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Takaful Insurance as A New Mechanism for Managing Credit Risks in Islamic Banks: An Analytical Study in Light of the Pakistani Experience and International Models

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Abstract:
This study aims to analyze the reality of the Takaful insurance industry and its role in managing credit risks in Islamic banks, by addressing its concept, types and spread in the Islamic world, highlighting its importance as a legitimate alternative to commercial insurance and a tool supporting financial stability, while reviewing the Pakistani experience and some leading international models. The study found that Takaful insurance is an effective tool to support financial stability and enhancing risk management, thanks to its compatibility with the principles of Islamic Sharia and the development of its products and regulatory frameworks. It also showed that the Pakistani experience represents an important model in the integration of Takaful insurance with the Islamic banking industry, while international experiences confirm the importance of innovation, product development, and digital transformation in expanding the scope of this industry The study concluded that strengthening the role of Takaful insurance depends on innovation, developing legislation, and enhancing integration between Takaful companies and Islamic banks to achieve sustainable growth of Islamic finance.
Keywords: Takaful insurance, credit risk management, Islamic banks, Islamic finance industry

Introduction:

The Takaful insurance sector is witnessing rapid growth as one of the most important components of the Islamic financial industry, due to its compatibility with the provisions of Islamic Sharia and its role in enhancing financial stability and risk management, especially credit risks in Islamic banks. The development of its products and the expansion of its spread in many Islamic countries have contributed to consolidating its position as a legitimate alternative to commercial insurance, The Pakistani experience has emerged as a pioneering model in employing Takaful tools to manage credit risks, thus enhancing the stability of Islamic banks.

Based on this, this study addresses the conceptual framework of Takaful insurance, the types of its companies, the reality of the industry in the Islamic world, and its role in managing credit risks, while reviewing the Pakistani experience and some leading international models to extract the most prominent lessons learned From this standpoint, this study seeks to address the following problem: **To what extent does Takaful insurance contribute to managing credit risks in Islamic banks in light of the Pakistani experience and leading international experiences?**

The main question branches into a group of the following sub-questions:

- What is the conceptual framework of Takaful insurance, and what are the principles on which it is based?
-What are the types of Takaful insurance companies, and what is the reality of the Takaful insurance industry in the Islamic world?
- How does Takaful insurance contribute to managing credit risks in Islamic banks?
- What are the most prominent features of the Pakistani experience in Takaful insurance, and what are the ways to benefit from leading international models?

 Study hypotheses: To answer the study questions, the following hypotheses were formulated:

-Takaful insurance is a cooperative insurance system based on donations and mutual support among subscribers. It is based on the principles of Islamic Sharia, foremost among which are cooperation, risk sharing, transparency, and avoiding usury, deception, and facilitation.

-Takaful insurance companies include general Takaful and family Takaful, and the industry has witnessed rapid growth in the Islamic world, supported by rising demand, geographical expansion, and digital transformation, with Saudi Arabia, Iran, and Malaysia topping the most prominent markets.

-Takaful insurance contributes to reducing credit risks by covering the risks of default, death and disability, and enhancing the protection of financing, which supports the financial stability of Islamic banks and reduces credit losses.

-The Pakistani experience is characterized by an advanced regulatory framework and integration between the Islamic banking and Takaful insurance sectors, while leading international experiences confirm the importance of the legislative environment, innovation, digital transformation, and product development in enhancing the growth of the Takaful insurance industry

 Study methodology: The study relied on the descriptive analytical approach to present the conceptual framework of Takaful insurance and analyze the reality of the industry, its products, and formulas for investing the insurance surplus. It also relied on the comparative approach to compare the Pakistani experience with some leading international experiences and benefit from them, in addition to the case study approach to analyze the Pakistani experience and highlight the role of Takaful insurance in managing credit risks in Islamic banks.

 Study objectives:

- Explaining the conceptual framework of Takaful insurance and its most important characteristics and principles.

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-Learn about the types of Takaful insurance companies and analyze the reality of the industry in the Islamic world.
-Analysis of the role of Takaful insurance in reducing credit risks in Islamic banks.
- Study the Pakistani experience, compare it with leading international models, and extract lessons learned.
- Providing recommendations that contribute to enhancing the role of Takaful insurance in supporting the financial stability of Islamic banks.

 The importance of the study: The importance of this study stems from its discussion of Takaful insurance as a legitimate alternative to commercial insurance and a key component of the Islamic financial industry, highlighting its role in managing credit risks and enhancing the stability of Islamic banks. Its importance also stems from an analysis of the Pakistani experience and the use of leading international models to extract best practices that contribute to developing the Takaful insurance industry and raising the efficiency of Islamic financial institutions.

The first axis: Conceptual framework for Takaful insurance

1- The emergence of Takaful insurance: The actual implementation of the Takaful insurance system took place after the issuance of the decision of the Second Islamic Fiqh Council held in Damascus in 1961, the conference of the Seventh Scientific Research Council at Al-Azhar in 1976 AD, and the decision of the Sharia Supervisory Board of Faisal Islamic Bank of Sudan, which led to the establishment of a new framework based on participation and cooperation between all parties participating in this system under the name of Takaful insurance companies The first appearance of a Takaful insurance company in Sudan was in 1979. (Nimat Mohmmad Mukhtar, 2024, p. 224)Takaful insurance has gone through several stages since its inception. According to the reports of ICD–Refinitiv/LSEG Islamic Finance Development Report, which is the most widely adopted reference in Takaful sector statistics, the number of Takaful insurance companies (operators) globally highlights these stages through the following table: (Bouzitouna Dunia, 2020, p. 5)

Table No. (01): Development of Takaful insurance companies in the Islamic world.

Year	Development of Takaful insurance companies in the Islamic world
1979	Faisal Islamic Bank in Sudan established the first Takaful insurance company called the Sudanese Islamic Insurance Company, and at the end of the same year, Dubai Islamic Bank in the United Arab Emirates established the Arab Islamic Insurance Company in Dubai
1983	She founded the Islamic Takaful Company in Bahrain, and the Islamic Takaful Company in Luxembourg
1984	Establishment of the first Takaful insurance company in Malaysia
1985	The first Islamic insurance company wholly owned by the Saudi government was established under the name of the National Cooperative Insurance Company
1994	The Islamic Takaful Company was established in Indonesia
2003	The first Al-Ikhlas Takaful Company was established in Malaysia
2007	The First Public Joint Stock Insurance Company Limited was established in Jordan.
2009	The number of Takaful insurance companies reached 173 companies

2012	The number of Takaful insurance companies reached 200 companies
2013	The number of Takaful insurance companies has increased to 206.
2014	The number of Takaful insurance companies has increased to 215.
2016	The number of Takaful insurance companies increased to 308 companies
2017	The volume of Takaful insurance premiums reached approximately $10 billion
2020	The number of Islamic Takaful companies reached 320 companies, including Takaful and Re-Takaful windows
2021	The number of Takaful insurance companies reached 336 in 47 countries
2022	The number of Takaful insurance companies reached 344 companies in 49 countries
2023	The number of Takaful insurance companies has increased to 364 in 50 countries
2024	The number of Takaful insurance companies has increased to 395 in 53 countries

Source: Prepared by researchers based on Angie Farouk Ahmed Murad, Takaful Insurance in the Egyptian Market - A Future Vision - Journal of Contemporary Commercial Research, Sohag University, Faculty of Commerce, Volume 32, Issue 1, March 2018, p. 39

https://www.lseg.com/en/data-analytics/islamic-finance/islamic-market-intelligence/islamic-finance-development-report-2025?utm_source=chatgpt.com "ICD – LSEG Islamic Finance Development Report 2025:

2- Definition of Takaful insurance: Sheikh Mustafa Al-Zarqa defined Takaful insurance as follows: "Takaful insurance is the transfer of damages estimated by God from the area of the insured individual who may be unable to bear them to the area of the group to reduce their impact on the group, until they end up being to a very small degree, such that none of them feels them. It is a guarantee for the restoration of the effects of dangers if they materialize and occur." (Karima Omran, 2013, p. 112)

The Accounting and Auditing Organization for Islamic Financial Institutions defined Takaful insurance according to Standard No. 26 as a cooperative system based on subscribers donating subscriptions collected in an independent fund to compensate those affected by risks, and the fund is managed by an elected body or company in exchange for a fee. Traditional insurance is a commercial contract that aims to generate profit from the insurance itself. It is considered forbidden by Islamic law because it contains deception in financial compensation contracts. (the Accounting and Auditing Organization for Islamic Financial Institutions, , 2022, p. 364)

The Islamic Financial Services Council defined Takaful insurance as: "The agreement of a group of subscribers cooperating in preventing losses resulting from certain risks, by supporting each other by paying a sum of money into a joint fund as a donation obligation, and the proceeds of the fund are used to help them, as members thereof, against certain types of losses or damages." (Islamic Financail Services Board, 2009, p. 2)

From the above, a precise definition of Takaful insurance can be deduced. It is a non-profit cooperative system in which participants come together to confront common risks by establishing an independent fund in which contributions are collected and compensation is disbursed. It is managed by an elected body or specialized company in exchange for a fee or a share of investment profits, according to the agency or speculative formulas.

3- Takaful insurance ruling: Most contemporary scholars have prohibited commercial insurance and permitted cooperative insurance. This view has been taken into account by most collective fatwa bodies, such as the Council of Senior Scholars, the Permanent Committee for Fatwa, the Islamic Fiqh Academy of the Muslim World League in Makkah Al-Mukarramah, and the International Islamic Fiqh Academy of the Organization of the Islamic Conference in Jeddah, among others, due to the deception, gambling, and unjust consumption of money that commercial insurance includes, unlike Islamic cooperative insurance based on solidarity and mutual support (Ibn Manzur, 2002, p. 93),

The Islamic Fiqh Council Resolution No. (9) in the second session, after considering what was issued by the Islamic Fiqh Councils and scientific bodies in this regard, stipulated that the alternative contract that respects the principles of Islamic dealings is the Takaful insurance contract based on donation and cooperation. The Islamic Fiqh Council of the Muslim World League Resolution No. (5) in the first session also decided the first is unanimous approval of Resolution No. (51) of the Council of Senior Scholars in the Kingdom of Saudi Arabia dated 04/04/1397 AH permitting Takaful insurance instead of the forbidden commercial insurance (Ali Muhyiddin Al-Qaradaghi, 2009),

4-Characteristics of Takaful insurance: Takaful insurance has a set of unique characteristics that distinguish it from other types of insurance. These characteristics lie in:

A- **The existence of a Sharia oversight body:** The existence of a Sharia oversight body that participates with the company's technicians in the process of developing insurance policy forms, and reviews the company's investment insurance operations to confirm their compliance with the provisions of Islamic Sharia.

B- **The combination of the characteristics of the believer and the insured for each member:** This is one of the most important characteristics that distinguish Takaful insurance from others, as the members of Takaful insurance exchange insurance among themselves, as they insure each other, so at the same time he is a believer and a insured, as the combination of the characteristics of the believer and the insured in the personality of all participants makes injustice and exploitation negated .

C- **Lack of profit:** The goal of Takaful insurance is limited to providing insurance services to members in the best possible way and at the lowest possible cost. In other words, this type does not seek to achieve any profit by carrying out insurance operations.

D- **A donation contract:** Takaful insurance is considered a donation contract that aims to primarily cooperate in eliminating dangers and participate in bearing responsibility in the event of disasters, through individuals contributing cash amounts allocated to compensate those who are harmed. (Hawshin Ibtissam, 2017, p. 4)

E- **There is no need for capital for the authority when it is established:** Takaful insurance does not require the presence of capital for the authority that practices this type of insurance when it is established, and this characteristic is considered an inevitable result of the existence of the characteristic of the union of the status of the insurer and the insured.

F- **Providing insurance at the lowest possible cost:** Providing insurance services to its members at the lowest possible cost. This is due to the absence of profit and the low cost of administrative and other expenses, in addition to the fact that it does not require intermediaries or other expenses such as advertising and publicity.

G- **Change in the value of the subscription:** Since the member of the Takaful Insurance combines the qualities of the insured and the insured, it is natural that the subscription required from each of them varies according to the extent of the disasters that occur and which result in the Takaful Insurance Authority's obligation to compensate.

H- **Distribution of the surplus among subscribers:** The insurance surplus results from the difference between the subscriptions obtained and the value of the compensation due. It differs from profit in commercial insurance, where this profit is a right of the founders, while the surplus is a right of the subscribers.

I- **Freedom of ownership and management:** This characteristic is considered one of the most important characteristics that distinguish Takaful insurance, as Takaful insurance projects, whatever their form, are owned by policyholders, and they are the ones who manage them. Therefore, the door to membership is open to anyone wishing to join at any time, and all members are treated with complete equality. (Abdul karim Jadah, 2021, p. 463)

- **Types and forms of Takaful insurance:**

First: Types of Takaful insurance

A- Damage insurance: It is divided into two types: Property insurance Liability insurance

B- Alternative insurance to life insurance: Insurance in the event of death to protect heirs or others. Insurance to pay for need in case of disability (Muammar Hamid, 2012, p. 65)

Second: Forms of Takaful insurance:

A- Simple Takaful insurance

B--Compound Takaful Insurance (-Abdul Karim Jadah and Lazul Muhammad, 2020, p. 465)

5- Principles of Takaful insurance: Takaful insurance is distinguished by a set of legal controls and principles that govern its activity, which are as follows**:**

- The primary goal of insurance should be solidarity and cooperation between the insured in the face of the risk that befalls the members and not for the purpose of developing money.
- The insurance company's investments, i.e. the surplus of the fund's funds, must be consistent with the provisions of Islamic Sharia.
- Create two separate accounts, one for the managing company itself and the other for the document holders' rights fund.
- The Takaful Fund is owned by the Takaful document holders themselves, and in this capacity, they are entitled to its returns exclusively. Also, the funds remaining in this Fund at the end of the term (the insurance surplus) are returned to them and distributed to them.
- Every believer must ensure the existence of a Sharia oversight body whose mission is to monitor the company's work to ensure its compliance with the provisions of Islamic Sharia

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- The necessity for document holders to participate in the management of the company by electing their representatives to the Board of Directors in order to achieve the concept of solidarity and mutual cooperation. (Safe Bouzina, 2012, p. 5)
- The company or body manages in exchange for a certain fee, or a share of the speculative profits in the subscribers' funds, in addition to distributing the insurance surplus to the subscribers

-How Takaful Insurance Works: Below we review how Takaful insurance works in the following steps:

- ✓ Subscribers place installments in the Takaful Fund on a gift basis, provided that compensation is provided for cooperation in resolving risks.
- ✓ Contributions are paid on an ownership basis to the Fund by an independent legal entity through which it can own, invest and own funds in accordance with the regulations governing this.
- ✓ The Takaful Company manages the donation fund in terms of paying compensation and following up on claims on an agency-based basis with pay.
- ✓ The Takaful Company is entrusted with investing a portion of the Fund's funds, which is entitled to the agency's investment fee or a share of the profit if it is speculative.

6- The importance and objectives of Takaful insurance: Takaful insurance plays an important role for both the individual and society by:

- ✓ Achieving safety for the insured by making the insured feel reassured in carrying out his work and the resulting possibility of exposure to multiple risks.
- ✓ Completing the cycles of the Islamic economy because Takaful insurance companies constitute a pillar of the Islamic economy and one of its cycles.
- ✓ Contributing to activating the jurisprudence of transactions because Takaful insurance companies are a manifestation of the validity of Islamic law. (Fatima Al-Zahra, 2015, p. 69)
- ✓ Finding an Islamic alternative to commercial insurance that is compatible with Sharia and its principles.
- ✓ Protecting property, preventing economic deterioration, contributing to achieving well-being, and completing the Islamic economic work cycle.
- ✓ Achieving solidarity among all insured persons, and reducing the insurance premium to the minimum possible amount. (Hassan Ali Al-Shazly, 2010, pp. 14-15)

8- Foundations of Islamic Takaful Insurance: Islamic Takaful insurance is based on general and specific principles, which we summarize as follows: (Amer Osama, 2014, p. 12)

First: The general foundations of Islamic Takaful insurance

1-Takaful: is an authentic Islamic principle upon which Takaful insurance is based. It aims to address the risks posed to some individuals by compensating them for these risks from the proceeds of their paid premiums. The Holy Quran urges solidarity and cooperation. (Saed Bouhraoua, 2011, p. 10)

2 -The deception of donations: Deception is something with an unknown consequence, and it is forbidden by Islamic law, because of the injustice, conflict, and dissatisfaction that results from it, and then it leads to consuming money unjustly. This avoids the deception present in the traditional insurance contract that led to its prohibition - as it is a financial compensation contract. (Muhammad bin Ismail, Sahih Al-Bukhari, 1422)

Second: The special foundations of Islamic Takaful insurance

1-Commitment: The obligation to donate is a common adaptation of Islamic Takaful insurance chosen by most resolutions as well as fatwas by a group of contemporary scholars. The policyholder obliges himself to donate to the group of insurers who own the insurance portfolio.

2- Waqf: According to the Waqf system, the Islamic Insurance Company establishes an endowment fund with a portion deducted from its capital that is imprisoned and its proceeds are spent on the affected people who participate in the fund. The installments are donated to the endowment and are therefore endowed to it, and compensation from the endowment is an entitlement in accordance with the donor's condition (Abu Ghada, 2007, p. 11)

9- Investment formulas in Takaful insurance:

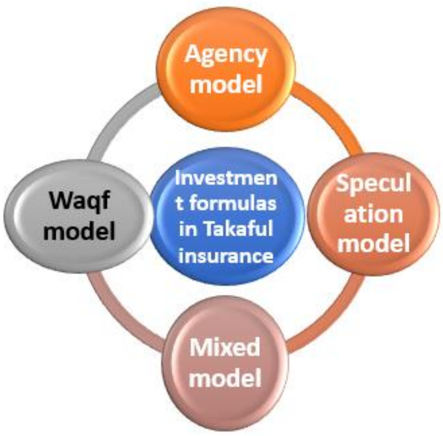
A- **Speculation model:** Speculation is a contract for investing money between two people, one of whom provides capital and the other provides effort and work (the speculator), and the result of the speculation (profit) is divided between the two according to the contract In this model, the document holders are the ones who provide the capital and the insurer is the speculator

B- **Agency model:** The company acts as an agent for the insured in managing insurance operations and investing premiums in exchange for a known fee. There are two types: pure agency and modified agency.

C- **Mixed model:** In this model, the company is entitled to a certain percentage of subscriptions (known wages) for its management of the insurance business, plus a percentage of investment returns and subscriptions as a speculator (Dalat Al-Baraka Collection, 2005)

D- **Takaful insurance based on Waqf**: Waqf is considered one of the most important forms of Takaful insurance and is one of the forms of donations as an alternative to donating subscriptions. Among the contemporary applications of Takaful insurance through Waqf are Takaful Company S Takaful and Takaful Insurance Company in Pakistan (Islamic university malaysia, 2008),

Figure No. (1): Investment formulas in Takaful insurance



Source: Developed by the Researchers

- **The second axis: Types of Takaful insurance companies and the reality of Takaful insurance in the Islamic world**

-Types of Takaful insurance companies:

1 - Takaful insurance companies according to their purpose of establishment:

A - Non-profit Takaful insurance companies: This type of Takaful insurance company is owned by subscribers. Its capital consists of accumulated premiums, fees, and reserves. The company's management invests these funds for subscribers to strengthen its financial position. The company also pays subscribers an annual rent for its surplus funds and investment returns.

B - For-profit symbiotic insurance companies: This type of company is characterized by the presence of shareholders in establishing the company, just like commercial insurance companies. Its goal, through its work in obtaining profits and distributing returns to shareholders, is to differ from commercial insurance companies by converting the forbidden chapter of compensation into the chapter of donations in collecting premiums. It also invests insurance funds and distributes the insurance surplus to subscribers in accordance with the provisions and principles of Islamic Sharia

2- Takaful insurance companies based on agency, with or without pay:

A - Takaful insurance companies on an unpaid agency basis: They are companies managed by shareholders to organize insurance operations, collect premiums, and disburse compensation without receiving a fee for management, and they rely on the principle of cooperation and donation between subscribers (document holders).

B - Takaful insurance companies on an agency basis with a fee: They operate according to the agency system, but they receive a specific fee from insurance contributions for managing the subscriber fund, and they may also receive a percentage of profits or insurance surplus. (Al-Shabili, 2009, p. 13)

3- Existing Takaful insurance companies according to their founding body

A - Takaful insurance companies that are based on Islamic banks: Some Takaful insurance companies rely on Islamic banks to support them financially and address potential deficits. These banks have also contributed to the establishment and development of several Takaful insurance companies, such as the Islamic Insurance Company of Khartoum and the Malaysian Takaful Company.

B - Takaful insurance companies that rely on business capital: Some Takaful insurance companies rely on business contributions as capital when they are established, and shareholders benefit from the profits and investment returns resulting from them.

C- Takaful insurance companies that are based on insurance companies or commercial banks: Some Takaful insurance companies rely on insurance companies or commercial banks for a fee or a percentage of the insurance surplus, and may also benefit from it in reinsurance or in subsequent transactions**.** (Tari Abdelkader, 2023, p. 44)

-The status of Takaful insurance in the global Islamic financial industry

The global assets of the Islamic financial services sector reached $4.40 trillion in the third quarter of 2025, with an annual growth of 13.4%. Islamic banking accounted for 69.3% of assets, a growth of 9.7%, while sukuk recorded the highest growth (21.8%), exceeding $1 trillion. Islamic funds achieved a growth of 25.6%, with a share of 4.1%, while Takaful insurance grew by 13.9%, with a share of 1.6%, reflecting continued expansion while Islamic banking remains the dominant sector. This is what the following figure2 shows. **Figure No. (2): The status of Takaful insurance in the global Islamic financial industry**

Table 1.1: Islamic Financial Services Industry Size by Sector and Region (2025)

Region	Islamic Banking Assets	Şukūk Outstanding	Islamic Funds Assets	Islamic Insurance Assets	Total (USD Billions)
East Asia and the Pacific (EAP)	375.85	491.40	46.54	22.49	936.28
Europe and Central Asia (ECA)	104.35	37.71	71.62	3.32	217.00
Gulf Cooperation Council (GCC)	1,759.65	543.29	34.21	30.22	2,367.37
Middle East and North Africa (MENA exc.GCC)	702.00	6.80	0.11	13.64	722.54
South Asia (SA)	94.74	3.44	6.19	1.44	105.82
Sub-Saharan Africa (SSA)	14.36	1.19	15.20	0.04	30.79
Others	-	16.99	6.60	-	23.60
	3,050.94	1,100.83	180.47	71.14	4,403.39

Source: IFSB PSIFIs, data provided by regulators and other public data, Refinitiv and Bloomberg

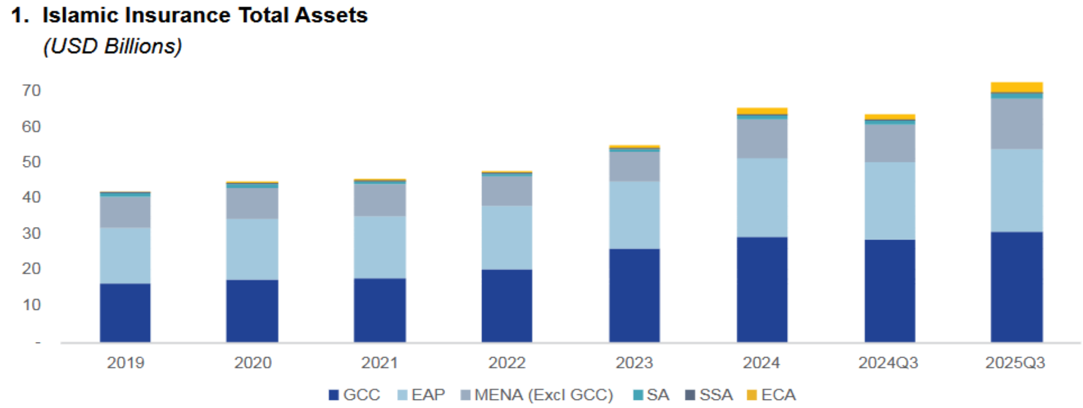
Source: IFSB PSIFIs, data provided by regulators and other public data, Refinitiv and Bloomberg

The global Islamic insurance sector has continued to expand at double digit growth rates, with its footprint continuing to widen across new and emerging jurisdictions. Growth is shifting structurally from established markets toward emerging and frontier jurisdictions. Expansion has moderated in more mature markets in the GCC and EAP, while momentum has increased significantly in the ECA, SSA, and SA, supported by substantive market development, regulatory progress, (The Philippines issued , 2025)

and strong demand for insurance coverage (Figure 3). Growth drivers differ meaningfully by region. In the GCC, large-scale infrastructure pipelines are generating sustained insurance demand. Across parts of MENA (excl GCC), Islamic insurance is displacing conventional alternatives on the strength of consumer preference. (https://www.meinsurancereview.com/Magazine/, 2025)In SSA and the GCC, compulsory health and group life schemes are broadening participation. However, mandatory lines also often compress pricing power and shift competitive advantage toward operational efficiency and scale, reinforcing market structures that favour larger operators and accelerating consolidation. As the sector extends into frontier markets, supporting infrastructure - such as investment options, reinsurance capacity and supervisory frameworks – often Lag behind market growth.

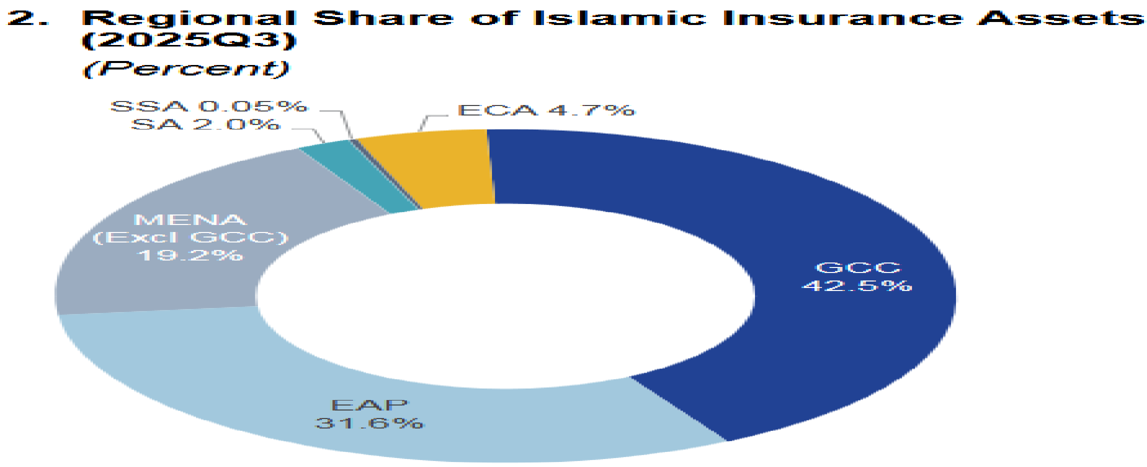
Figure No. (3): Islamic Insurance Growth Trends

Global Islamic insurance assets have grown steadily, surpassing USD 70 billion in2025Q3



Established markets account for three-quarters of global Islamic insurance assets

Frontier markets are growing at a faster pace than mature markets



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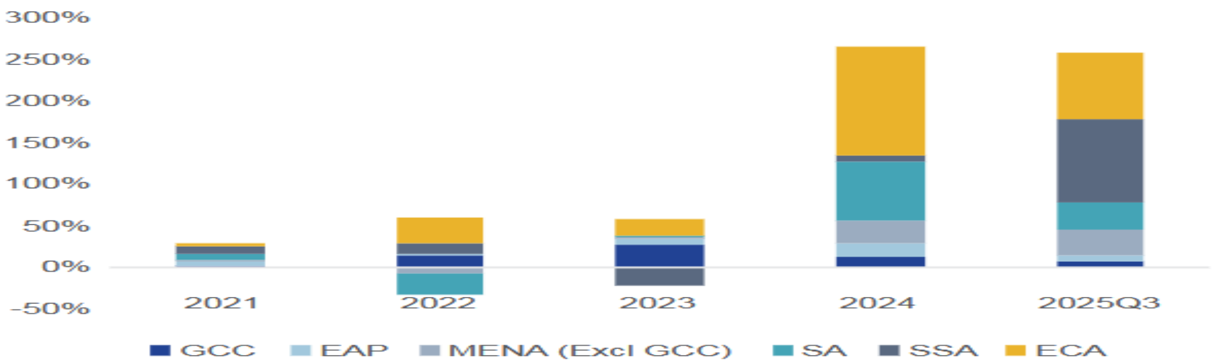
3. Total Assets Change in Percent (2021 – 2025Q3)
(Percent)



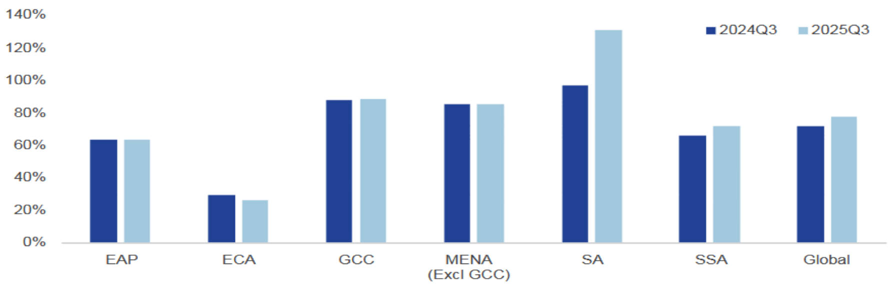
Source: IFSB PSIFIs, data provided by regulators and other public data, Refinitiv and Bloomberg

Furthermore, profitability is becoming increasingly concentrated among larger operators, highlighting structural challenges for smaller firms. In the GCC, larger operators were able to absorb cost pressures and maintained positive, albeit reduced, profitability, while smaller peers collectively shifted into significant losses. This divergence reflects the advantages of scale in managing claims inflation, pricing pressures, and rising regulatory compliance costs. Smaller operators, with limited capacity to spread these costs, face persistent profitability constraints that cannot be addressed through pricing adjustments alone. These dynamics point to increasing consolidation pressures, with a higher likelihood of mergers or market exits in the near term.

Figure No. (4): Islamic Insurance Profitability

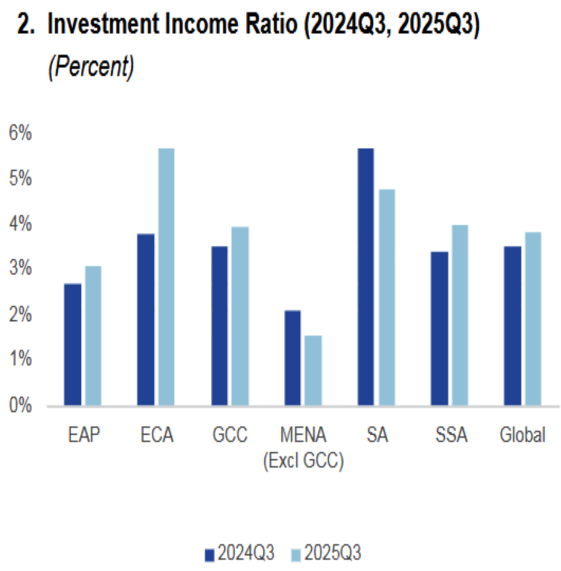
Net combined ratios worsened globally as claims costs outpaced contribution growth, with motor and medical lines facing the sharpest increase.

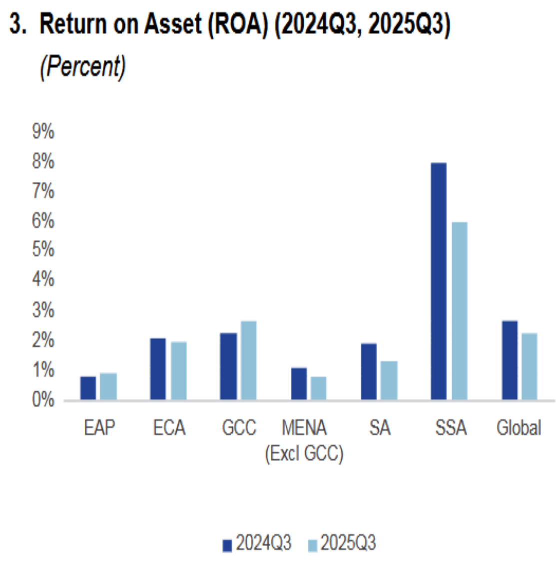
1. Net Combined Ratio (2024Q3, 2025Q3)
(Percent)



Investment income became the primary profitability buffer in 2025, partially offsetting deteriorating underwriting margins across most regions.

Return on assets declined across most markets, with the sharpest contractions where profitability had previously been highest.





Source: IFSB PSIFIs, publicly reported data and data provided by regulators

Portfolio Allocation Reflects Market Structure, but Reshapes Risk Sensitivity

Portfolio allocation has increased the allocation toward sukuk, though regional patterns differ. Globally, sukuk increased to around one-third of total investments, accompanied by a reduction in bank deposits (Figure 5). The adjustment was most pronounced in the family segment, where Islamic insurance operators increased sukuk allocations to align asset duration with long-tail liabilities. In EAP, sukūk accounted for more than three-fifths of portfolios, with one jurisdiction increasing its allocation to corporate sukūk. The GCC similarly increased sukuk investment while modestly raising equity exposure. This supported investment income in the near term but leaves balance sheets more exposed to repricing as market conditions shift. At the same time, higher allocations to sovereign ṣukūk, particularly in ECA and parts of EAP, improved credit quality and liquidity, while increasing the sensitivity of operator performance to fiscal conditions.

Long-term sukuk scarcity continued to constrain family segment development across most regions. Family businesses command a majority share of contributions only in specific EAP and SA markets. The scarcity of long-term sukuk prevents the sustainable development of savings products in frontier markets

Operators cannot effectively match the extended liability profiles these products create. This structural constraint forces many markets to remain concentrated in the general segment, limiting the sector's ability to address long-term protection needs. The constraint is particularly acute in parts of SA and SSA, where demographic demand for savings products exists but the investment infrastructure to support them does not.

Figure No. (5): Islamic Insurance Investment and Asset Composition

Increasing allocation of investments to sukuk

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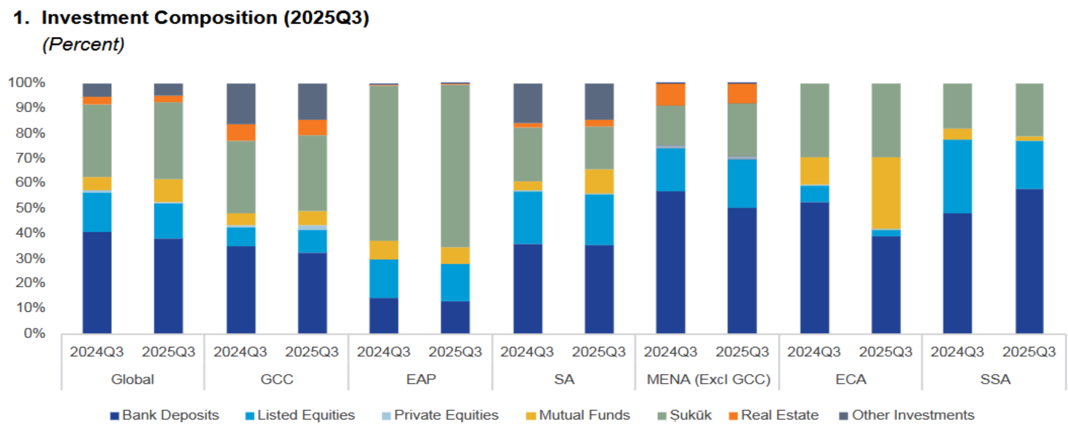
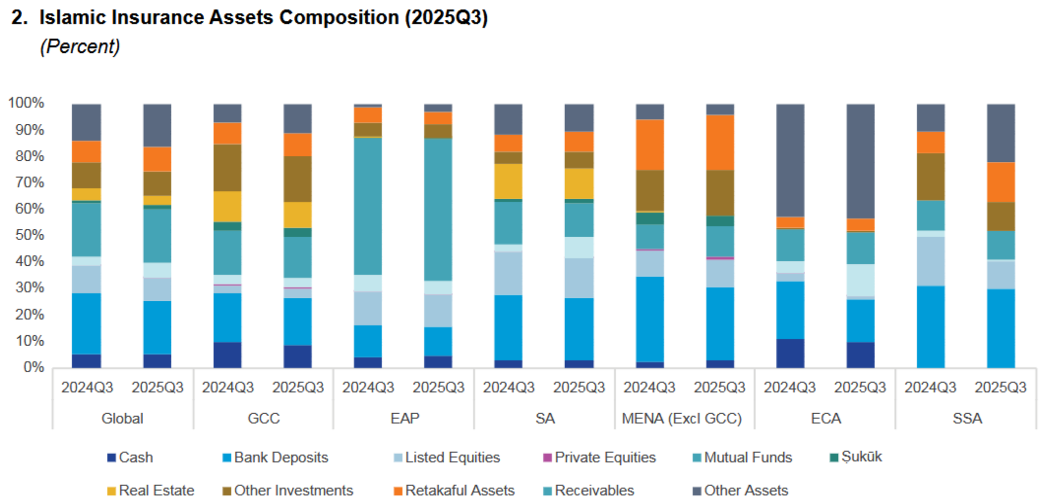


Bank deposits remain the single largest asset class on Islamic insurance balance sheets



Source: IFSB PSIFIs, publicly reported data and data provided by regulators

The global development of the Takaful insurance industry during the period (2021–2025)

The Takaful insurance sector witnessed remarkable growth during 2021–2025; In 2021, recovery from the effects of the Covid-19 pandemic began, and in 2022 the size of the global market reached $31.7 billion. During 2023, it expanded into emerging markets as digital transformation accelerated, with Saudi Arabia, Iran, and Malaysia continuing to dominate. In 2024, the market value was estimated at approximately $45.5 billion, while in 2025 it ranged between $36 and $50 billion, with expectations of an annual growth rate ranging between 8% and 12% in the coming years. (https://www.alliedmarketresearch.com/takaful-insurance-market, 2025)

-Leading countries in the solidarity sector: Data indicates that the largest Takaful insurance markets during this period were:1. Kingdom of Saudi Arabia.2. Iran.3. Malaysia.4. United Arab Emirates.5. Indonesia.6. Pakistan**.**

Saudi Arabia, Iran and Malaysia together account for about 80% of global Takaful installments, with Saudi Arabia alone accounting for about 47% of installments in 2022It can be said that the period 2021–2025 was one of the best stages of growth for the Takaful insurance industry, thanks to:- Raising awareness of Islamic finance.- Population growth in Islamic countries.- Increased demand for health and family insurance.- Digitization and Financial Technologies (FinTech).- Government and regulatory support in many Islamic countries (https://www.amef-consulting.com/en/2025/01/overview-of-takaful-, 2025)

Table No. (02): Development of the Takaful insurance industry globally during the period (2021–2025)

Year	Size of the global Takaful market (billion dollars)	growth rate	the most important developments
2021	**28-30**	**8%**	The sector recovered after the COVID-19 pandemic, and demand for health and family insurance increased
2022	**31-32**	**9%**	Takaful expands in the Gulf countries, Malaysia and Indonesia, with significant growth in written installments
2023	**33-34**	**10%**	Expanding digital transformation, launching new products, and increasing the spread of solidarity in Africa and Asia
2024	**35-36**	**10%**	Continued growth supported by regulatory reforms and increased demand for health and vehicle insurance
2025	**36-40**	**12%**	Growth continues in the GCC and Southeast Asia, with strong expansion expected over the next decade

Source: Developed by the Researchers

-**Analysis of the development of Takaful insurance companies (2021–2025)**: The most important manifestations of development can be summarized as follows:

1. Increase in market size: The Takaful insurance market size increased from approximately $29 billion in 2021 to between $36 and $40 billion in 2025, an increase of approximately 25–35% over five years.

2- Increase in the number of Takaful companies: New companies continued to enter Islamic markets, particularly in Saudi Arabia, Indonesia, Pakistan, and the UAE, and some markets also witnessed mergers to improve operational efficiency. Today, the Takaful industry covers dozens of countries within the global Islamic finance system.

3. Digital transformation: Companies have expanded the use of electronic applications, digital underwriting, artificial intelligence, and electronic claims services, which has contributed to reducing costs and improving customer experience.

4 -Product variety: The period witnessed expansion in: - Health solidarity. - Family solidarity. - Vehicle symbiosis. Micro-symbiosis (Micro-Takaful). - Solidarity of small and medium enterprises.

5. Most contributing countries: Saudi Arabia, Malaysia, Iran, the UAE and Indonesia topped the Takaful markets, while the Gulf states and Southeast Asia remained the main drivers of global growth (https://www.researchandmarkets.com/reports/5790582/takaful-market-, 2026)

Table No. (03): Countries that contribute the most to Takaful insurance globally

Year	Number of Takaful companies	number of countries	Assets (billion dollars)	Asset growth rate (%)
2020	**320**	**45**	**57**	**8%**
2021	**336**	**47**	**63**	**17%**
2022	**344**	**48**	**76**	**21%**
2023	**364**	**50**	**108**	**42%**
2024	**395**	**53**	**136**	**26%**
2025	No final official statements have been issued	No final official statements have been issued	No final official statements have been issued	No final official statements have been issued
2026	No final official statements have been issued	No final official statements have been issued	No final official statements have been issued	No final official statements have been issued

Source: Developed by the Researchers

The data shows that the Takaful insurance industry witnessed significant growth during the period 2020–2024, which can be summarized as follows:

-The number of Takaful companies increased from 320 companies in 2020 to 395 companies in 2024, an increase of 75 companies over four years, which is equivalent to a growth of approximately 25%.

-The assets of Takaful companies increased from $57 billion to $136 billion, more than doubling during the same period.

-The sector's reach has expanded from 45 countries to 53, reflecting the entry of new markets and the growth of symbiotic windows and independent companies.

- Saudi Arabia, Iran, Malaysia, the UAE and Indonesia continued to lead the sector in terms of asset size, premiums and number of companies. (https://www.lseg.com/content/dam/data-analytics, 2025)

The third axis: The role of Takaful insurance in managing credit risks in Islamic banks

Credit risk is the potential loss resulting from a customer's or partner's inability to meet their obligations and repay financing on time. It is one of the most significant causes of bank defaults and banking and financial crises.

First: Types of credit risks in Islamic banks: Credit risks in Islamic banks take the following forms:

A- Risks associated with the customer: These risks are as follows**:**

- Risks of deterioration of the client's financial position and bankruptcy .
- The risks of personal assets and the customer's loss of eligibility to continue dealing with the bank.
- Risks of decline in the client's administrative and technical efficiency in managing his funded activity.
- The risks of the customer's keenness to fulfill his obligations towards others at the bank's expense.
- Risks of production capacity as a result of a defect in production policies and methods

B- Risks associated with the bank granting the credit: These risks are represented by the following elements:

- Contract risks resulting from gaps in credit contracts.
- The dangers of the lack of experience of Islamic Bank employees.
- Legal or legislative risks . (MohammedLipa, 2007, pp. 130-132)

-Second: Reasons for the high credit risks in Islamic banks: This is due to several reasons, including:

- The inability to increase the debt after it has been proven and preventing trading in debts.
- The effect of dyeing the contract on the risk factor and the impermissibility of placing and trusting.
- Excessive use of the Murabaha formula at the expense of other formulas (Muammar Hamdi, 2012, pp. 74-75)

-Third: Principles of credit risk management: Credit risk management is based on several principles, the most important of which are:

- Separation of business circles, credit circles, and entities implementing credit facilities granted in the banking system in the basic.
- Clearly define the criteria for granting credit to all dealers in the financing policy according to the nature of the dealer.
- Prepare a due diligence study for all credit applications regardless of the nature of the customer, the amount of financing, and the size and type of credit diluents.
- Determine the rate of return on facilities based on the degree of risk to which the bank is exposed
- Determine the matrix of powers granted to all parties involved in the credit approval process according to the nature of the customer.
- Defining the role of all parties involved in the credit approval process according to the nature of the client, in a way that enhances institutional governance for credit risk management.

Fourth: Takaful insurance methods to reduce credit risks in Islamic banks

Islamic banks use Takaful insurance to transfer credit risks to the Takaful insurance company, where subscribers contribute installments collected in one fund, and the company manages and invests the funds and compensates those affected in exchange for an administrative fee. The surplus or deficit of activity is distributed among the participants. The effectiveness of this system depends on the independence of risks and the diversity of participants, which contributes to distributing risks and reducing the possibility of collective losses**.** (Hajar Zarrapi, 2012, p. 130)

There are several methods of Takaful insurance to reduce risks in Islamic banks, including:

1- Takaful insurance for cars financed by Islamic banks: Islamic banks require insurance for cars financed by Takaful insurance companies to protect their financial rights in the event of the car's destruction. Insurance contracts are a means of ensuring debt repayment by compensating the bank as the beneficiary, preserving its rights and reducing financing risks.

2- Takaful insurance on debts of Islamic banks: Takaful debt insurance is permissible according to Islamic law because it is based on the principle of cooperation and donation between subscribers without compensation for the guarantee, unlike traditional insurance, which is considered a guarantee for a forbidden fee. Islamic banks adopt this system to protect their financial rights, as they pay installments to Takaful insurance companies, which are responsible for paying the remaining debt in the event of the customer's disability or death, which ensures that the bank recovers its funds.

3- Takaful insurance for goods: Islamic banks insure their goods with Islamic insurance companies against the risks of transportation, destruction or damage, with the aim of reducing the financial burdens resulting from the realization of these risks. Instead of bearing all losses, banks pay a specific insurance premium, while the Takaful insurance company compensates for the damages due. (Bououira Moussa, 2023, p. 877)

Fifth: The methods used by Islamic insurance companies to secure risks: Takaful insurance companies follow several tools and means to reduce risks, including, but not limited to:

-Reduce risk through reinsurance: Reinsurance is when an Islamic insurance company transfers a portion of the risks exceeding its financial capacity to a reinsurance company with strong solvency, in exchange for paying a portion of the premiums, with the reinsurance company bearing a similar percentage of compensation. This process contributes to distributing risks and reducing the effects of losses on insurance companies and Islamic banks. It is as follows:

- When the insured risk occurs on large properties, Islamic banks' losses are limited to the value of the insurance premium only, while Islamic insurance and reinsurance companies are responsible for paying compensation according to their contribution to the insurance premiums.
- Reinsurance makes Islamic banks feel reassured in their business practices, and the feeling of security and safety that reinsurance generates among Islamic bank administrations pushes them to expand investment circles in huge productive projects that constitute the largest sources of profit for these banks.
- Reducing risks through excess insurance: The insurance surplus is the amount remaining from the insurers' contributions and investment returns after paying compensation, expenses, reserves, and wages to the insurance company as an agent. In Islamic insurance companies, this surplus is distributed to policyholders, and Islamic banks are considered eligible for it as insured persons. An insurance surplus contributes to reducing the risks of Islamic banks. The more a bank receives a portion of the surplus, the lower the cost of insurance and the risks it faces, such as receiving a surplus equivalent to 10% of its insurance contributions. (Shawqi Bouregba‹Hajer Zarraqi, 2015, p. 14)

-Reducing risks by investing in Islamic banks : Islamic insurance companies invest surplus insurance premiums with Islamic banks according to a speculative system, where profits are shared according to an agreed-upon percentage. Banks' share of these profits is used to reduce the value of the insurance premiums they pay, which contributes to reducing risks and financial burdens on them. (Tommy Ibrahim،Tari Abbelkader, 2021)

Axis Four: The Pakistani experience and pioneering international models in Takaful insurance

Pakistan was interested in developing Takaful insurance to support the national economy and the transition towards a financial system compatible with Islamic law. The government has provided an appropriate legal and legislative framework for the Takaful sector, with the aim of supporting Islamic banks and providing the necessary protection for their risks, especially credit risks. The emergence of Takaful companies contributed to strengthening and developing Islamic banking through banking risk management. (Angie Farouk ،Ahmed Murad, 2018, p. 39)

-First: The emergence of the Takaful insurance industry in Pakistan

Pakistan seeks to strengthen Islamic finance and eliminate usury by developing laws supporting it. After the first experiment faltered in the 1980s due to a lack of competencies, the Takaful Insurance Law was issued in 2005 to regulate this sector and support the risk management of Islamic banks in accordance with Sharia. The law defined solidarity as a solidarity system based on participants' contributions to a joint fund to confront dangers, and divided it into family solidarity and general solidarity. (Ahmed Salem Melhem, 2024)

-Second: Takaful insurance companies operating in Pakistan: Four licensed companies practice Takaful insurance business in the Pakistani market: Daoud Takaful Company, Pack Qatar Family Takaful, Pack Qatar General Takaful, and Al Salam Takaful Company Limited.

1- Pak Qatar General Takaful Company: It is one of the leading general Takaful companies in Pakistan. It was established in 2006 and started its operations in 2007. It is registered with the Securities and Exchange Commission of Pakistan. It offers many Takaful products, including fire insurance, marine insurance, vehicle insurance, cash in the safe, transit money, personal accidents, health, and others. (Mohammed Hanif, 2017, p. 122)

2- Pack Qatar Family Solidarity Company: It is a company that provides Takaful life insurance by providing protection to subscribers in the event of death or disability, in addition to providing coverage for risks resulting from a natural disaster or unexpected accidents, and displays its products to individuals, families and groups and provides the Takaful Bank service. (Mohmmad Sahli Abou al-ala, 2018, p. 78)

3- Daoud Family Solidarity Company: Daoud Family Solidarity Company (Islamic Life Insurance) was established as a public benefit company on May 4, 2007 under the Companies Law of 1984. Its main activity is to carry out family solidarity work in accordance with the Insurance Law of 2000, the General Insurance Rule of 2017, and the Solidarity Rules of 2012. It displays its products to individuals, families and groups and provides the Takaful Bank service. (https://www.pakqatar.com.pk/general/, 2022)

4- Salam Takaful Company Limited: Established in Pakistan in 2006 with a capital of Rs. 800 million, it specializes in general Takaful and covers various risks such as fire, engineering, marine insurance, health, automotive and accidents. It also has expertise and partnerships in restoring solidarity, enabling it to provide comprehensive coverage for major projects, companies, and Islamic banks. (Pak- Qatar family Takaful, 2022)

Third: The development of Takaful insurance assets in Pakistan

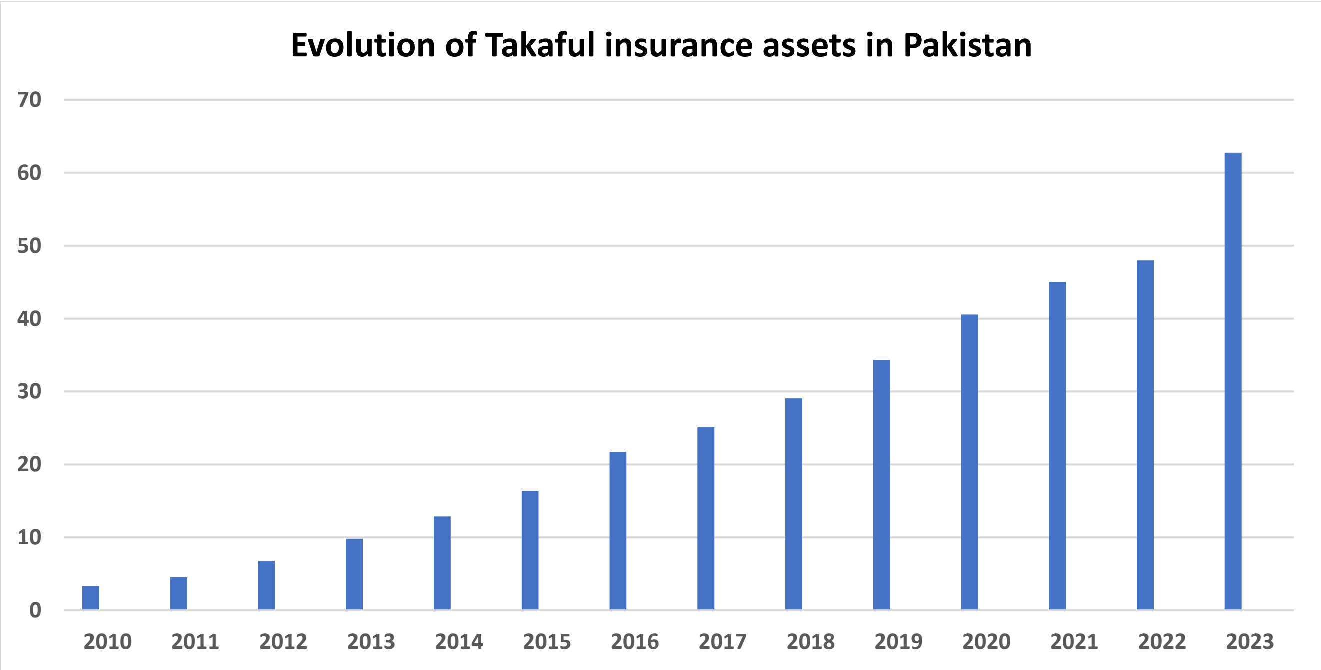
Pakistan is one of the countries that has paid great attention to the field of Takaful insurance recently. The Pakistani market is considered one of the largest growing markets in the field of Takaful insurance. The following figure shows the development of Takaful insurance assets in Pakistan during the period (2010-2024)

Table No. (04): Development of Takaful insurance assets in Pakistan during the period (2010-2024)

Year	Takaful Insurance Assets (Unit: Billion Pakistani Rupees)
2010	**3.341**
2011	**4.53**
2012	**6.805**
2013	**9.838**
2014	**12.867**
2015	**16.354**
2016	**21.734**
2017	**25.098**
2018	**29.07**
2019	**34.302**
2020	**40.567**
2021	**45.042**
2022	**47,97**
2023	**62,74**
2024	Detailed asset data for the Takaful sector were not published separately in official sources, but the sector continued its strong growth, with contributions from Takaful Family rising by 37% and Takaful General rising by 24%

Source: -Financial Statements of Financial Sector SBP 2016-2020
-Muhammad Hanif & Abdullah M. Iqba، An Evaluation of Takaful Insurance: Case of Pakistan Journal of Islamic Economics, Banking and Finance, Vol-13, N° 1, Jan-Mar, ,2017 p 139
https://www.secp.gov.pk/wp-content/uploads/2025/08/Press-Release-SECP-Publishes-Insurance-Industry-Statistics-2024.pdf

Figure No. (06): Evolution of Takaful insurance assets in Pakistan during the period (2010-2024)



Source: Prepared by researchers based on Table No. (04)

From Figure No. (06), it is clear that the assets of the Takaful insurance sector in Pakistan witnessed continuous growth during the period 2010–2023, as they increased from 3 billion rupees in 2010 to 62 billion rupees in 2023, driven by the increasing demand for Takaful products, the development of the regulatory environment, and the rise in awareness of risk management. The sector also continued to grow during the COVID-19 pandemic, Assets reached Rs 45 billion in 2021, an increase of 31% compared to 2019, then rose to Rs 48 billion in 2022, before reaching Rs 62 billion in 2023, recording an annual growth of 29.2% compared to 2022, which is the highest rate of increase during the study period.

Fourth: The experience of the Islamic Bank of Pakistan

After reviewing the emergence of the Takaful insurance industry in Pakistan and the government support that contributed to strengthening Islamic finance and reducing credit risks, the experience of Pakistan Islamic Bank in employing Takaful products to manage banking risks will be discussed, with a focus on their role in reducing credit risks and enhancing the stability of its financing operations.

1-Takaful insurance as a credit risk management mechanism at the Islamic Bank of Pakistan: The Islamic Bank of Pakistan relies on many preventive methods to hedge credit risks, including the Takaful insurance method, through the bank contracting with Takaful insurance companies in order to cover the losses it is exposed to that are predetermined in the insurance policy.

2. Compensation paid by the Takaful Insurance Company for realized credit losses: Among the guarantees that the Islamic Bank of Pakistan relied on to manage its credit risks was joining Takaful insurance companies by subscribing to the Takaful Fund, which played a role in compensating for the losses suffered by the bank. The following table shows the development

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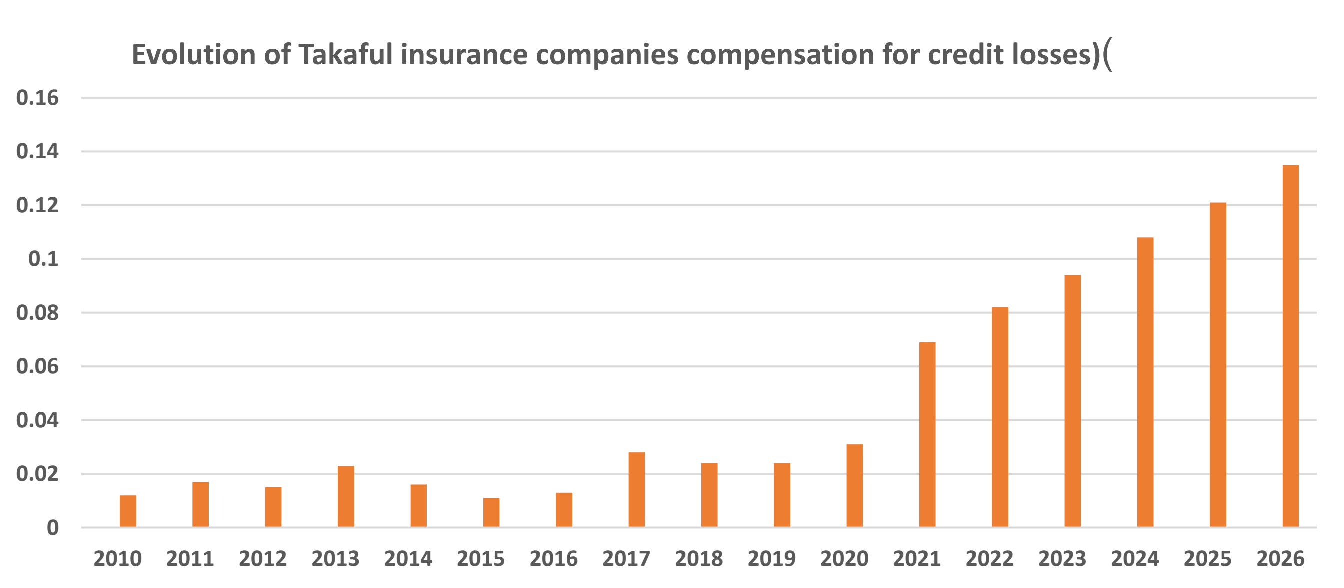
of the amount of compensation provided by Takaful companies to compensate for the credit losses suffered by the Islamic Bank of Pakistan. (Islamic Bank of Pakistan, 2021, p. 209)

Table No. (05): Evolution of Takaful insurance companies' compensation for credit losses during the period (2010-2026)

Year	Evolution of compensation of Takaful companies for credit losses (unit: billion Pakistani rupees)
2010	**0.012**
2011	**0.017**
2012	**0.015**
2013	**0.023**
2014	**0.016**
2015	**0.011**
2016	**0.013**
2017	**0.028**
2018	**0.024**
2019	**0.024**
2020	**0.031**
2012	**0.069**
2022	**0.082** **estimated**
2023	**0.094** **estimated**
2024	**0.108** **estimated**
2025	**0.121** **estimated**
2026	**0.135** **estimated**

Source: Prepared by researchers based on the annual reports of the Islamic Bank of Pakistan during the period (2010-2026)

Figure No. (07): Evolution of Takaful insurance companies' compensation for credit losses during the period (2010-2026)



Source: Prepared by the researcher based on Table No. (05)

Figure (05) shows an upward trend in Takaful companies' compensation for credit losses in Pakistan during the period 2010–2026, rising from Rs 0.012 billion in 2010 to Rs 0.069 billion in 2021, with a cumulative growth of about 475%, with 2021 recording an exceptional increase of more than 122% compared to 2020 as a result of the repercussions of the Covid-19 pandemic. Compensation is expected to reach Rs 0.135 billion in 2026, an increase of 95.7% compared to 2021, and more than 11 times compared to 2010, reflecting the expansion of Takaful activity, the broadening of the insured base, and the strengthening of its role in managing credit risks and supporting financial stability. (https://www.dawoodtakaful.com, 2022)

-Leading international experiences in Takaful insurance

1-states-Saudi Arabia: Takaful insurance, often known as cooperative insurance in Saudi Arabia, is the mandatory model for insurance companies operating in the Kingdom. The Kingdom of Saudi Arabia is the largest market for Islamic (Takaful) insurance in the world, as all operating insurance companies operate according to a Sharia-compliant model.

-The most important indicators and mutual/covalent insurance companies

Table No. (06): The most important indicators

index	value
Contribution of the insurance sector to GDP	About 2.6%
Total insurance premiums (2024)	About 76 billion Saudi riyals
annual rate of growth	+16% approx.
number of insurance companies	25 companies
Share of the global Takaful market	About 35–40%
Default rate (NPL/NPF) in Islamic banks	1.3–1.8%
The impact of solidarity on credit risk management	Reducing default losses in Takaful-covered financing and improving the quality of the credit portfolio.

Table No. (07): The largest Takaful companies

nature of the activity	company
The largest cooperative insurance company in the Kingdom; operating in health, automotive, property, and protection sectors	Co-operative insurance
Specializing in health solidarity, automotive and protection products	Al Rajhi Takaful
A pioneer in health insurance according to a cooperative model	Bupa Arabia
Vehicle, property and liability insurance	Malath Cooperative Insurance
Health insurance, vehicles and property	Med Gulf Insurance
General insurance and protection products	Arabian shield cooperative Insurance

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2-Iran: Iran has an almost comprehensive Islamic insurance system, where insurance companies operate according to principles compatible with Sharia, so the use of the term "Takaful" differs from other countries. Iran has one of the largest insurance markets in the Middle East by volume, but most activity is based on the local Islamic insurance system, and state and semi-state companies dominate. (https://www.salaamtakaful.com, 2022)

The most important indicators and mutual/covalent insurance companies

Table No. (08): The most important indicators

index	value
Total insurance premiums (2024)	About 430 trillion Iranian rials
annual rate of growth	15–20% (nominally, with inflation effect).
number of insurance companies	35 companies
Share of the global Takaful market	About 20%
Default rate (NPL/NPF) in Islamic banks	1%
The impact of solidarity on credit risk management	Greater reliance on government guarantees and oversight, and the role of solidarity is limited

Table No. (09): The largest Takaful companies

nature of the activity	company
The largest Iranian state-owned insurance company	Iran Insurance Company
One of the largest private insurance companies	Asia Insurance Company
Life, property and liability insurance	Alborz Insurance Company
General and commercial insurance	Dana Insurance Company
Miscellaneous insurance	Karafarin Insurance Company

3-Malaysia: is the most advanced global model in the solidarity industry, with an advanced legislative framework and leading expertise in this field. It also includes a large number of family and public solidarity companies.

The most important indicators and mutual/covalent insurance companies

Table No. (10): The most important indicators

index	value
Total insurance premiums (2024)	About 61 billion Malaysian ringgit
annual rate of growth	7–9%
number of insurance companies	18 companies
Share of the global Takaful market	20%
Number of participants	More than 20 million documents
Default rate (NPL/NPF) in Islamic banks	1.4–1.7%
The impact of solidarity on credit risk management	Lower provisions and improved asset quality thanks to the link between finance and mutual aid.

Table No. (11): The largest Takaful companies

nature of the activity	company
One of the largest Takaful operators in Malaysia; Family and public Takaful	Etiqa Takaful
One of the oldest and largest Takaful companies	Syarikat Takaful Malaysia
A pioneer in family solidarity and protection	Prudential BSN Takaful
Family and investment solidarity products	Great Eastern Takaful
Family and public solidarity	Hong Leong MSIG Takaful

4-United Arab Emirates: The UAE is one of the most important Takaful markets in the Gulf region. It is characterized by the presence of independent Takaful companies alongside traditional insurance companies with Islamic windows. It is considered the fastest growing market in Takaful insurance, especially in life and health insurance.

The most important indicators and mutual/covalent insurance companies

Table No. (12): The most important indicators

index	value
Total insurance premiums (2024)	About 6.5 billion UAE dirhams
annual rate of growth	9–11%
number of insurance companies	12 companies
Share of the global Takaful market	18%
Default rate (NPL/NPF) in Islamic banks	2.5–3.0%
The impact of solidarity on credit risk management	Covering real estate and corporate financing reduces expected credit losses.

Table No. (13): The largest Takaful companies

nature of the activity	company
One of the oldest solidarity companies in the world; General and family solidarity	Salama Islamic Arab Insurance Company
Family and health solidarity	Takaful Emarat
Public and commercial solidarity	Abu Dhabi National Takaful

Various symbiotic products	Noor Takaful
General solidarity	Watania Takaful

(ifti-sd.org)

5-Indonesia: is one of the fastest growing markets due to its large Muslim population, and its Takaful sector is witnessing rapid growth with government and regulatory support. It includes independent Takaful companies and Takaful windows affiliated with major insurance companies (Financial Statements of Financial Sector SBP , 2020)

The most important indicators and mutual/covalent insurance companies

Table No. (14): The most important indicators

index	value
Total insurance premiums (2024)	About 47 trillion Indonesian rupiah
annual rate of growth	12–15%
number of insurance companies	60 companies (including Islamic windows)
Share of the global Takaful market	8%
Default rate (NPL/NPF) in Islamic banks	2.0–2.5%
The impact of solidarity on credit risk management	Increasing use of symbiosis in microfinance and individual finance, with improving portfolio quality

Table No. (15): The largest Takaful companies

nature of the activity	company
One of the first family solidarity companies in Indonesia	Asuransi Takaful Keluarga
General solidarity	Asuransi Takaful Umum
Family solidarity and protection	Prudential Syariah Indonesia
Life Solidarity Products	Allianz Life Syariah Indonesia
General and family solidarity	Zurich Syariah Indonesia

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□**Conclusion:** This study concluded that Takaful insurance represents an insurance model compatible with the provisions of Islamic Sharia, based on the principles of cooperation, solidarity and risk sharing, making it an effective alternative to commercial insurance. The study showed that the development of this industry in many Islamic countries reflects growing confidence in it, despite the persistence of some regulatory and operational challenges. She also stressed that Takaful insurance plays a pivotal role in managing credit risks in Islamic banks by reducing the risk of default, enhancing the quality of financing portfolios, and supporting financial stability. The Pakistani experience, along with some pioneering international experiences, has shown that the success of Takaful insurance is linked to the existence of a legislative and regulatory framework Integrated and effective Sharia bodies, which has contributed to the development of innovative insurance products that meet market needs and enhance the ability of Islamic banks to manage risks efficiently, supporting the stability of the financial sector and contributing to the development of the Islamic economy.

□ **Study results**: The study reached several results, including the following:

- Takaful insurance is one of the most important Islamic financial instruments based on cooperation and risk sharing, in order to achieve the objectives of Islamic law.
- The Takaful insurance sector is witnessing remarkable growth in many Islamic countries, with levels of development varying from one country to another.
- Takaful insurance contributes to enhancing credit risk management in Islamic banks, by providing protection for institutions and customers and reducing losses resulting from default.
- The Pakistani experience has proven that the success of Takaful insurance depends on the integration of legislation, the effectiveness of Sharia oversight, and the development of insurance products in line with market needs.
- There are still challenges facing the Takaful insurance industry, most notably weak insurance awareness, lack of specialized competencies, and different regulatory frameworks between countries.

Suggestions and recommendations:

- Strengthening and updating the legislation regulating the Takaful insurance sector to keep pace with global financial developments and maintain Sharia controls.
- Encouraging Islamic banks to expand the use of Takaful insurance products in credit risk management.
- Spreading awareness of the Takaful insurance culture through awareness programs, seminars, and academic and vocational training.
- Supporting innovation in designing Takaful insurance products to meet the needs of various economic sectors.
- Strengthening cooperation and exchanging experiences between Islamic countries to benefit from successful experiences, especially the Pakistani experience, in a way that contributes to developing the Takaful insurance industry and increasing its contribution to achieving financial stability and sustainable economic development.

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