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Islamic Insurance or Takaful: Implementation Problems and Solutions

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Abstract: Islamic insurance, or takaful, has emerged as a significant component of the global Islamic financial system, demonstrating consistent growth and expanding its presence in diverse markets. While takaful operates on principles of mutual assistance and Sharia compliance, differentiating it from traditional commercial insurance, its institutional, legislative, and organizational mechanisms remain underdeveloped in many countries, including Uzbekistan. Despite increasing global market demand projected to reach USD 115.11 billion by 2034 there is limited scholarly work addressing the practical challenges of introducing takaful into national insurance systems lacking established regulatory and operational frameworks. This study aims to analyze the economic essence, principles, and operational mechanisms of takaful, assess its compatibility with existing insurance structures, and propose solutions for its effective implementation within the national market. Through literature analysis, comparative evaluation, and functional assessment of key stakeholders, the study identifies critical operational principles, highlights differences between traditional, mutual, and Islamic insurance, and outlines a structured algorithm for introducing takaful. The findings reveal that while takaful can coexist with other insurance forms, its success depends on Sharia-compliant governance, targeted legal reforms, and stakeholder capacity-building. The research offers a comprehensive, context-specific framework for the organizational and economic integration of takaful in Uzbekistan, aligning global best practices with local regulatory and cultural requirements. The results provide policymakers, regulators, and industry practitioners with actionable strategies to expand insurance market coverage, foster financial inclusion, and promote sustainable development through Sharia-compliant risk-sharing mechanisms.

Citation: J. M. Gadaev. Islamic Insurance or Takaful: Implementation Problems and Solutions. American Journal of Economics and Business Management 2025, 8(8), 3900-3906.

Received: 10th Jun 2025

Revised: 28th Jun 2025

Accepted: 24th July 2025

Published: 11th Aug 2025



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Keywords: traditional insurance, mutual insurance, Islamic insurance, takaful, principles and features of takaful, Sharia prohibitions, takaful operators

1. Introduction

In recent years, as a result of the sharp changes taking place in the world community and economy (economic sanctions, crises, political changes and obstacles, increased population migration as a result of political situations, pandemics, etc.), the time has come to reconsider the vector and strategy of economic development, including the development of financial institutions, as well as the widespread introduction of the insurance sector and its elements and new methods (Islamic insurance, takaful) [1].

Currently, commercial and mutual insurance are widely developing in the insurance services markets of many countries. Islamic insurance has also successfully developed in the world insurance market and is widely used among all segments of the population. It

also arouses great interest among consumers of our national insurance market. In this regard, the Address of the President of the Republic of Uzbekistan Shavkat Mirziyoyev to the Oliy Majlis noted that the time has come to create a legal framework for the introduction of Islamic financial services in our country, and special attention is paid to the issues of involving experts from the Islamic Development Bank and other international financial organizations in this regard [2].

Islamic insurance or takaful is one of the emerging areas of the Islamic financial system. In recent years, the Islamic insurance system has been showing steady growth indicators, but it is still in a period of development compared to other areas of the Islamic financial system.

The size of the takaful market reached an estimated US\$33.91 billion in 2024. The market is expected to reach approximately US\$115.11 billion by 2034, demonstrating an average annual growth rate of 13.0% from 2025 to 2034.

However, it should be noted that the institutional, legislative and organizational mechanisms for the introduction of Islamic insurance are not formed in all countries, which creates various difficulties in its implementation in the insurance sector.

Literature review

Initially, takaful was formed as an alternative system for Muslims to the modern insurance system, taking into account Sharia law, but over time, representatives of other religions also began to widely use the services of organizations providing takaful services. Today, in countries where Islamic insurance services are provided, the clients of takaful organizations are representatives of different faiths.

Most scholars argue that the word “takaful” comes from the Arabic phrase “kafala”, which means “to provide mutually agreed guarantees to each other”.

If we summarize the tariffs given to takaful, we can see the following approaches (Table 1).

Table 1. Classification of tariffs given to Takofull

Authors	Definitions given to takofull
R.I. Beckin	An independent alternative insurance system that can be implemented in both commercial and mutual form [3]
I.L. Logvinova	Insurance coverage submission form [4]
A.S. Ryskulov H.S. Umarov, S.P. Fukina A.O. Soldatova	Islamic insurance, or takaful, is a system that ensures the sharing of risks among group members based on the principles of mutual assistance (ta'a'un) and voluntary contributions (tabarru). Takaful is a form of insurance that complies with the principles of Islamic law [5][6][7][8]
Y. Bumbadji, A.A. Tsyganov	It is the provision of insurance protection in accordance with Sharia law, based on the principle of sharing profits and losses between participants and the organization, and is known in international practice as takaful [9].

Traditional insurance and takaful are considered to be the same, for example, “the concept of takaful is very close to traditional insurance, and both Islamic and traditional insurance are a means of helping citizens who are facing financial difficulties. Such means are considered modern methods of eliminating risks.” [10]

It should be emphasized that traditional commercial insurance and takaful do not eliminate risks, but rather help reduce the financial losses that may be caused by negative consequences.

2. Materials and Methods

This study employed an amalgamated approach that involved both theoretical theories and methodologies that further inquired into the use and application of Islamic insurance (takaful) in modern insurance market. The review of available literature was performed in its entirety to define the premise concepts, guiding principles, and interesting characteristics of takaful in the context of the conventional/mutual insurance paradigms. This was followed by study method titled structured, systematic approach, and the investigation was organized around functional, organizational, and legal framework which sustains the takaful operations. The method of observations, generalization and synthesis was used to condense the experiences on jurisdictions in which takaful has been implemented already successfully in national insurance markets. Special attention was given to evaluate how consistent is the practice of takaful with the Sharia, how to figure out the institutional infrastructure to support it, and what the various stakeholders should be. These stakeholders include state supervision bodies, operators of takaful, and the underlying supporting institutions. Comparative analysis was incorporated in shedding light on similarities and differences among the insurance models using pre-determined criteria in assessing the operational objective, risk-spreading machinery, nature of a deal, investment opportunities, and control. The paper also examined trends in the world markets, quantitative growth measures, and the possible regulatory issues which might accompany introduction of the takaful in the new markets. These results have been pulled to put forward some sensible guidelines with a view to developing an efficient organizational and economic framework of the takaful, without jeopardizing its capability of fitting the local realities, as well as its compatibility with Islamic law. The integrative approach thereby facilitated an evaluation on multiple dimensions, which combined both theoretical and empirical logic to produce practical solutions toward the enhanced implementation process of Islamic insurance regimes [11].

3. Result and discussion

The functioning of any organizational and economic mechanism should be based on the principles that determine the composition of its elements. Therefore, it is appropriate to analyze the principles that include the functions and tools used by the insurance sector, that is, the subjects of Islamic insurance. In this regard, we can divide the principles of operation of Islamic insurance into two groups:

1) General principles of the Islamic insurance system, which may be part of the national insurance system, including;

- the presence of property interests;
- insurance of risks;
- alternation;
- trust of the parties;
- payment of compensation in accordance with the losses;
- the interrelation of the damage and the events that caused it;
- solvency.

2) Special (private) principles of the implementation of the Islamic insurance system, taking into account the initial religious foundations of its implementation, including:

- Absence of uncertainty;
- voluntariness;
- permissibility of income;
- distribution of risks.

The formed principles are strengthened in legal titles and internal documents of takaful operators (insurance organizations) and determine the rules of their organizational and economic activity.

As we know, the history of insurance relations goes back several thousand years. Also, in slave societies, there were mutual agreements that formed the basis of modern insurance contracts. Insurance developed widely during the period of geographical discoveries and the development of trade relations. The main idea of such agreements was to distribute the risk of possible losses between interested parties. Thus, insurance relations are primarily based on relations of mutual assistance and redistribution of losses [12].

With the development of socio-economic relations, the need for insurance of property interests began to arise. As a result, mutual insurance relations based on mutual assistance were supplemented by commercial insurance.

To date, commercial and mutual insurance mechanisms are presented in the insurance markets of almost all countries. Also, Islamic insurance takaful is showing broad development trends in the world insurance markets (Table 2).

Table 2. Comparative classification of traditional and Islamic insurance

Classification	Traditional insurance	Mutual insurance	Takaful
Goal	Profit	Provide mutual assistance	Provide mutual assistance
Risk	Assignment of risk to the insurer	Distribution of risk between participants	Distribution of risk between participants
Protection	The insurer provides insurance protection	Coordinating the flow of the insurance fund	Coordination of Takoful Fund work
Contract	Sale	Partnerships	Partnerships
Benefits of providing insurance services	Gets	Can't get	Can't get
Investment	Allowed	Allowed	Allowed
Types of insurance	Unlimited	Life insurance is prohibited	Sharia-compliant property and personal insurance
Management	Insureds are not involved in the management process	Insureds can participate in management	Insureds can participate in management
State control	Insurance control state body	Insurance control state body	State agency for insurance supervision + Sharia Council

Takoful reflects a distribution relationship based on mutual aid. Since Islamic insurance can be implemented in the form of commercial and mutual insurance, it allows a group of citizens of different religious beliefs to voluntarily participate in the sharing of risks and benefits [13]. The similarities and differences between commercial insurance, mutual insurance and takaful in implementation are presented in the table below (Table 2)

The difference between traditional commercial insurance and takaful is that it contains prohibited elements such as ribo (usury), gharar (uncertainty, abstraction), maysir (gambling) and haram (prohibited activity).

The objectives, tasks, principles, objects and rules of the organizational-economic mechanism of the introduction and implementation of Islamic insurance in the country determine the methods and means used by the subjects of this system [14]. Since there are a large number of methods and tools for organizing, managing, and developing Islamic insurance, it is appropriate to consider the main functions of participants in this type of insurance system. (Table 3)

Table 3. Functions of participants in the Islamic insurance system

Participants of the Islamic insurance system	Functions
State bodies controlling the insurance market (authorized state bodies)	<p>Licensing of takaful operators.</p> <p>Monitoring compliance with the rights of consumers of Islamic financial services.</p> <p>Risk control of takaful fund operators.</p> <p>Regulation, monitoring and control of insurance and investment operations</p>
Takaful companies	<p>1. Protective functions:</p> <ul style="list-style-type: none"> – assessment of insurance risks; – payment of insurance payments; – redistribution of funds among takaful fund participants, etc. <p>2. Accumulation function:</p> <ul style="list-style-type: none"> – income received by participants as a result of investing takaful fund funds; – distribution of profits among participants. <p>3. Warning functions:</p> <ul style="list-style-type: none"> – assessment of insurance risks; – formation of insurance reserves (within the takaful fund), etc. <p>4. Investment functions:</p> <ul style="list-style-type: none"> – receipt of commission payments to takaful funds; – distribution of funds; – investment of fund funds in areas approved by religion; – acceptance of contributions to the fund by takaful operators. <p>5. Organizational functions:</p> <ul style="list-style-type: none"> – conclusion of contracts with individuals and legal entities and issuance of personal takaful insurance policies; – promotion of Islamic insurance in the region; - organization of compensation payments for personal insurance; - organization of payment of family insurance benefits; - organization of acceptance of insurance contributions, etc.
Development and support institutions (supporting institutions)	<p>Monitoring the compliance of insurance products with Sharia norms.</p> <p>Training of takaful operators on a voluntary and commercial basis.</p> <p>Providing practical assistance in the creation and implementation of financial standards for the activities of takaful operators.</p> <p>Cooperating with authorized state bodies on the legal and organizational improvement of takaful institutions in accordance with local legislation, etc.</p>

In general, takaful is interesting for financial market participants because it has been tested during financial crises and has demonstrated high rates of sustainable development (Figure 1) [15].

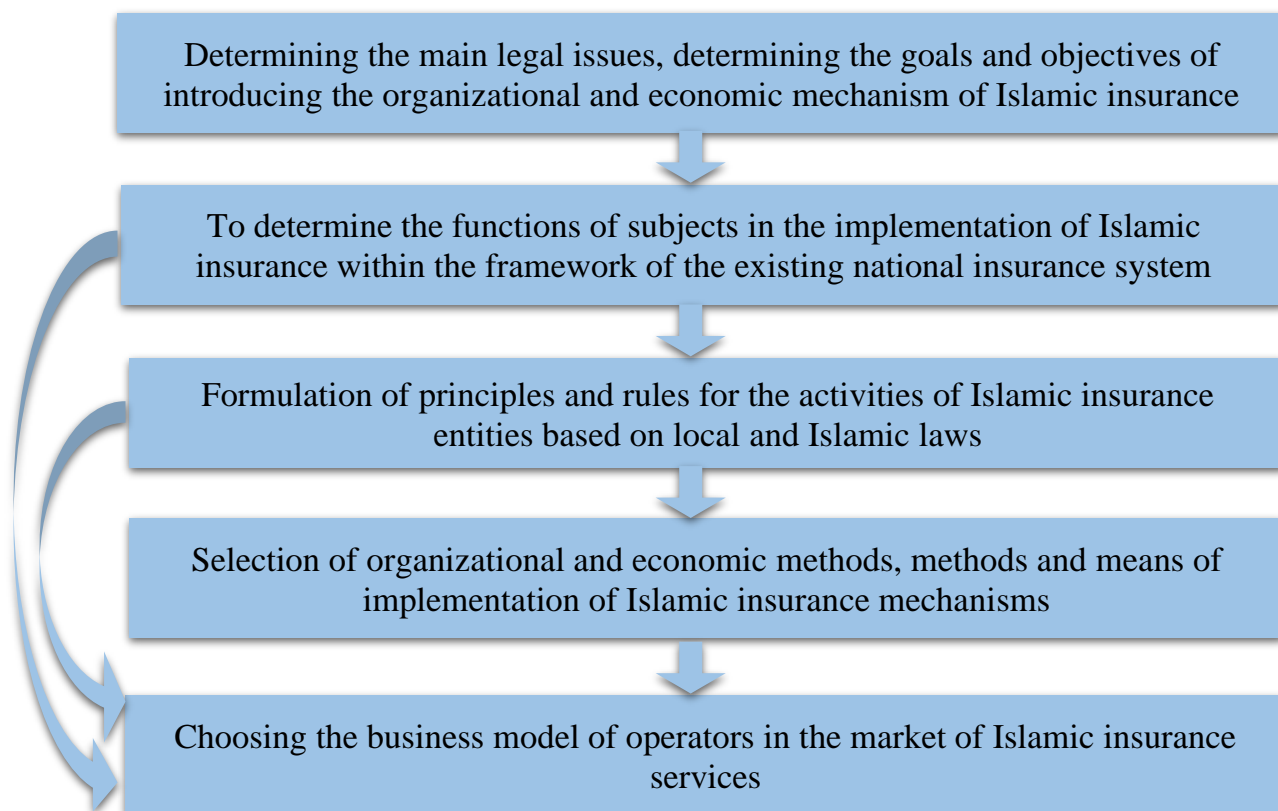


Figure 1. Algorithm for introduction and implementation of organizational and economic mechanisms of Islamic insurance

It is advisable for any country to introduce Islamic insurance into its national insurance system and to work on its development in the following areas (Figure 1), namely:

- 1) improving the activities of state bodies, including insurance supervisory bodies;
- 2) improving the activities of insurance organizations;
- 3) forming new stereotypes among potential policyholders.

4. Conclusion

Thus, takoful insurance can expand the insurance market by covering areas not covered by commercial insurance. The process of introducing Islamic insurance may be somewhat complicated, but as the demand for takaful services in the global market is increasing, the introduction of Islamic insurance is emerging as the need of the hour.

If we clarify the work in these directions, they should cover the following measures, including those from the point of view of improving the activities of state power and management bodies:

- development of proposals and recommendations on the organization of Islamic insurance in the national insurance services market based on Sharia laws and regulations;
- development of halal insurance standards;
- development of legal documents in terms of regulating the activities of takoful operators;
- study the experience of activities of foreign takoful organizations and insurance control bodies;
- development of organizational, legal and economic mechanisms for organizing the activities of takoful organizations.

In order to improve the activities of insurance organizations, it is advisable to:

- develop insurance terms and conditions that allow for the implementation of Islamic insurance;
 - involve consultants (from among the Sharia Council) in the company's activities who will monitor the compliance of takaful operations and products with Sharia norms;
 - select a model for forming a takaful fund and justify its validity;
 - develop a methodology for forming a takaful fund;
 - study the experiences of foreign countries in the field of takaful on an analytical basis.
- To form new stereotypes among qualified insured persons, the following should be implemented:
- organize introductory and practical seminars (trainings) to explain the features of takaful operations and products;
 - carry out advertising activities in order to form a stable demand for takaful products.

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