which must be endorsed by the Internal Shariah Supervisory Committee (ISSC). Its role is to conduct day-to-day business activities in strict accordance with Shariah principles at all times.

2. **Second Line of Defense – Internal Shariah Compliance Management:** This line performs functions related to **advisory and oversight responsibilities** of the internal Shariah compliance unit, including **Shariah consultations, research and development, regulatory compliance, and training.** Importantly, this management unit operates **independently from any commercial department**, ensuring objective monitoring and support for Shariah compliance across all business activities.
3. **Third Line of Defense – Internal Shariah Audit:** The internal Shariah audit department is responsible for conducting **Shariah audits and compliance monitoring.** Through an annual audit plan, it collects and evaluates evidence of company activities and transactions to ensure adherence to **Shariah principles**, as well as the **effectiveness of internal controls and the Shariah governance framework.** This department also operates **independently from any business units**, maintaining impartiality in oversight and assessment.

5.1.2. The Higher Shariah Authority (HSA) in the UAE

The Higher Shariah Authority (HSA) was established and its members appointed in accordance with resolutions issued by the UAE Cabinet. Federal Law No. 14 of 2018, concerning the Central Bank of the UAE and the regulation of financial institutions, confirmed the creation of the HSA and provided additional details regarding its jurisdiction. Following the integration of the Insurance Authority into the Central Bank of the UAE, the charter of the HSA was amended to include Takaful operations under its supervisory mandate.

The HSA aims to coordinate and standardize practices among Islamic financial institutions (IFIs) in line with internationally recognized Shariah standards. This initiative seeks to establish a robust infrastructure that supports the further development of the Islamic finance industry in the UAE and reinforces the country's vision to become a leading global hub for Islamic finance.

5.1.3. Key Functions and Responsibilities of the HSA

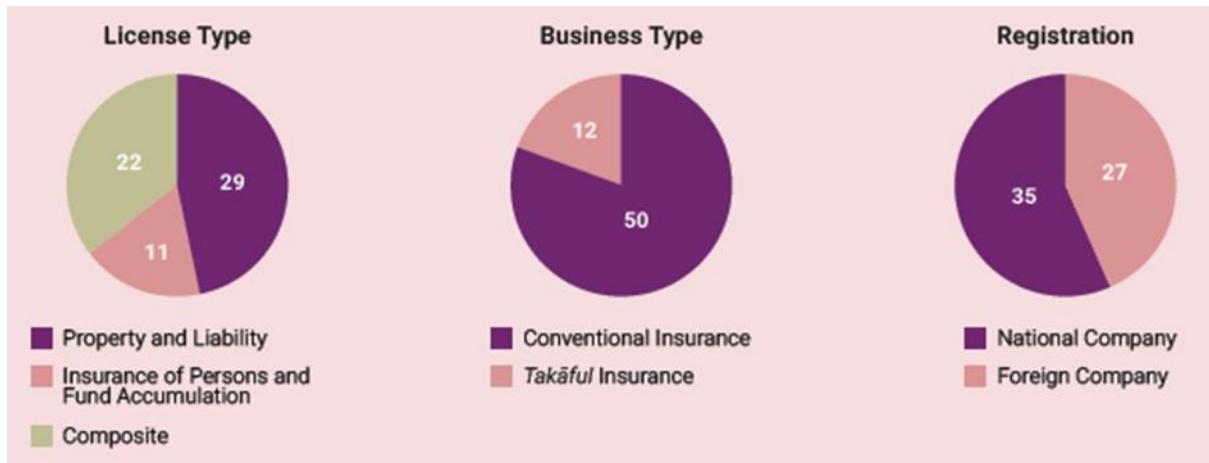
The HSA performs several critical functions to ensure Shariah compliance across the Islamic financial sector, including Takaful operators:

- **Issuing Shariah rulings and advisory opinions** on matters referred by the Central Bank of the UAE or Islamic financial institutions, including Takaful companies, and issuing necessary resolutions and recommendations.
- **Developing a Shariah governance framework**, issuing rulings, and establishing general principles and rules for conducting Shariah-compliant activities.
- **Establishing standards for the appointment, replacement, and removal of members and heads of Internal Shariah Supervisory Committees (ISSCs) within IFIs.**
- **Introducing new international Shariah standards**, modifying existing standards as required, and developing guidelines for best practices for IFIs.
- **Reviewing and approving annual Shariah reports** from ISSCs of IFIs before submission to their respective general assemblies.
- **Resolving disputes** that arise between an ISSC and the management of an Islamic financial institution.

This centralized supervisory structure ensures uniformity, accountability, and compliance across all Takaful and Islamic financial operations, strengthening the credibility of the sector and safeguarding the interests of policyholders and stakeholders.

5.2. Structure of the UAE Insurance Market and Takaful Sector Performance

The UAE insurance market comprises 12 national Takaful companies, while the remaining companies operate as branches of conventional insurance firms. These Takaful operators are fully integrated Takaful companies, as the establishment of Islamic windows for Takaful operations is not permitted. It is noteworthy that the number of Takaful companies declined in 2022 due to ongoing mergers and acquisitions, reflecting the sector's efforts toward consolidation and efficiency.

Figure 5: Licensed entities in the insurance sector in the United Arab Emirates

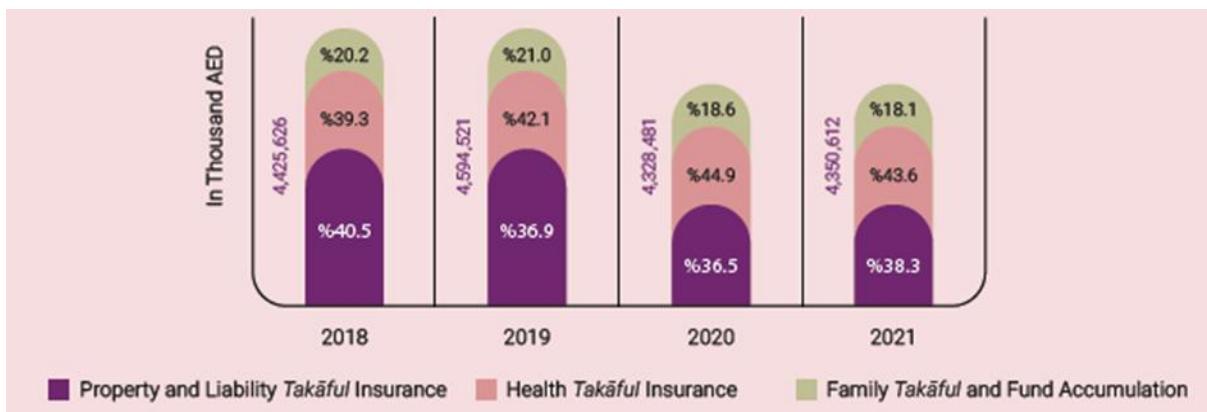
Source: Takāful Insurance Report 2022, Central Bank of the UAE

5.2.1. Performance of the UAE Takaful Sector

In 2021, total gross written contributions (GWC) in the Takaful sector grew by 0.51%, reaching AED 4.35 billion, compared to AED 4.32 billion in 2020. Takaful contributions represented approximately 9.82% of total written premiums within the UAE insurance industry.

Within the Takaful sector, health Takaful remained the largest business line, accounting for 43.6% of the market, while family Takaful and fund aggregation products represented the smallest business line, comprising 18.1% of total contributions.

This performance underscores the strategic role of health and family Takaful in meeting the rising demand for Shariah-compliant financial protection products in the UAE, and highlights the sector's resilience and steady growth despite market consolidation efforts.

Figure 06: Total written contributions by type of business

Source: Takāful Insurance Report 2022, Central Bank of the UAE

- In 2021, UAE Takaful companies reported a total net profit of AED 92.6 million (USD 25.2 million), compared to AED 274.8 million (USD 74.8 million) in 2020.

- The net underwriting income, also referred to as the net underwriting surplus, declined sharply from AED 150 million (USD 40.8 million) in 2020 to AED 3 million (USD 0.817 million) in 2021.
- Despite the decline in underwriting results, net investment income experienced a significant increase of 48.9%, reaching AED 280 million (USD 76.2 million) in 2021, compared to AED 188 million (USD 51.2 million) in 2020.
- In terms of financial ratios, the return on assets (ROA) for the UAE Takaful sector fell to 0.62%, while the return on equity (ROE) decreased to 3.53%.

These figures indicate that although underwriting performance weakened in 2021, investment activities played a critical role in supporting overall profitability, reflecting the strategic importance of asset management within Takaful operations.

6. Conclusion

Islamic financial services have attracted significant attention from regulatory authorities across many Arab and Islamic countries, and even beyond, due to their vital role in catering to a broad segment of clients who prefer alternatives to conventional financial services. Takaful, as one of the most important pillars of Islamic financial services, operates on the principle of cooperation and mutual solidarity among participants. Each member contributes a specified amount to a common fund, which is then used to compensate any member who suffers a loss. This system aligns with the principles of Shariah, prohibiting interest (riba) and gambling (maysir), while emphasizing social solidarity and justice.

Takaful contributes significantly to the development of Islamic financial services. In Africa, the sector remains a marginal market operating alongside conventional insurance, with the exception of Sudan, which has a fully operational Takaful market. Many countries in the region have experienced substantial currency depreciation, affecting the value of Takaful contributions in US dollars. Conversely, the Gulf Cooperation Council (GCC) region maintained its position as the largest Takaful market in 2022, and Takaful represents a key component of the Islamic finance landscape in the United Arab Emirates.

6.1. Key Findings

- Takaful provides a wide range of financial products that cater to the needs of individuals and businesses, such as health and property insurance, contributing to the diversification of Islamic financial services.
- Takaful funds are invested in Shariah-compliant projects, thereby supporting and promoting the growth of the Islamic economy.
- Takaful enhances financial stability for individuals and businesses by protecting them from potential risks.

6.2. Recommendations

- Awareness campaigns should be organized to educate the public about the benefits and importance of Takaful, which is essential for the rapid growth of the sector in the future.
- Given the intense competition from conventional insurance, Takaful providers should continuously develop innovative products and services to meet the diverse needs of the community.

A supportive legislative and regulatory environment is crucial for the growth of Takaful. Laws and regulations should be updated to reflect modern developments and facilitate the sector's expansion.

Ethical Considerations

This study is based exclusively on secondary data obtained from publicly available sources, including official reports, statistical databases, and previously published academic literature. The research did not involve human participants, surveys, interviews, experiments, or the use of personal or confidential data. Therefore, ethical approval from an institutional review board was not required. The authors adhered to accepted standards of academic integrity, transparency, and responsible research conduct throughout all stages of the study.

Author Contributions

Mohamed Said Oubira contributed to the conceptualization of the study, research design, literature review, data interpretation, and drafting of the manuscript. Bakir Hami contributed to data collection, analytical framework development, and critical revision of the manuscript. Abdellatif Taibi contributed to methodological support, contextual analysis, and review and editing of the final version of the manuscript.

All authors have read and approved the final manuscript and agree to be accountable for all aspects of the work.

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Conflict of Interest. The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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