

The Historical Growth of Takaful Within Islamic Heritage

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ABSTRACT

The evolution of takaful, transitioning from traditional to contemporary practices has profoundly influenced throughout the Islamic civilization. Takaful as a protection system has undergone transformations in the context of globalization and technological advancements from its root in the Islamic principles of cooperation and mutual assistance. This paper investigates the growth of traditional takaful into contemporary models, while preserving the fundamental Islamic values. The traditional takaful emphasizes the principles of cooperation and trust, while the contemporary takaful incorporates more sophisticated technological elements and risk management strategies. The methodological approach involves a comprehensive review of existing literature on the historical development of takaful within the Islamic heritage. The findings provide practical guidance for takaful institutions in designing products and services that are not only competitive in the global market, but also aligned with Islamic principles. This will strengthen the role of takaful in promoting well-being of society and advancing Islamic civilization towards a more dynamic and relevant direction in the modern era.

Keywords: Takaful, takaful growth, traditional takaful, civilization

INTRODUCTION

Takaful which has deep historical roots in Islamic tradition basically grounded in mutual assistance, risk-sharing, and community cooperation. According to Ghani and Lambak (2018), mutual aid and solidarity were key elements of the social structure which can be traced back to the early Islamic civilization. Over 1,400 years ago, back to the time of Prophet Muhammad, this principle emphasizes helping one another and sharing risks (Hafiz, 2019). In pre-modern times, Muslim communities often relied on informal networks of mutual support, where individuals pooled resources to assist those in need during times of hardship or crisis (Ghani & Lambak, 2018; Nazir & Noor, 2018). This practice, known as *ta'awun*, where participants contribute to a collective fund that provides financial assistance to one another (Abdullah, 2018). *Ta'awun* laid the groundwork for the takaful model.

Business activities have become more intertwined with the daily needs of people due to globalization and the growing complexity of socio-economic systems. As a result, takaful can be seen as a modern adaptation of the principles of *zakat* and *waqf*. According to Hasan (2020), takaful exemplifies the collectivist ethos promoted by Islamic philosophy where it is rooted in unity and cooperation. Today, takaful has been fully commercialized and plays a significant role in the global financial market. Its resurgence and institutionalization in the modern era reflect the desire to create an Islamic alternative to conventional insurance, which is often seen as incompatible with Islamic prohibitions on *riba* (interest) and *gharar* (uncertainty). The earliest known takaful operations can be traced back to the 1970s, when the first takaful company was established in Sudan. Since then, takaful has experienced significant growth, particularly in the

Middle East and Southeast Asia, where it has become an integral part of the Islamic financial landscape (Alshammari, Altwijry & Abdul-Wahab, 2024).

Accounting and Auditing Organization for Islamic Financial Institution standards have defined takaful as "a system through which the participants donate part or all of their contributions which are used to pay claims for damages suffered by some of the participants." The Islamic Financial Services Board has further defined Takaful as "the Islamic counterpart of conventional insurance, and exists in both life and general forms, whereby it is based on the concept of mutual solidarity, and a typical takaful undertaking will consist of a two-tier structure -hybrid of a mutual and a commercial form of company.

The growth of takaful has been driven by several factors, including the economic and behavioural factors (Ansari, 2022), increasing demand for Shari'ah-compliant financial products, the desire for greater financial inclusion, and the recognition of the social and ethical benefits of the takaful model (Nazir & Noor, 2018; Abdullah, 2018). Therefore, this paper aims to explore how the traditional takaful model evolved into contemporary takaful in line with the development of Islamic civilization.

LITERATURE REVIEW

The Emergence of Takaful

Arifin et al. (2013) of the view that the roots of takaful can be traced to the principles of mutual support and cooperative risk-sharing, which are deeply embedded in Islamic teachings. There are three core principles in takaful namely; mutual responsibility, cooperation, and the protection of each other from various hardships, tragedies, and disasters (Nazir & Noor, 2018). In the early Islamic period, the concept of solidarity and mutual aid was practiced through systems like "*aqilah*," where members of a tribe would contribute to support the families of those killed in battle. This tradition of mutual assistance and shared risk paved the way for the development of the takaful industry.

People have helped each other since the beginning of time. In the early days of Islam, merchants in Mecca established relief funds to pay compensation, among others, to victims of natural disasters that struck caravans carrying goods from one location to another (Atlas Magazine, 2024). During the time of Caliph Omar Ibn al-Khattab (634-644) the concept of Islamic cooperatives was born, with the establishment of funds dedicated primarily to helping the poor, compensating victims of various forms of damage and financing part of the state's affairs (Atlas Magazine, 2024). In early history, it is also said that risk management was more of an ad-hoc solution through collective contributions within the community, without a formal structure. In traditional societies, the concept of community assistance or "*ta'awun*" was used to overcome risks such as accidents or losses. Communities would collect contributions spontaneously or ad-hoc voluntarily from community members to help affected individuals. This model reflects the basic principles of solidarity and mutual aid, but does not have the formal structure seen in modern takaful.

The traditional takaful model is a financial protection system based on the principles of Sharia in Islam. It is designed to meet the ethical principles of Islam, unlike to what conventional insurance is. There are no involvement of *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling) in takaful. In fact, According to Ali (2016), it is based on the concepts of mutual assistance (*ta'awun*), mutual indemnity (*tadhamun*), and mutual protection and guarantee (takaful), all of which are then included in the concept of *tabarru'*. The principle of mutual assistance is derived from the verse of the Quran which means: "Help one another in *al-Birr* and in *al-Taqwa* (righteousness and piety): but do not help one another in sin and transgression." It is also supported by the hadith which states: "Allah always helps His servant as long as he helps others."

Thus, it can be concluded that the main concepts in traditional takaful are *tabarru'* contributions, risk sharing, no *riba* element, and being managed by a trusted operator.

Tabarru' Contribution

Takaful participants contribute a certain amount of money to the takaful pool voluntarily, known as the takaful fund (Nor Mukshar et al., 2023). This contribution is a form of assistance between participants to protect each other from financial risks. In the traditional takaful system, the contributions paid by participants are

considered donations or voluntary contributions to help other participants who suffer losses or misfortunes. This complies with the Islamic principle of solidarity and mutual assistance.

Helping each other in Risk Sharing

The risks are borne collectively by all participants. If one of the participants faces losses or misfortunes, the funds collected are used to compensate them, based on the principle of helping each other. This system requires a situation where a group of people work together among themselves to create a common resource for the purpose of mutual compensation (Muhammad Abdul Karim & Jamal, 2012; Ismail, 2012).

No *Riba*

The takaful model does not involve *riba* (Mohd Fauzi, 2016), because the benefits or profits obtained from the participants' contributions are not used for purposes that violate Shariah principles.

Fund Management

Takaful funds are managed by a trusted operator where the liability is on him to ensure that the funds are managed in a Shariah-compliant way.

Traditional takaful reflects the values of unity, transparency, and collective decision-making among its members. All participants work together to support one another and share risks, and they have a role in decision-making, particularly in determining how the funds are utilized and distributed.

The Growth of Takaful

The first takaful company established in Sudan in 1979 in the late 20th century denotes the birth of modern takaful industry. Since then, the takaful industry has witnessed remarkable growth, particularly in Southeast Asia, and Malaysia has emerged as a leading player (Arifin et al., 2013). Various factors contribute to the growth of takaful. Among others; the growing demand for Shariah-compliant financial products, increased awareness of the need for risk management and protection, and the overall growth of the Islamic finance sector. Rahman et al. (2019) mentioned that takaful's ability to promote financial inclusion and align with Islamic principles, have also contributed to its popularity.

With the progress of Islamic civilization, the modern takaful model has growth from the traditional system, adapting its core principles to meet the contemporary demands of the financial and protection sectors. This model incorporates new elements to enhance its effectiveness and flexibility without disregard to its rooted in Sharia principles.

As mentioned earlier, takaful system began in Sudan back in 1979. In the same year, the model was replicated in the United Arab Emirates with the Salama company, followed by Malaysia (1984), Saudi Arabia (1986) and other countries in the Middle East and Asia (Atlas Magazine, 2024). Today, various countries have accepted the phenomenon of takaful as an alternative insurance in several parts of the world. The Asian and African continents are historically the discussion of Sharia insurance that cannot be separated from the role of the views of Middle Eastern scholars such as from Egypt and Saudi Arabia (Alam et al., 2023). As looking into Malaysia context, Bernama (2024) reported that the Malaysian Takaful Association expects the *takaful* industry to maintain a steady momentum in 2024. While in Egypt, according to a report released by the country's regulator, the Financial Regulatory Authority (FRA), *takaful* contributions in Egypt jumped by 56.4% during Q1 2024 to reach EGP2.8 billion (\$747 million), compared to EGP1.8 billion during the corresponding period in 2023 (Putwain, 2024). Elsewhere, Abu Dhabi National Takaful Company (ADNTC) recorded a significant improvement from 4% in 2022 to 22% return on equity in 2023 as reported by Fitch (Putwain, 2024).

The key distinguishing characteristic of takaful is the concept of *tabarru'*, where one person voluntarily contributes to another during their lifetime without expecting any return. This act leads to the transfer of ownership of the contribution from the donor to the recipient.

Operational Structure

Currently we can see that the modern takaful model has evolved into a structured industry with a variety of products that meet the needs of contemporary society. It is not surprising as it is aligned with technological advancements and a deeper understanding of the principles of Islamic finance. Various modern takaful products offered by takaful operators which include family takaful, health takaful, and education takaful - indeed provide financial and social protection to participants. This extends the benefits of takaful in the context of daily life. Family takaful, for example, focuses on life protection and financial benefits for families, such as protection against death, disability, and critical illness (Nor Mukhsar et al., 2023). While General Takaful covers protection for other assets and risks, such as vehicle, property, and liability protection, which are in addition to the benefits of family takaful (Islamic Financial Services Act, 2013)

Management Model

Modern takaful also differs from a management perspective. The *Wakalah* Model and the *Mudharabah* Model have been applied in takaful management (Nor Mukhsar et al., 2023). Through the *Wakalah* Model, takaful operators act as agents or representatives who manage takaful funds and operations. They are paid commissions or management fees from participants' contributions. This model allows operators to focus more on fund management and growth. In 1984, the world's and Malaysia's first Takaful Act was established to ensure the smooth implementation and management of takaful in Malaysia (Nor Mukhsar et al., 2023).

Meanwhile, through the *Mudharabah* Model, takaful operators act as fund managers and share profits with participants based on an agreed ratio. This model provides incentives for operators to manage funds efficiently because they share in the profits generated.

A More Flexible Shariah Approach

Takaful fund management is increasingly being improved with investments that comply with Shariah-compliant principles, such as investments in stocks that are not involved in haram activities and in financial instruments that do not contain *riba*. In addition, participants can also receive dividends or bonuses based on fund performance and management decisions, which are given in addition to the established protection benefits. According to Bank Negara Malaysia (2023), profits can be distributed in the form of cash bonuses and/or dividends that are not guaranteed on a regular basis and/or upon termination, as determined by the takaful insurer.

Use of Technology

While the traditional takaful model was managed by a traditionally trusted operator, contemporary takaful is moving in step with technological developments. Contemporary takaful operators are using digital platforms to facilitate the registration, claims, and policy management processes. This facilitates access to takaful products and increases efficiency. For example, Syarikat Takaful Malaysia Keluarga Bhd (Takaful Malaysia) has launched KAOTIM, a new digital platform and brand that allows for online medical card subscriptions (Berita Harian, 2023). Advanced technology is used to analyse participant data and better assess risks, assist in determining pricing and designing more appropriate products.

In reality, contemporary takaful is seen as striving to meet modern needs without neglecting Shariah principles, providing a suitable alternative to conventional insurance and expanding access to Shariah-compliant financial protection.

METHODOLOGY

The methodology for this study involves a comprehensive review of existing literature on the historical development of takaful within the Islamic heritage. Specifically, the review process entailed searching through Google Scholar using appropriate keywords, with a focus on English-language documents published between 2010 and 2024. Among the criteria outlined in searching for articles are those that provided a comprehensive

understanding of the historical evolution, religious and socioeconomic implications, and key factors driving the growth of the takaful industry, particularly in the Islamic heritage. The review process incorporated a flexible approach, allowing for modifications to better suit the specific needs of this study.

RESULTS & DISCUSSION

There are several important findings on the history of takaful development in the Islamic heritage that can be withdrawn from the literature review. First, it is evident that the modern takaful industry has its roots in the late 20th century. Since then, the takaful industry has witnessed remarkable growth, particularly in Southeast Asia. Malaysia then has emerged as a leading player in this arena (Arifin et al., 2013). Upon the establishment of the first Islamic savings institution in 1963 and the first full-fledged Islamic bank in 1983, the Islamic finance industry in Malaysia has been a pioneer in the development of takaful (Puad et al., 2020). Malaysia's leadership in the non-banking financial services sector later has been strengthen following the introduction of the Takaful Act in 1984 (Puad et al., 2020). According to Fitch Ratings in their Takaful Dashboard 2024 report, General Takaful in Malaysia saw growth of 20.1% year-on-year in H1 2023 compared to 21.1% in 2022. This outpaced the non-life insurance growth of 3.2%. For Family Takaful, growth was steady in protection products – whilst the contributions were offset by a decline in investment-linked demand amidst market uncertainties (Putwain, 2024). This rapid growth reflects the prevailing demand among the Malaysian Muslim population for financial products that comply with Shariah principles, particularly in the areas of insurance and risk management (Putwain, 2024).

In Saudi Arabia, similar growth of *takaful* took place where a significant improvement from 4% in 2022 to 22% return on equity in 2023 was recorded by Abu Dhabi National Takaful Company (ADNTC) as reported by Fitch (Putwain, 2024). While in Egypt, the Financial Regulatory Authority (FRA) reported that *takaful* contributions in Egypt jumped by 56.4% during Q1 2024 to reach EGP2.8 billion (\$747 million), compared to EGP1.8 billion during the corresponding period in 2023 (Putwain, 2024).

In addition, the literature highlights the importance of Shariah compliance as a key challenge in the Islamic finance industry. To ensure the integrity of takaful operations, the review suggests that there is a need for a robust Shariah audit framework and mechanism. Furthermore, the review also suggests that factors such as attitudes, religiosity, and purchasing intentions of Muslim consumers in Malaysia have played a significant role in driving demand for family takaful products, which have played a significant role in the growth and development of the overall takaful industry in the country (Arifin et al., 2013; Puad et al., 2020; Ghani & Lambak, 2018).

There is no doubt that Islamic civilization in the contemporary economic context could be strengthened through takaful, as a Shariah-compliant financial protection system. Among the Islamic principles that are strengthened in the contemporary economic context are justice and equality, the elimination of usury and *gharar*, and the distribution of wealth.

Justice and Equality

Principles of justice and equality which are the foundation of Islamic civilization has been the foundation or the basis for Takaful. The ethical structure of takaful functions as an offshoot of the principles of justice and burden-sharing among each other (Swartz & Coetzer, 2010). This system guarantee that each participant will receive protection and benefits equally based on their contributions. In takaful, all participants help each other without any element of exploitation. This will extend protection to less fortunate members of society. This is under the principle of *tabarru'* (voluntary contributions).

Elimination of *Riba* and *Gharar*

Riba (interest) and *gharar* (uncertainty) often found in conventional insurance systems, but in takaful, these two elements are absent. This is because Islamic principle prohibit unfair or speculative transactions. Thus, takaful has contributed to economic development by providing Sharia-compliant financial products and encouraging investment in projects that benefit society.

Wealth Distribution

Participants in takaful possess equal and fair chances or opportunity in wealth distribution. In the event of a disaster, a sense of solidarity within the community will increased as the funds collected will be used to help those in need. Takaful reduces the risk burden on individuals and families, which ultimately improve the well-being of society by providing financial protection.

CONCLUSION

In conclusion, this research paper has presented a detailed literature review on the historical development of takaful within the Islamic heritage. The excellence of Islamic civilization can be observed through the successful evolution of the traditional to contemporary takaful model. This is a step that unites historical values with modern needs. The review process has uncovered significant insights into the growth of the takaful, the importance of Shariah compliance, and the factors influencing consumer demand for family takaful products. By understanding and applying the principles of takaful that are rooted in Islamic teachings, Muslim communities can strengthen their social and economic well-being. Innovative and inclusive takaful models not only preserve traditional values, but also provide contemporary solutions to face current challenges. The findings of this study have important implications for the continued expansion and evolution of the takaful industry, as it strives to meet the evolving needs and expectations of Muslim consumers worldwide. Thus, takaful indirectly also contributes to the empowerment of Islamic civilization where it is not only about providing Sharia-compliant financial alternatives, but also about continuing to revive the fundamental principles of Islamic civilization in the context of the modern economy. Takaful helps connect the values of justice, solidarity, and social responsibility with contemporary economic developments, enabling Muslim communities to progress economically while still adhering to religious principles.

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