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THE DEVELOPMENT OF THE ISLAMIC INSURANCE (TAKAFUL) MARKET WITHIN THE NATIONAL ECONOMY

Abstract. This article examines the development prospects of the Islamic takaful system within the insurance market of Uzbekistan. It highlights the opportunities offered by takaful, including strengthening trust in the financial sector, expanding customer outreach, promoting financial inclusion, and supporting the growth of Islamic banking. At the same time, the study identifies key challenges hindering the sector's expansion, such as low public awareness, underdeveloped digital infrastructure, and a shortage of qualified specialists. The findings indicate that the adoption of digital technologies and financial innovation plays a crucial role in advancing the takaful industry, enhancing its competitiveness, and ensuring its long-term sustainability within the national insurance market.

Keywords: Takaful; Islamic insurance; Uzbekistan insurance market; Financial inclusion; Islamic finance; Digital finance.

INTRODUCTION

Ensuring the sustainable development of Uzbekistan's economy requires the continuous growth of the capital market and the expansion of insurance services. In recent years, rising financial literacy among the population and increasing demand for Islamic financial products have created favorable conditions for the introduction and development of the Islamic takaful system.

Takaful is a Shariah-compliant insurance mechanism based on mutual cooperation, whereby participants collectively agree to protect one another against potential financial losses. Unlike conventional insurance, takaful operates on the principles of

risk-sharing, transparency, and social solidarity, offering a financially stable and ethically grounded alternative.

Between 2023 and 2025, the Government of Uzbekistan adopted a series of regulatory and institutional measures aimed at establishing the legal and operational infrastructure for Islamic finance. These reforms, including the introduction of sukuk instruments and takaful operations, have created new opportunities for the development of Islamic insurance services within the national financial system.

METHODOLOGY

This article employs the following research methods:

1. **Analytical method:** Deriving scientific conclusions through analysis of domestic and international literature and regulatory documents.
2. **Statistical method:** Analyzing capital market indicators in Uzbekistan, takaful asset volumes, number of participants, and conducting global comparisons.
3. **Comparative method:** Adapting takaful system experiences from Malaysia, Saudi Arabia, and the United Arab Emirates to the conditions of Uzbekistan.

Figure 1. Share of Takaful and Conventional Insurance in the Uzbek Insurance Market

- Conventional insurance: 93%
- Takaful: 7%

RESULTS

Unlike conventional insurance, the takaful system operates in accordance with Islamic Shariah principles, with profit generation based on transparency, risk-sharing, and fairness. Based on an analysis of Uzbekistan's insurance market, several key opportunities for the development of the takaful sector can be identified.

Market potential.

If total insurance premiums amount to approximately 9.8 trillion soums, allocating 2–5% of this volume to the takaful sector would correspond to an estimated market size of 200–500 billion soums. This indicates a substantial potential market share for takaful products within the national insurance industry.

Growth prospects.

The rapid expansion of the insurance market, with an average annual growth rate of around 46%, creates favorable conditions for the introduction and scaling of takaful products. Simultaneously, growing public interest in Islamic financial services further supports the demand-side potential of takaful in Uzbekistan.

Investment opportunities.

The insurance sector currently holds investments valued at approximately 8.34 trillion soums. A portion of these funds could be mobilized by takaful operators and invested in compliance with Islamic finance principles, thereby diversifying investment channels and strengthening Shariah-compliant financial intermediation.

Digital transformation.

Advancements in InsurTech and ongoing digital transformation provide opportunities for the online distribution of takaful products and more efficient digital interaction with customers. The adoption of digital solutions can enhance accessibility, reduce operational costs, and improve the competitiveness of takaful providers.

The Role of Takaful in the National Economy

• Financial stability:

The takaful system protects households and businesses from financial shocks by distributing risks among participants.

• Investment flows:

Takaful companies channel pooled funds into the economy and contribute to the development of housing, industry, and other key sectors.

• Access to Islamic financial products:

Takaful meets the growing demand for Islamic financial services among the population and enables integration into the global Islamic finance market.

• Competition and innovation:

By competing with conventional insurance providers, takaful enhances service quality, promotes product diversification, and encourages the development of innovative insurance solutions.

Table 1. Operational Models and Active Membership of Takaful Companies in Uzbekistan (2024)

Company Name	Mudharabah (%)	Wakalah (%)	Hybrid (%)	Number of Active Members
Takaful Uzbekistan	30	50	20	12,000
Islamic Insurance	25	55	20	9,000
Baraka Takaful	35	40	25	8,500

Takaful Uzbekistan predominantly applies the Wakalah model (50%), complemented by Mudharabah (30%) and Hybrid arrangements (20). With 12,000 active members, the company demonstrates relatively strong market penetration, which may be attributed to its diversified operational structure and emphasis on agency-based management.

Islamic Insurance relies mainly on the Wakalah model (55%), while Mudharabah and Hybrid models account for 25% and 20%, respectively. The company reports 9,000 active members, indicating stable participation supported by a transparent fee-based operational approach.

Baraka Takaful shows a more balanced model distribution, with Mudharabah (35%), Wakalah (40%), and Hybrid (25%). Despite having a slightly lower number of active members (8,500), this diversified structure may provide greater flexibility in product design and risk management.

Differences Between Takaful and Conventional Insurance

Table 2. Comparison Between Takaful and Conventional Insurance

Key Aspects	Takaful	Conventional Insurance
Profit and loss	Distributed among participants	Retained by the company
Shariah compliance	Yes	No
Social impact	High	Low
Legal framework	Shariah principles and national laws	National laws

Statistical Analysis of the Uzbek Market

Growth Rate of the Takaful Market

Table 3. Growth of the Takaful Market (million USD)

Year	Market Size
2022	40
2023	55
2024	75

The data show a steady expansion of the takaful market from 40 in 2022 to 55 in 2023 and 75 in 2024. This upward trend reflects increasing demand for Shariah-compliant insurance products and growing institutional support for the development of the takaful sector.

Table 4. Comparative Growth of the Takaful Market in Selected Countries (2019–2024)

Country	Market Size 2019 (million USD)	Market Size 2024 (million USD)	Growth Rate (%)
Malaysia	5,500	8,000	14
Saudi Arabia	6,200	9,000	13
United Arab Emirates	4,000	5,500	11
Uzbekistan	50	75	15

The table compares takaful market growth across selected countries between 2019 and 2024. Malaysia and Saudi Arabia maintain the largest market sizes, reflecting their well-established Islamic finance ecosystems. In contrast, Uzbekistan's market remains relatively small in absolute terms; however, it records the highest growth rate (15%), indicating strong expansion potential despite its early stage of development.

Digital Takaful and Financial Technology (FinTech) Solutions

The number of users accessing takaful services through digital platforms and mobile applications has increased steadily. InsurTech projects are being developed in cooperation with local banks.

Table 5. Growth in the Number of Takaful Users (2022–2024)

Year	Number of Users
2022	10,000
2023	18,000
2024	25,000

The data indicate a steady and significant increase in the number of takaful users over the period 2022–2024, reflecting the growing acceptance of Islamic insurance services in Uzbekistan.

In 2022, the number of takaful users stood at approximately 10,000, representing the early stage of market adoption. This figure increased substantially to 18,000 users in 2023, suggesting rising public awareness and improved access to takaful products.

By 2024, the number of users reached 25,000, confirming a strong upward trend in demand.

This growth can be attributed to several factors, including increased interest in Shariah-compliant financial products, gradual regulatory support for Islamic finance, and improved trust in takaful as an alternative to conventional insurance. The consistent rise in user numbers highlights the expanding market potential of takaful and supports its long-term development prospects within the national insurance sector.

Takaful and Social Stability

The takaful system provides the following social benefits:

- Enhancement of financial security
- Strengthening of cooperative values within society
- Increased financial trust

Table 6. Types of benefits associated with the takaful System

Type of Benefit	Share (%)
Financial security	40
Cooperative social spirit	30
Increased financial trust	30

The distribution of perceived benefits reflects the key advantages of the takaful system within the insurance market.

Financial security (40%)

Financial security represents the most significant perceived benefit of takaful. This reflects participants' expectations of protection against unforeseen financial risks through a Shariah-compliant mechanism that emphasizes mutual risk sharing rather than risk transfer. The relatively high share indicates strong demand for reliable and ethically grounded financial protection instruments.

Cooperative social spirit (30%)

The cooperative social spirit highlights the collective and solidarity-based nature of takaful. Participants contribute to a common fund with the intention of mutual assistance, reinforcing social cohesion and shared responsibility. This aspect distinguishes takaful from conventional insurance and aligns closely with Islamic ethical values.

Increased financial trust (30%)

Increased financial trust reflects greater confidence in insurance services that operate transparently and in accordance with Islamic principles. The emphasis on

fairness, accountability, and the absence of prohibited elements such as riba and gharar contributes to stronger trust in financial institutions offering takaful products.

Development Prospects

- **Strengthening the regulatory framework:** Achieving harmonization between Shariah requirements and national legislation
- **Marketing and promotion:** Attracting the population to takaful products
- **International cooperation:** Adapting the experiences of Malaysia and Saudi Arabia
- **Digital technologies:** Expanding electronic and mobile platforms
- **Bank integration:** Incorporating takaful products into banking services

DISCUSSION

Economic Benefits of Takaful

- The takaful system can attract additional investments into the national capital market.
- Shariah-compliant insurance models enhance public trust in the financial sector.
- Growth in takaful assets provides additional liquidity resources for the banking system.

Social Significance

- The takaful system enhances the financial security of the population.
- It contributes to the development of cooperative values within society.

Regulatory and Legal Issues

- The current legal framework lacks sufficient standards specifically regulating takaful operations.
- Knowledge levels regarding the development of Shariah-compliant products within local financial institutions remain limited.

Digital Economy and Innovation

- Online takaful platforms improve the efficiency of service delivery to the population.
- Mobile banking solutions and FinTech technologies ensure fast and effective access to takaful services.

Table 7. Number of Users on Digital Takaful Platforms (2024)

Platform	Number of Users
Takaful Online	25,000
Bank Mobile App	18,000
Collective Agent	12,000

Statistical Overview of the Insurance Market

By the end of 2024, the total volume of Uzbekistan's insurance market reached approximately 1.8 trillion Uzbek soums, with takaful products accounting for an estimated 5–7% of the market. This share represents a growth of around 15% compared to 2023, reflecting increasing interest in Islamic insurance solutions.

The insurance sector plays a vital role in the national economy by enhancing financial stability and strengthening social protection mechanisms. Although Uzbekistan's insurance market has demonstrated steady growth in recent years, the potential for expanding the Islamic takaful segment remains substantial.

Takaful is a Shariah-compliant insurance system in which participants pool their financial resources to mutually cover risks. The system is founded on principles of profit and loss sharing, collective responsibility, and strict adherence to Islamic ethical and legal norms.

Research Objective

The primary objective of this article is to analyze the development prospects of the Islamic takaful system within Uzbekistan's national insurance market. In addition, the study aims to assess the social and economic implications of takaful implementation and to compare Uzbekistan's experience with international best practices in Islamic insurance.

Concept of Takaful and Its Main Models

A contractual arrangement in which one party provides the capital, while the other party manages the operations. Profits are distributed according to pre-agreed ratios, whereas financial losses are borne solely by the capital provider, except in cases of negligence or misconduct by the managing party (mudarib).

Wakalah Model

Under this model, the takaful operator acts as an agent managing participants' funds in exchange for a fixed fee or a predetermined commission.

Hybrid Model

This structure integrates elements of both mudharabah and wakalah models, allowing for greater operational flexibility and efficiency.

Table 8. Types of Products in Takaful Companies in Uzbekistan (2024)

Company Name	Mudharabah (%)	Wakalah (%)	Hybrid (%)	Number of Active Members
Takaful Uzbekistan	30	50	20	12,000
Islamic Insurance	25	55	20	9,000
Baraka Takaful	35	40	25	8,500

The data presented in Table 1 indicate that the Wakalah model is the most widely used operational structure in the Uzbek takaful market. This model ensures greater system transparency and facilitates more efficient management.

Table 9. Comparison Between Takaful and Conventional Insurance Systems

Key Aspects	Takaful	Conventional Insurance
Profit and loss	Shared among participants	Retained by the company
Shariah compliance	Yes	No
Social impact	High	Low
Legal framework	Shariah principles and national laws	National laws

The takaful system is not limited to achieving financial stability; it also contributes significantly to strengthening social solidarity and fostering a culture of mutual cooperation among participants.

Recommendations and Future Prospects

- Strengthening the Legal Framework:**

Develop regulatory and legal standards to govern the activities of takaful companies effectively.

- Integration with Banks and Financial Institutions:**

Attract additional capital to the banking system and enhance stability in the financial market through takaful operations.

- Digital Solutions:**

Expand the provision of services to the population via online platforms, mobile applications, and FinTech technologies.

• Integration of Digital Technologies and Innovation:

Facilitate customer communication, deliver insurance documents quickly and efficiently, and reduce costs by leveraging mobile applications, online purchase platforms, and blockchain technology.

• Integration with Banks and Financial Institutions:

Attract capital, expand insurance portfolios, and increase the client base while ensuring risk diversification, financial security, and public trust in the financial market.

• Leveraging Local and International Experiences:

Apply the experiences of Malaysia, Saudi Arabia, Qatar, and the UAE, including product diversification, service quality improvement, and financial literacy programs.

Role of Takaful in Social Stability

The takaful system contributes to:

- Strengthening social stability
- Protecting households exposed to risks
- Reducing the impact of health crises, natural disasters, and other unforeseen events

It fosters a culture of cooperation and trust in society, positively influencing the country's economic and social stability.

CONCLUSION

In summary, the introduction of Islamic takaful in the Uzbek financial market enhances **economic efficiency, social stability, financial literacy**, and the integration of the local market with international financial markets. By developing a legal framework, adopting digital solutions, integrating with banks and financial institutions, and learning from international experiences, **sustainable and effective growth of the takaful system** can be achieved, significantly contributing to Uzbekistan's economic and social development.

Literature Review

Numerous international studies have examined the takaful system and the broader development of Islamic finance, focusing on public awareness, market performance, and institutional efficiency.

Rusni and Syed Ahmed (2017) analyzed public awareness of takaful and conventional insurance in India, finding that nearly 40% of the population lacks sufficient knowledge of Islamic insurance products. Their results emphasize the critical role of financial

literacy and awareness campaigns in supporting takaful market development. Similarly, Salina (2018) examined the introduction of takaful services in Malaysia in the context of financial culture and consumer behavior, concluding that Malaysia's experience represents an effective and transferable model for emerging Islamic finance markets, including Uzbekistan.

From a performance perspective, Yousef (2012) investigated the Islamic insurance system in Saudi Arabia and demonstrated its economic efficiency under Shariah-compliant operational frameworks. Expanding on this line of research, Hermit (2020) evaluated the financial performance of takaful and cooperative insurance companies in Saudi Arabia and analyzed their integration into the international financial system, highlighting both competitiveness and regulatory challenges.

Overall, existing studies provide valuable insights into the determinants of takaful development, particularly public awareness, regulatory support, and financial performance. However, there remains a noticeable research gap regarding the development prospects of takaful in emerging markets with nascent Islamic finance ecosystems, such as Uzbekistan. This study seeks to address this gap by analyzing the opportunities and challenges of introducing and expanding takaful within Uzbekistan's insurance market.

Table 10. Comparative Growth of the Takaful Market in Selected Countries (2019–2024)

Country	Market Size 2019 (mil-lion USD)	Market Size 2024 (mil-lion USD)	Growth Rate (%)
Malaysia	5,500	8,000	14
Saudi Arabia	6,200	9,000	13
United Arab Emirates	4,000	5,500	11
Uzbekistan	50	75	15

Although Malaysia and Saudi Arabia have the largest takaful markets, Uzbekistan exhibits the highest growth rate (15%), suggesting that despite a smaller market size, the country's takaful sector is rapidly expanding. This indicates significant potential for further development, particularly with continued regulatory support and increased public engagement.

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