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Development of the Takaful Insurance Market in Our Country with the Transformation of the Digital Economy

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Abstract: This article examines the development of the takaful insurance market in our country in the context of the transformation of the digital economy. The Takaful market is currently concentrated in Malaysia and the Middle East and is projected to grow significantly in the coming years. That is why liquid assets have a significant place in their operational activities, as well as being able to cover their obligations is one of the urgent issues. In this research work, we tried to model this relationship.

Keywords: financial statement, liquid assets, cash, insurance reserve, current liabilities, liquidity ratio, takoful, transformed non-linear model, share of insurance reserve.

Introduction

The global takaful insurance market was valued at $31.7 billion in 2022, and is projected to reach $126.8 billion by 2032, growing at a CAGR of 15.2% from 2023 to 2032. Takaful is a type of Islamic insurance in which a' players contribute money to the pool system to insure each other against loss or damage[1]. Takaful insurance is based on Sharia or Islamic religious law, which explains the obligations of individuals to cooperate and protect each other. Generally, takaful policies cover health, life and general insurance needs. Although takaful insurance has the concept of risk sharing model, it is mainly limited to Muslim countries. In addition, takaful insurance is the main form of insurance in most Muslim countries. Therefore, it is an important factor boosting the takaful insurance industry. Moreover, in takaful insurance, the investment profit is shared among the participants and the premium collected from the members is returned in case of no claims. Thus, this is one of the major factors driving the growth of the takaful insurance market. In addition, takaful adheres to Shariah rules that limit certain financial practices such as interest (riba) and uncertainty (garar) by operating on the basis of mutual assistance, shared responsibility and ethical investment. Policyholders participate in the gains and losses of the Takaful Fund with the intention of insuring in accordance with Islamic ethical and financial norms[2].

The growth in demand for takaful insurance across the Muslim-majority is an important driver for the expansion of takaful insurance. A growing middle class and strong economic growth have been observed in several Muslim-majority countries. As people's financial situation improves, they are more interested in using insurance to protect their assets and well-being, and Takaful offers a Shariah-compliant choice. Moreover, the distribution of investment profits between the two participants drives the takaful insurance market. However, lack of standardization in takaful insurance due to regional difference is hampering takaful insurance market. Takaful operations and products may differ from one country or region to another due to differences in regulatory structures, Shariah boards and practices. This lack of uniformity makes it difficult for takaful operators to operate internationally and hinders the growth of a unified Global Takaful market [3]. Moreover, consumer awareness is the major factors hindering the growth of the takaful insurance market. Conversely, the untapped market potential for takaful insurance creates a significant opportunity for the takaful insurance market. Although Takaful has seen significant growth in Muslim-majority countries, there is still a large population worldwide, including Muslims living in non-Muslim countries, who are underserved or not covered by Takaful products[4]. This unexplored market includes Muslim populations including Southeast Asia, Africa and parts of Europe and North America, where awareness and demand for Shariah-compliant financial products is increasing. Thus, it is expected to provide great profitable opportunities for the growth of the takaful insurance market forecast[5]. The report analyzes the regimes of the main players operating in the takaful insurance market such as Abu Dhabi National Takaful Co., Allianz, AMAN Insurance, Islamic Insurance, Prudential BSN Takaful Berhad, Qatar Islamic Insurance, SALAMA Islamic Arab Insurance Company, Syarikat Takaful Brunei Darussalam, Takaful International, and Zurich Malaysia. These players have adopted various strategies to increase their market penetration and strengthen their position in terms of takaful insurance market. The COVID-19 pandemic has had a moderate impact on the takaful insurance market[6]. On the one hand, the pandemic has raised awareness of the value of insurance, including takaful, as people and companies seek financial security against health and economic challenges. This has increased interest in some takaful products, particularly health and life insurance. The Takaful insurance market is segmented by type, distribution, application and region. Depending on the type, it is divided into family takaful and general takaful. By distribution, the market is divided into agents and brokers, banks, direct response, and others. On the basis of application it is divided into personal and commercial. By region, it is analyzed across GCC, MEA, Asia and Global[7].

Based on type, the general takaful segment will achieve the highest market share in takaful insurance in 2022. This can be attributed to the fact that general takaful offers comprehensive life insurance including liability, property, motor and travel insurance. These are important insurance categories that are frequently demanded in many countries and provide a stable and significant demand for general Takaful products. Meanwhile, the family takaful segment is estimated to be the fastest growing segment during the forecast period. It is associated with family takaful products that aim to provide financial security and savings to consumers, and are strongly aligned with the beliefs and priorities of people and households in Muslim majority and other markets. These products encourage long-term savings and wealth growth while providing families with financial security in the event of unexpected events such as illness, incapacity or death. As a result, these products provide peace of mind[8].

On the basis of region, Gulf Corporation Council achieved the highest market share in 2022 and emerged as the leading region in the takaful insurance market. This is due to the fact that the GCC region is a hub for Islamic finance, with a strong focus on Shariah-compliant financial products and services. Takaful insurance follows Islamic principles and is a natural fit for this market. On the other hand, Asia region is estimated to be the fastest growing region for takaful insurance market during the forecast period. This growth is due to the presence of large Muslim populations in the Asian region, including Indonesia, Malaysia, Bangladesh, Pakistan and a number of other countries[9]. This large Muslim demographic is creating a huge demand for Sharia-compliant financial products, including Takaful insurance. The report analyzes the regimes of the main players operating in the Takaful insurance market such as Abu Dhabi National Takaful Co., Allianz, AMAN Insurance, Islamic Insurance urta, Prudential BSN Takaful Berhad, Qatar Islamic Insurance, SALAMA Islamic Arab Insurance Company, Syarikat Takaful Brunei Darussalam, Takaful International, and Zurich Malaysia[10]. These players adopt different strategies to increase market penetration and strengthen their position in takaful insurance market share.

LITERATURE REVIEW

Solvency of insurance organizations is closely related to their liquidity indicators. According to L. Agarkova, liquidity analysis is necessary to determine the company's ability to cover existing insurance obligations and improve asset management [11]. Also, according to the research conducted by E. Perotti and J. Suarez, it is possible to protect the economy from systemic crisis in the liquidity and capital insurance system. The insurance system can be adapted to the specific needs of the economy, taking into account the size and complexity of the financial system [12]. According to A. Nizametdinov, asset placement of insurance organizations should be carried out based on the principles of liquidity, return, profitability and diversification [13]. From this point of view, the importance of the issue of liquidity of insurance companies becomes more evident. In addition, according to H.H. Liu, who studied the issue of liquidity, insurers with high liquidity buy more reinsurance, and those with high dependence on reinsurance tend to maintain high liquidity. However, there is an inverse parabolic relationship between reinsurance and liquidity, i.e. in the form of an inverted U [14]. According to research conducted by Wemmer and Dieter, by securitizing the liabilities of insurance companies, it opens the door to a large capital market with lower credit risk exposure for many years. However, it is difficult to transfer insurance risks to capital markets due to insufficient data and expensive modeling of this process [15]. According to the research of Sodikova and Abdurasulov, it is possible to reduce risks by organizing hedging correctly, and as a result, it is possible to have a positive effect on liquidity [16]. In addition, another study notes that among the problems that takoful companies may face is the lack of specific standards in their financial statements, which in turn may create regulatory difficulties in maintaining liquidity.

RESEARCH METHODOLGY

The Takaful market is currently concentrated in Malaysia and the Middle East and is set to experience significant growth in the coming years. There are currently more than 130 takaful companies operating worldwide, of which about 50% are located in the gcc countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE. The adoption and penetration of takaful insurance in these countries is increasing compared to the traditional insurance market in the region. In addition, the world's 1.5 billion Muslims represent a potential customer base for takaful insurance. In fact, according to Standard & Poor's Islamic Finance Outlook, 60% of the global Muslim population is under the age of 25. Therefore, this young population is becoming a large target segment as it has the potential to be a customer base to be retained for 40 years or more. Thus, these factors present a profitable opportunity for takaful insurance in the coming years[17].

There is a significant regional difference in consumer’s attitudes and tolerance toward takaful insurance, which makes it difficult to standardize the process of takaful. For example, Malaysia is perceived to be more liberal and willing to adopt modern conventional concepts within the takaful framework. In contrast, the approach in the Middle East countries is more conservative, with less willingness to embrace modern conventions. Furthermore, customers and potential participants may be confused by regional variations in Takaful practices and frameworks. Due to their difficulty in comprehending the differences in products and operations, this complexity may discourage people and companies from implementing Takaful insurance. In addition, lack of uniformity may prevent Takaful operators from extending their businesses internationally. It can be resource-intensive to adjust to various operational and legal frameworks in each location, which may deter market participants from pursuing global expansion prospects. Furthermore, Standardization frequently enables economies of scale, which may result in cost savings. Takaful operators may not be able to achieve these economies due to inconsistent practices, which could lead to greater operating costs that are then passed on to policyholders in the form of increased premiums[18]. Therefore, the lack of standardization in Takaful insurance practices, often attributed to regional differences and varying interpretations of Islamic principles, can indeed hamper the growth of the Takaful insurance market size. In the survey, the companies revealed challenges in adopting sustainability standards in investment operations[19]:

Limited investment opportunities that are classified as compliant with ESG/sustainability;

Finding the right balance in such difficult global market conditions to continue providing;

shareholder value and to meet financial expectations;

Lack of publicly available measurable information to help differentiate investment;

channels, based on an assessment of their ESG achievements;
The profitability status does not encourage company to explore in ESG/sustainability.

1-Tabel

Takaful Insurance Market Report Highlights

Aspects	Details
Market Size By 2032	126.8 billion US dollars
Growth Rate	CAGR% of 15.2
Forecast period	2022 - 2032
Report Pages	364
By Application	Private Commerce
By type	Family Takaful General Takaful
By Distribution Channel	Agents and brokers Banks Direct Response Others
By regions	Gcc (Saudi Arabia, UAE, Bahrain, Kuwait, Qatar, Oman) Asia-Pacific (Malaysia, Pakistan, Indonesia, Brunei, Rest of Asia) Middle East and Africa (Iran, Jordan, Sudan, Egypt, Nigeria, Middle East and Rest of Africa) The rest of me (Turkey, Sri Lanka)
Major Market Players	Syarikat Takaful Brunei Darussalam, Islamic Insurance, Zurich Malaysia, Abu Dhabi National Takaful Co., Takaful International, Prudential BSN Takaful Berhad, Qatar Islamic Insurance, AMAN Insurance, SALAMA Islamic Arab Insurance Company, Allianz

ANALYSIS AND RESULTS

This report provides a quantitative analysis of market segments, current trends, estimates and dynamics of takaful insurance market analysis from 2022 to 2032 to identify outstanding takaful insurance market opportunities. Market research is provided along with information related to key drivers, restraints, and opportunities[20]. Porter's five forces analysis highlights opportunities for buyers and suppliers to make business decisions focused on benefiting stakeholders and strengthen the supplier-buyer network. An in-depth analysis of the Takaful insurance market segmentation helps identify existing market opportunities. The major countries in each region are mapped based on their revenue contribution to the global market. The location of the market players facilitates benchmarking and provides a clear understanding of the current state of the market participants[21]. The report provides an analysis of regional and global takaful insurance market trends, key players, market segments, application areas, and market growth strategies.

In the same year, the UAE insurance market included 12 national Takaful insurance companies; the remainder operate as conventional insurance firms. These 12 companies are fully-fledged Takaful firms; it is not allowed to carry out Takaful insurance operations through an Islamic windows within a conventional insurance company. It is worth noting that the number of Takaful insurance companies could decline in 2022, due to ongoing merger and acquisition activities[22].

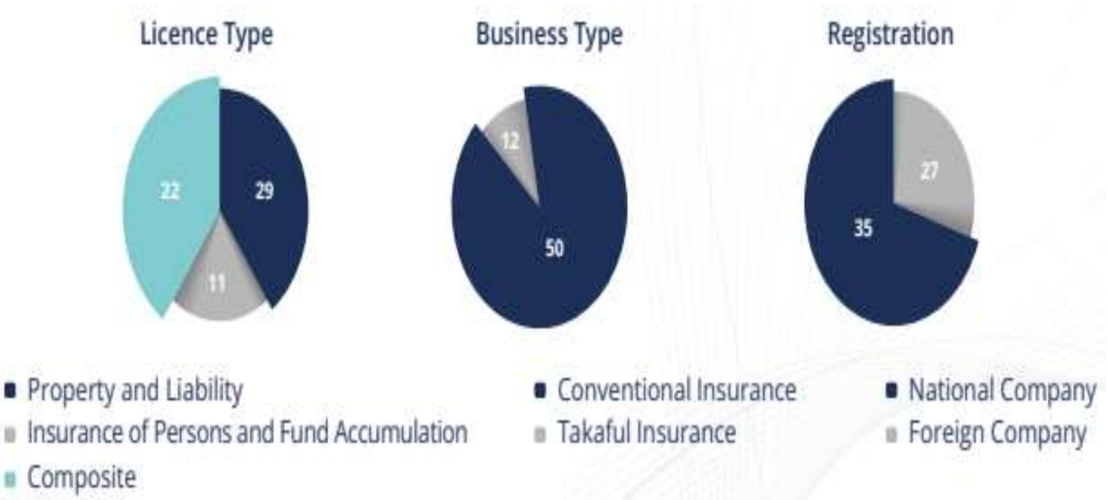

Chart 1: Classification of Insurance Companies in the UAE

Chart 2: Gross Written Contributions by Types of Business

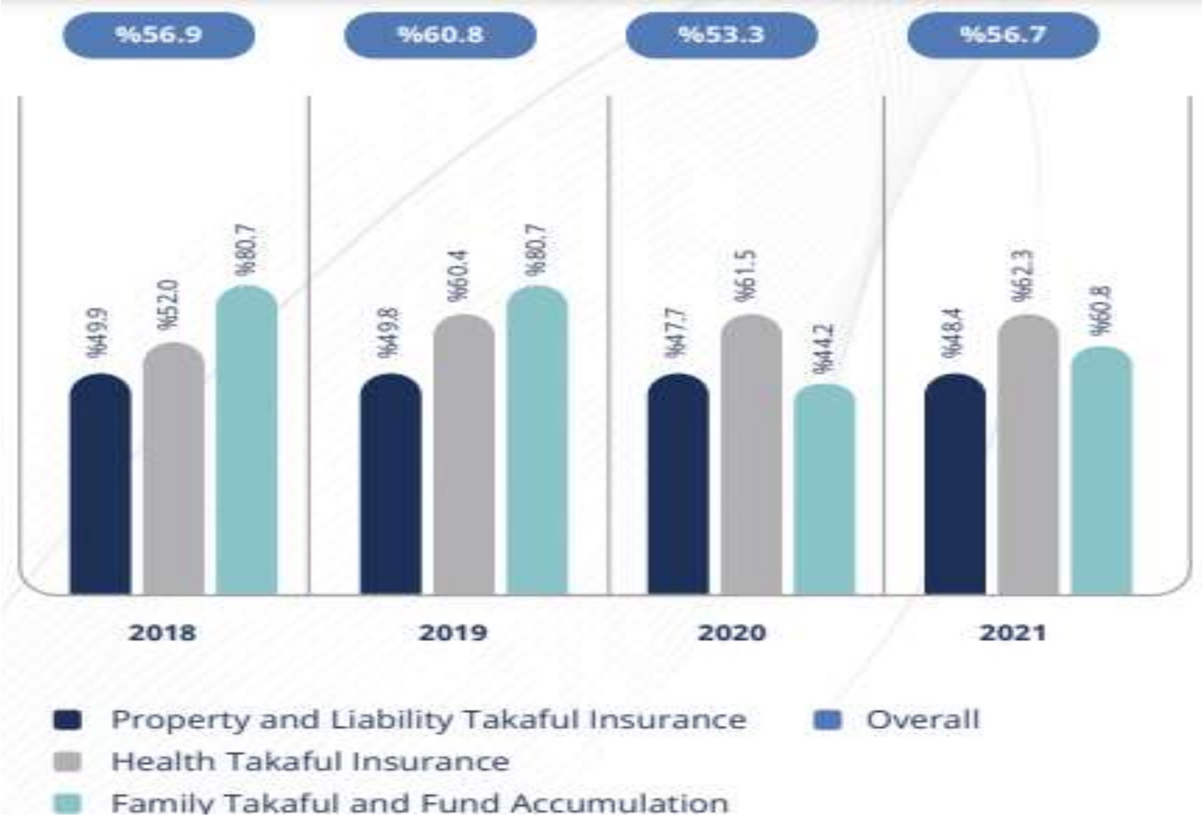

Chart 3: Contributions Retention Ratio by Types of Business

The total Gross Claims Paid (GCP) raised slightly by 0.9 percent, reaching AED 2.54 billion in 2021 compared to AED 2.52 billion in 2020. Similarly, Total Net Claims Paid (NCP) increased by 4.9 percent from AED 1.30 billion in 2020, compared to AED 1.36 billion in 2021 (Chart 2). The claims paid for health Takaful insurance were the highest over this period. The GCP recorded 62.3% and NCP recorded 64.3% of overall Takaful types of business in 2021, while the lowest GCP and the NCP were for family Takaful and fund accumulation (Chart 2,3) [23].

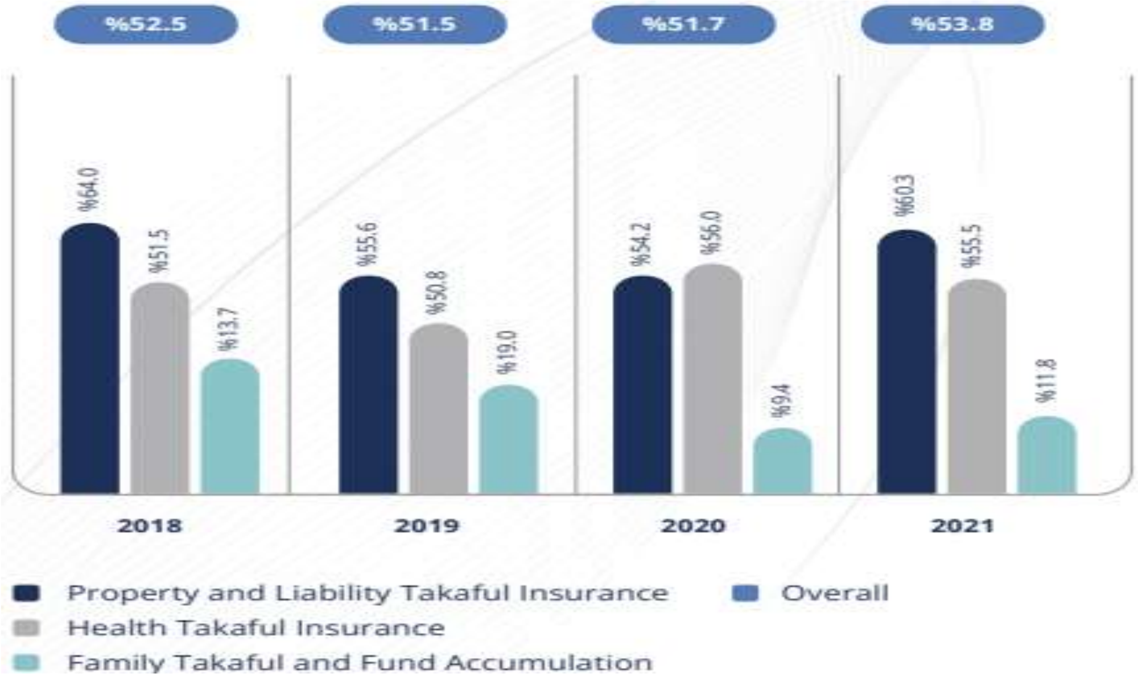

Chart 4: Share of the Takaful Companies in Paid Claims on Net Basis

The share of the Takaful insurance companies in paid claims varied according to business type between 2018-2021. In 2021, paid claims were the highest in property and liability business type, and the lowest for family Takaful and fund accumulation among the three types (Chart 4). In January 2017, the UAE government formed the UAE's National Committee on Sustainable Development Goals (SDGs). Its responsibility is to implement the Global Goals, and monitor and report on progress towards the set targets. Since then, public and private institutions have started to integrate sustainability and Environmental, Social, and Governance (ESG) criteria in their operations. Takaful insurance companies play a role in contributing to the UAE's agenda. Takaful insurance companies have adopted sustainable workplace practices through recycling electronic waste, conserving energy, using paperless processes, raising environmental awareness among employees, and other initiatives. While a sustainable workplace is important, this part focuses on integrating sustainability ESG in the core Takaful businesses, mainly underwriting and investment.

CONCLUSION

Under the Takaful contract, all parties or policy holders guarantee each other and instead of paying insurance premiums, they contribute to a "pool" or mutual fund. The sum of the collected contributions constitutes the Takaful fund. Each participant's contribution depends on the type of insurance coverage they require and the conditions. A takaful contract specifies the nature of the risk and the period of coverage, just like a regular insurance policy.

A takaful fund is managed by an operator on behalf of members and receives an agreed fee to cover expenses. As with a traditional insurance company, costs include sales and marketing, underwriting and claims management.

Any claims made by the members are paid out of the Takaful fund, and any surplus after making provisions for the probable value of future claims and other reserves belongs to the fund members and not to the Takaful operator. These funds can be distributed to participants in the form of cash dividends, distributions or by reducing future contributions.Financial resources for implementation of Islamic finance in our country it is important to create additional sources of attraction. From this point of view, this tízím is for íqtísodíyotímíz taking into account the new system that has not been studied in depth, we consider it appropriate to start the implementation of Islamic finance in Uzbekistan with the creation of its institutional foundations. In particular:

- to activate and improve the system of personnel training, including higher education and post-higher education, specializing in Islamic finance;

- Uzbekistan with the participation of higher education and scientific research institutions specializing in Islamic economics, representatives of state organizations of the economic and financial bloc and other specialists in the field

to create a national working group for the development of the principles and concepts of Islamic finance;

- the introduction of Islamic finance in addition to the existing financial system developing and approving drafts of relevant regulatory and legal documents in accordance with the procedure established by law;

Institutional foundations of the Islamic financial system for the economy and Accounting and auditing for the Islamic Development Bank and Islamic financial institutions for the purpose of infrastructure formation holding discussions with the organization and studying their practical experiences gives a great impetus to increase work efficiency. As part of integration of the national strategy into the global financial services sector, the following reforms are planned in the upcoming years:

- increase the covering of basic financial services by expanding the service points of banks, introducing alternative ways of providing banking services, and creating a network of banking agents;

- development of digital financial services through the building of favorable circumstances for the entry of new fintech companies in the market, the establishment of a system of remote identification, the modernizing of the national payment system;

- expansion of financing of small businesses through the improvement of various financial instruments to finance projects of entrepreneurs and the development of non-bank credit institutions;

- strengthening the rights protection of consumers of financial services by ensuring openness and information transparency on financial services and products, introducing effective mechanisms for resolving complaints and disputes;

- increasing the financial literacy of the total population and entrepreneurs through the media, the introducing of the program "Financial Literacy" in secondary schools and non-economic educational institutions, besides the improvement of training programs to increase financial literacy.

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