



Promoting Investment in Takaful Insurance through Optimized Capital Inflow Strategies

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Abstract

This study examines capital inflow strategies in Takaful insurance, focusing on their role in sustaining solvency, managing participants' fund deficits through *qard hasan*, and supporting long-term growth, thereby balancing Takaful's ethical mission of mutual assistance with the commercial need to attract sustainable shareholder investment. This study adopts a qualitative and exploratory approach, drawing on secondary data from regulatory frameworks, company reports, and international case studies. Thematic content analysis was applied to assess the role of capital across the Wakalah, Mudarabah, Hybrid, and Waqf models, while comparative case analysis highlighted international best practices. The findings reveal that governance quality, Shariah compliance, transparency, and robust solvency frameworks are critical for building investor confidence, although challenges persist in the form of high compliance costs, limited Shariah-compliant investment instruments, and competitive pressure from conventional insurers. International experiences, particularly in Malaysia, Saudi Arabia, and the UAE, demonstrate that supportive legislative environments, financial innovation, and fintech integration can successfully mobilize capital inflows into Takaful. The originality of this study lies in synthesizing capital strategies across multiple Takaful models and linking them with international experience to generate practical insights. It concludes that harmonized regulation, transparent governance, and technological innovation are essential for strengthening Takaful's resilience and positioning it as a competitive, ethical, and sustainable alternative in the global financial system.

Keywords: Takaful, Capital inflows, Shariah compliance, Investment strategies

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1.0 Introduction

The global Islamic finance industry, encompassing the Takaful insurance sector, has undergone substantial expansion over the past few decades, presenting significant opportunities and complex challenges. Takaful, conceived as a Shariah-compliant alternative to conventional insurance, is founded on the principles of mutual assistance, shared responsibility, and collective risk-bearing, whereby participants contribute a common fund designed to provide financial support in times of need. Within this framework, capital plays a pivotal role in safeguarding both the sustainability and long-term growth of the sector (Warkab & Munir, 2022). Moreover, the continued development of Takaful depends on robust capital structures and the implementation of innovative strategies that effectively attract and optimize investment inflows. Therefore, a nuanced understanding of capital mobilization dynamics is indispensable for policymakers, investors, and Takaful operators, as it strengthens industry resilience while enhancing competitiveness within the broader Islamic finance landscape.

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A central challenge for the Takaful industry lies in reconciling its social mission, rooted in mutual cooperation and equitable risk-sharing, with the commercial imperative of attracting and retaining shareholder capital. Although Takaful is frequently structured on a non-profit basis, with surpluses redistributed to participants (Mohammed & Bouhlit, 2018), operators rely on shareholder investments to establish and expand their businesses, meet regulatory requirements, and sustain market competitiveness. Shareholders, in turn, typically expect financial returns on their contributions, creating structural tension between the social objectives of participants and the commercial expectations of investors (Warkab & Munir, 2022). Effectively balancing these competing imperatives is therefore essential to preserving the distinct identity of Takaful and ensuring its long-term viability.

Despite the sector's overall expansion (IFAC, 2022), attracting sufficient and sustainable capital remains a pressing concern. This challenge is driven by the distinctive operational models of Takaful, the complexity of regulatory frameworks, and the need to reconcile equitable participant benefits with competitive shareholder returns. Within this context, it is critical to examine the role of capital across different Takaful models and the nature of the returns generated. It is also necessary to explore how capital can be strategically deployed to address deficits in participants' funds and evaluate profit distribution mechanisms that ensure fairness between shareholders and policyholders. Furthermore, regulatory and compliance challenges that restrict capital inflows require careful attention, along with the consideration of how legislative frameworks can enhance the sector's attractiveness. Finally, lessons from international experience, as well as the potential of financial innovation and fintech, warrant close examination to strengthen the efficiency of capital utilization within Takaful.

In response to these issues, this study sets several key objectives. It aims to analyze the role of capital and the returns it generates across different Takaful models, evaluate mechanisms for managing deficits in participants' funds, and examine profit distribution frameworks that balance the interests of shareholders and policyholders. Additionally, this study seeks to identify the principal challenges associated with capital in Takaful, propose viable solutions, explore how legislative and regulatory environments can enhance investment attractiveness, and assess the extent to which financial innovation and fintech can optimize capital mobilization and utilization strategies.

By focusing on the promotion of investment in Takaful Insurance through optimized capital inflow strategies, this study contributes to the broader literature on Islamic finance by providing a comprehensive analysis of capital dynamics and their implications for the sector's long-term sustainability. The findings are expected to generate practical insights for policymakers designing supportive regulatory frameworks for investors evaluating opportunities within the Takaful market and for operators seeking to balance commercial viability with the sector's social mission.

2.0 Literature Review

2.1 Takaful Insurance Models: An Overview

The various Takaful insurance models provide a foundation for understanding the functioning of capital within this sector. These models differ in the structuring of the relationships between participants and operators, which in turn affects the treatment of shareholder capital and the generation of returns. Therefore, a clear understanding of these models is essential for analyzing the sector's capacity to attract investment.

The Wakalah model, which is widely adopted in the Takaful industry, operates on an agency principle. In this model, the Takaful operator acts as an agent (*wakil*) for the participants, managing their funds in exchange for agency fees. This fee is typically calculated as a percentage of contributions or is based on performance metrics (Puspita et al., 2020). The Wakalah model maintains a clear separation between shareholder capital and participant funds, with shareholders generating returns from their investments. In some instances, operators may also receive a portion of the surplus from participants' funds, providing an additional revenue stream (Yusoff, 2018).

The Mudarabah model, based on the principle of profit sharing, positions the Takaful operator as an entrepreneur (*mudarib*) responsible for managing participants' funds. The profits generated under this arrangement are shared between participants and shareholders according to a pre-agreed ratio (Saeed, 2019). This model also allows for the provision of *qard hasan*, an interest-free loan from shareholder capital to participants' funds in case of a deficit (Puspita et al., 2020). However, the Mudarabah model has faced challenges owing to its high-risk nature, leading to its discontinuation in some markets such as Malaysia, where it was replaced by the Wakalah model. For instance, the Mudharabah contract can present operational

complexities for Takaful operators because their profitability is contingent on factors such as increasing premium rates, optimizing returns on invested assets, and expanding policy sales, all of which are challenging to achieve in competitive markets (Sallemi & Zouari, 2023).

The Hybrid model combines elements of both the Wakalah and Mudarabah frameworks, aiming to balance the stability and growth potential in Takaful operations. This model allows operators to earn a Wakalah fee for fund management while also participating in investment profits through a Mudarabah arrangement (Puspitasari, 2015). The Hybrid model offers several advantages, including diversified revenue streams for operators, enhanced fairness through the separation of operational costs and investment outcomes, and improved incentives to maximize fund performance. For investors, this model presents a more balanced risk profile and the potential for higher returns.

The Waqf model, a relatively recent innovation in Takaful practice, has gained prominence in certain markets, particularly in Pakistan (Susiatin & Haji-Othman, 2023). This model establishes the Takaful fund as a cash waqf or endowment created by shareholders who act as the founders of the fund. Once established, the Waqf Fund becomes a perpetual trust dedicated to serving the collective interests of participants. In this model, shareholder returns are primarily generated by investing their own capital in Shariah-compliant instruments rather than deriving income directly from participants' contributions or profit-sharing arrangements (Susiatin & Haji-Othman, 2023). The Waqf model emphasizes social solidarity, governance, and participant protection. It maintains a clear separation between participant funds and shareholder profits, with the Waqf Fund being designed to be self-sustaining through participant contributions. In the event of deficits, the fund may receive a qard hasan (interest-free loan) from shareholders, further reinforcing the model's focus on mutual support and risk sharing (Sulaiman et al., 2019).

Each Takaful model has unique characteristics that influence its risk profile, potential returns, and overall attractiveness to investors. The Wakalah model offers stability through fixed agency fees but may limit the upside potential for operators. The Mudarabah model, although potentially more lucrative, carries higher risks and faces regulatory challenges. The Hybrid model attempts to strike a balance between these approaches by offering a more flexible structure that can adapt to different market conditions and regulatory requirements. The Waqf model, with its emphasis on social responsibility and clear separation of funds, presents a distinct approach that may be particularly appealing in markets where religious and cultural considerations play a significant role in financial decision making. Hence, the choice of the Takaful model significantly affects the sector's ability to attract investment and sustain growth. Factors such as the regulatory environment, market maturity, and cultural preferences play a role in determining the most suitable model for a given context. As the Takaful industry continues to evolve, understanding these models and their implications becomes increasingly important for operators, regulators, and potential investors.

In conclusion, the diversity of Takaful's insurance models reflects the sector's ongoing efforts to balance Shariah compliance, operational efficiency, and attractiveness to investors. Each model presents unique advantages and challenges, highlighting the need for careful consideration in model selection and implementation to ensure long-term sustainability and growth of the Takaful industry.

2.2 The Nature and Role of Capital in Takaful Companies

The nature and role of capital in Takaful companies extend beyond mere financial support, encompassing multiple critical functions that align with the Shariah principles and regulatory requirements. This literature review explores the multifaceted role of capital in Takaful's operations, its impact on financial health, and the mechanisms through which it generates returns for shareholders.

2.2.1 The Role of Capital in Takaful Operations and Financial Health

Capital in Takaful companies serves several key purposes. Primarily, they provide the foundational resources necessary for establishing and initiating operations (Archer et al., 2011). Additionally, it ensures compliance with minimum regulatory requirements, safeguards the company's financial stability, and protects policyholders (IFSB, 2010). A unique aspect of Takaful capital is its role in deficit management through the provision of interest-free loans (qard hasan) to participants' funds during periods of deficit. This mechanism distinguishes Takaful from conventional insurance models, reflecting its Shariah compliant risk-sharing framework (Billah, 2019).

Furthermore, capital facilitates product innovation, market expansion, technological advancement, and overall business growth (Obaidullah, 2015). A robust capital base also signals financial strength and stability to investors, regulators, and participants, thereby enhancing market credibility and confidence (Ahmed, 2016). The role of capital in Takaful operations is closely linked to these companies' profitability and long-term sustainability. The manner in which capital generates returns within the Shariah-compliant framework of each operational model significantly affects the appeal to potential investors (Khan & Najeeb, 2017).

Different Takaful models employ distinct mechanisms for capital utilization and return generation. In the Agency (Wakalah) model, shareholders' capital primarily generates returns through investments in Shariah-compliant assets and via wakalah (agency) fees charged to the participants' funds. These fees, typically structured as a percentage of contributions, provide operators with a relatively stable and predictable revenue stream (Yaacob, 2012). On the other hand, the Mudarabah Model positions shareholders as mudarib (entrepreneurs), sharing profits derived from the investment of participants' funds according to a pre-agreed profit-sharing ratio (Saeed, 2019). While this model offers the potential for higher returns, it also introduces greater variability than the fixed income derived from agency fees. The Hybrid Model integrates the features of both wakalah and mudarabah, enabling operators to benefit from both agency fees and profit-sharing. This combination provides a more diversified and balanced revenue profile, mitigating some of the volatility associated with pure Mudarabah arrangements (Salleemi & Zouari, 2023). In select markets, notably Pakistan, the Waqf Model is used, where returns are primarily generated from the investment of shareholders' own capital. The waqf fund is designed to be self-sustaining, although it may occasionally be supplemented by qard hasan from shareholders when required (Sulaiman et al., 2019).

2.2.2 The Role of Capital in Addressing Deficits in the Participants' Fund

A critical role of capital in Takaful companies is to address deficits in participants' funds. Despite Takaful's risk-sharing principle, instances may arise where claims exceed contributions and investment returns, resulting in a deficit. In such circumstances, shareholders' capital plays a vital role in maintaining solvency and protecting participants through the provision of qard hasan (Abdul Rahman, 2019; Archer et al., 2011). This mechanism ensures financial continuity, preserves fund solvency, and safeguards policyholder interests. These interest-free loans are repaid from future surpluses of participants' funds, emphasizing their temporary nature and role as a Shariah-compliant safety net (Billah, 2019).

However, the provision of qard hasan does not have implications for shareholders. While interest-free, these loans temporarily restrict the liquidity of shareholders' capital and impose opportunity costs until repayment (Khan & Najeeb, 2017). Persistent or substantial deficits may adversely affect investor confidence and diminish the attractiveness of additional capital contributions (IFSB, 2010). This approach highlights how Takaful operators balance Shariah-compliant risk-sharing with financial stability, leveraging shareholder capital to mitigate fund deficits while maintaining the confidence of both participants and investors (Yaacob, 2012). Attracting investment in Takaful companies requires demonstrating both competitive and sustainable returns on capital (Ahmed, 2016).

2.2.3 Returns on Capital in Takaful Companies

Shareholders' returns are realized through several key channels, reflecting the structure of the operational model and Shariah-compliant investment framework. Agency fees under the Wakalah model provide a predictable and stable source of revenue for operators, forming a primary component of shareholder income. In mudarabah arrangements, shareholders participate in profits through a predetermined share of the investment surplus generated from participants' funds, linking returns directly to fund performance. Investment income is another significant source of shareholder return. Capital is invested in Shariah-compliant assets, generating direct financial returns and contributing to capital growth, thereby enhancing a company's overall financial resilience. The performance of Takaful companies is commonly assessed using metrics such as the Return on Equity (ROE) and Return on Assets (ROA). Recent industry examples demonstrate the potential of attractive returns in the Takaful sector. For instance, Al Rajhi Takaful reported a return on capital (ROC) of 15.9% by 2024. Bupa Arabia recommended a 40% cash dividend distribution for the 2024 fiscal year. Similarly, Al-Tawuniya (The Company for Cooperative Insurance) achieved a net profit of SAR 1.02 billion in 2024, a 65.8% increase over the previous year.

In conclusion, the nature and role of capital in Takaful companies are multifaceted and integral to their operations, financial health, and investor attractiveness. Capital serves not only as a financial resource, but also as a mechanism to ensure Shariah-compliant risk-sharing, operational resilience, and long-term investor confidence. The various Takaful models demonstrate different approaches to leveraging capital to generate returns, while adhering to Islamic principles. The unique feature of qard hasan highlights the dual role of capital as both a commercial investment and Shariah-compliant safety net. As the Takaful industry continues to evolve, understanding and optimizing the role of capital will remain crucial for ensuring the sector's growth, stability, and appeal to both participants and investors.

2.3 Profit Distribution Mechanisms in Joint Investments between Shareholders and Policyholders

Fair and transparent profit and surplus distribution constitute a cornerstone of Takaful's operational integrity. This practice not only fosters trust among participants but also enhances the attractiveness of Takaful institutions to investors by signaling operational stability and compliance with Shariah principles (Bouchada & Ouzazna, 2022; IFSB, 2013). Within this framework, the participants' surplus represents the residual funds available in the pool after the settlement of claims, deduction of operational expenses, and repayment of any qard hasan (interest-free loan) advanced by shareholders to cover deficits. The surplus may be distributed among participants in proportion to their contributions, thereby providing a tangible financial return for their participation in the risk-sharing scheme. Alternatively, it may be retained within the fund to strengthen reserves, a measure that enhances the pool's financial resilience and ensures sustainability. In either case, the mechanism reinforces the principle that participants directly benefit from prudent fund management and investment performance while safeguarding the long-term stability of the operation (Bouchada & Ouzazna, 2022; Khan & Hassan, 2017).

Shareholders, on the other hand, generate profits through a combination of fee-based and performance-based revenue streams. Under the wakalah model, they earn agency fees as predetermined compensation for administering participants' funds, while the mudarabah model allows them to share in the profits generated by investing participants' contributions according to an agreed ratio. In addition, shareholders may invest their own capital in Shariah-compliant assets, yielding independent returns and diversifying their income sources. This mix of predictable fees and performance-driven profits aligns shareholder incentives with fund efficiency and participant satisfaction, while maintaining a balance between stable and variable income streams (Ayub, 2019; Bouchada & Ouzazna, 2022).

Crucially, transparency and Shariah compliance remain central to the credibility of these arrangements. Profit and surplus distribution mechanisms must be explicitly defined, communicated, and documented to prevent disputes and promote equitable treatment. By avoiding prohibited elements such as gharar (excessive uncertainty) and riba (interest), and through oversight by Shariah Supervisory Boards in line with governance standards prescribed by AAOIFI and IFSB, Takaful institutions reinforce ethical accountability and operational legitimacy. Such transparency and compliance not only sustain long-term participant engagement but also enhance investor confidence in the sector (AAOIFI, 2021; IFSB, 2013; Khan & Hassan, 2017).

2.4 Shareholders' and Participants' Rights in Companies and Boards of Directors across Takaful Models

The governance structures of Takaful companies are distinctive because they reflect the dual interests of shareholders and participants. Unlike conventional insurers, where shareholder primacy dominates, Takaful is designed to balance commercial objectives with the collective rights of participants, in line with its risk-sharing ethos and Shariah requirements (Warkab & Munir, 2022). Shareholders in Takaful companies generally hold rights comparable to those in conventional corporations, including voting rights in general meetings, entitlement to dividends derived from company profits, and representation on the board of directors where strategic and operational decisions are made. These rights provide shareholders with the authority to influence the direction of the company and protect their financial interests, ensuring accountability in corporate management (Al Tawuniya, 2023).

Participants, by contrast, hold a unique position as collective owners of the Takaful fund, which differentiates Takaful governance from conventional insurance models. Their primary entitlement lies in the distribution of any surplus generated by participants' funds after claims, expenses, and any outstanding qard hasan have been settled. In some jurisdictions, participants are further empowered by having representation within Shariah supervisory boards or advisory committees, giving them a direct voice in governance. Such

rights ensure that participants are not merely passive policyholders but active stakeholders in a cooperative system that emphasizes shared responsibility and mutual benefit (Bounchada & Ouzazna, 2022).

A defining feature of this governance framework is the Shariah Supervisory Board, an independent body tasked with ensuring that all operations, including capital management and profit distribution, comply with Islamic principles. The board provides guidance on Shariah-compliant practices, monitors adherence, and resolves issues of jurisprudence that may arise in the course of operations. By fulfilling this oversight function, the Shariah Supervisory Board not only enhances internal governance but also strengthens market credibility and investor confidence in the ethical integrity of Takaful institutions (Bouafoula, 2021; Bank Negara Malaysia, 2018). Overall, the governance of Takaful companies is characterized by dual accountability, where shareholders provide capital and participants collectively own the fund. This distinctive structure reinforces the cooperative and ethical foundations of Takaful while simultaneously ensuring financial sustainability, regulatory compliance, and adherence to Shariah principles.

2.5 The Role of Capital in Solvency and the Rating of Takaful Companies

Capital represents the cornerstone of solvency in Takaful companies and serves as a critical indicator of financial health and the ability to meet future obligations. It provides assurance not only to regulators and rating agencies, but also to participants and investors who rely on the strength of the operator to ensure the continuity of risk-sharing arrangements (Minimum Requirements, 2019). Regulatory authorities have established minimum capital thresholds to ensure that Takaful companies are capable of absorbing unexpected losses and sustaining financial stability. Compliance with these requirements is vital for protecting participants' interests and for maintaining systemic stability within the broader Islamic financial sector (Minimum Requirements, 2019).

Moreover, contemporary regulatory frameworks increasingly adopt risk-based capital approaches in which capital requirements are tailored to the specific risk exposures of each company. These frameworks consider underwriting, investment, operational, and liquidity risks, requiring operators to maintain capital proportionate to the risks they assume. This approach enhances resilience by promoting a more adaptive and forward-looking capital structure compared to static minimum requirements (Bouafoula, 2021; Minimum Requirements, 2019).

Capital strength and effective solvency management are critical determinants of external credit ratings and industry rankings. Companies with robust capital adequacy are more likely to secure favorable ratings, which enhances investor confidence, reduces the cost of capital, and improves competitiveness. Conversely, weak capital positions may result in downgrades, thereby constraining access to funding and undermining the market reputation (Al Owaidhi, 2017; Takaful International, 2024). Hence, these dimensions highlight that capital in Takaful companies is not only a regulatory requirement, but also a strategic asset that defines perceptions of financial soundness, influences credit ratings, and supports long-term sustainability (Table 1).

Table 1. Financial Solvency and Capital Indicators in Takaful Companies

Indicator	Definition / Purpose	Importance for Takaful	Importance for Investors
Capital Adequacy Ratio (CAR)	Measures the company's ability to meet obligations and absorb losses.	Must account for commitment to qard hasan.	A key indicator of financial stability and the company's ability to honor commitments (Minimum Requirements, 2019).
Solvency Margin	The minimum required capital is mandated by regulatory frameworks.	Ensures compliance with regulatory requirements to protect participants.	Reduces regulatory intervention and enhances financial resilience (Minimum Requirements, 2019).
Risk-Based Capital (RBC)	Links capital requirements to the specific risks borne by the company.	Provides a more risk-sensitive measure, encouraging sound risk management (Bouafoula, 2021; Minimum Requirements, 2019).	Indicates a robust risk management framework, boosting investor confidence in the company's ability to manage exposures (Bouafoula, 2021).

Liquidity Ratio	Measures the company's ability to meet short-term obligations.	Critical for meeting claims and unexpected disbursements efficiently.	Signals the firm's ability to handle sudden liquidity needs and reassure policyholders (Bouafoula, 2021).
Return on Equity (ROE)	Measures profitability relative to shareholders' equity (AlJazira Capital, 2024).	Demonstrates efficiency in using shareholders' funds to generate profits.	A key metric for investor appeal and return on capital (Mubasher, 2025).
Return on Assets (ROA)	Measures efficiency of asset utilization in generating profits (AlJazira Capital, 2024).	Reflects the overall operational efficiency in deploying assets from both shareholders and participants.	Shows management efficiency in generating returns from asset base (AlJazira Capital, 2024).

(Source: Compiled by the Author)

2.6 Determining Solvency across Different Takaful Models

Although the principle of solvency is universally recognized, its assessment and practical application vary depending on the Takaful model employed. These differences reflect the structural distinctions in how each model allocates risks, manages capital, and safeguards participants' funds (Bounchada and Ouzazna, 2022).

In the Wakalah framework, solvency is primarily evaluated based on the strength of the operator's capital and its ability to manage the participants' funds effectively. A critical component is the operator's commitment to provide qard hasan (interest-free loans) in the event of deficits. This ensures the continuity of the participants' funds and supports the operator's capacity to meet claims obligations (Bounchada & Ouzazna, 2022). Under the Mudarabah arrangement, solvency assessments extend beyond the operator's capital base to include its share of investment risks. Since the operator participates in profits as a mudarib, it must demonstrate sufficient financial strength to withstand fluctuations in investment performance, while still guaranteeing the provision of qard hasan if deficits arise (Bounchada and Ouzazna, 2022). In the waqf model, solvency centers on the financial strength of the waqf fund. The fund is designed to be self-sustaining, but when deficits occur, it may be supported by the qard hasan extended from shareholders' capital. Importantly, the shareholders' capital and the waqf fund are managed separately, reflecting the trustee-like structure of this model (Bouafoula, 2021; Capital Market Authority Oman, 2019).

Therefore, across all Takaful models, solvency is measured using core financial indicators. These include capital adequacy ratios, liquidity ratios, and a company's ability to promptly settle claims. Such metrics provide regulators, rating agencies, and investors with standardized benchmarks for evaluating financial stability and resilience (Bouafoula, 2021; Minimum Requirements, 2019). In summary, these variations underscore that, while solvency remains a universal principle across Takaful, its interpretation and practical implementation are model-specific, reflecting the diverse mechanisms of risk-sharing and capital support within the industry.

3.0 Factors Attracting Capital Investment in Takaful Insurance Models

The attraction of capital to the Takaful sector is a multidimensional challenge that is influenced by a combination of market dynamics, regulatory support, financial performance, and ethical considerations. Unlike conventional insurance, Takaful must appeal not only to commercial investors but also to those who prioritize Shariah compliance and social responsibility. This dual requirement makes the identification of capital-attracting factors essential for the long-term sustainability of the industry.

3.1 Key Factors Influencing Capital Attraction in Takaful Companies

3.1.1 Market Growth Potential

The rapid expansion of the global Islamic finance industry and the presence of underserved Muslim communities have created significant opportunities for Takaful (IFAC, 2022). The sector benefits from strong market fundamentals, particularly where partnerships with international institutions reinforce its growth potential. Recent studies have highlighted the developmental role of Takaful in promoting financial inclusion

and reducing poverty (UNDP, 2024). International institutional support from Islamic development banks and cooperative financial institutions provides further assurance of the sectoral reliability. In addition, growing government recognition of Takaful's contribution to socio-economic development has fostered a favorable environment for capital inflows (IFAC, 2022; UNDP, 2024).

3.1.2 Legislative and Regulatory Environment

A transparent and supportive regulatory framework is critical for attracting both domestic and foreign investments. For instance, the Central Bank of Bahrain introduced a draft framework for assessing Takaful companies' capital adequacy based on underwriting activities, enabling firms to evaluate solvency in a Shariah-compliant manner. Such initiatives enhance investors' confidence by ensuring regulatory clarity and flexibility. Furthermore, regulatory approvals in new markets, such as the Philippines and Djibouti, have encouraged major firms to expand into these regions, signaling the growing global recognition of Takaful.

3.1.3 Financial Performance and Returns

Competitive financial performance is central to attracting capital. Investors seek companies with consistent profitability, strong returns on equity and assets, and competitive yields compared to conventional insurers (AlJazira Capital, 2024). Empirical evidence shows that the Takaful sector in Saudi Arabia, Malaysia, and Indonesia has experienced robust premium growth, outpacing conventional insurance markets. This trend demonstrates not only the resilience of Takaful but also its attractiveness as an investment avenue.

3.1.4 Governance and Transparency

Sound governance structures play a decisive role in shaping investors' perceptions. The inclusion of Shariah Supervisory Boards ensures compliance with Islamic principles, while transparent financial reporting enhances accountability (Bouafoula 2021; Takaful International 2024). Together, these mechanisms build credibility and reduce information asymmetry, thereby strengthening investor confidence.

3.1.5 Strong Solvency and Risk Management

Capital adequacy and risk management are the crucial determinants of financial stability. Well-capitalized Takaful operators with effective risk management frameworks demonstrate resilience against unexpected shocks, thereby reducing perceived investment risks (Minimum Capital Requirements, 2019). This enhances the sector's ability to compete with conventional insurers in global markets.

3.1.6 Shariah Compliance

Adherence to Shariah principles constitutes the core value proposition of Takaful. By prohibiting interest (riba), uncertainty (gharar), and excessive risk-taking (maysir), Takaful appeals to both faith-driven and ethical investors (Mohammed and Bouhlit 2018; Arqam 2023). Moreover, its alignment with Environmental, Social, and Governance (ESG) principles, particularly the emphasis on ethical investment and harm avoidance, positions Takaful as an attractive option for ESG-conscious investors (PwC, 2022).

3.1.7 Social Dimension

The cooperative and socially responsible foundations of Takaful enhance its appeal as an ethical investment vehicle. This model emphasizes fairness, mutual protection, and community well-being (Omar and Dawood, 2000). Unlike conventional emphasis on high-risk, high-return strategies, Takaful offers investors the opportunity to achieve halal profits in a structured and secure environment. This ethical dimension strengthens its role as a mechanism of collective resilience, particularly during emergencies and global crises.

3.1.8 Innovation through Fintech

Recent advances in digital innovation have further enhanced Takaful's investment appeal. The integration of fintech has enabled the development of innovative products and modern distribution channels, particularly through digital platforms. These advancements have improved accessibility, reduced costs, and attracted a new generation of tech-savvy investors (Qatafi and Allali 2021). Fintech solutions thus play an increasingly strategic role in expanding Takaful's reach and efficiency.

In summary, these factors illustrate that attracting capital to Takaful requires more than just financial competitiveness. This requires a holistic approach that integrates market potential, sound governance, regulatory clarity, and adherence to ethical values. By aligning financial sustainability with social responsibility and innovation, the Takaful sector has strengthened its position as a viable and attractive alternative within the global financial system.

3.2 Challenges in Capital Compliance with Financial Regulations and Standards

Takaful companies operate at the intersection of Shariah compliance and global financial regulation, a dual framework that presents distinctive challenges to capital growth and sustainability. While adherence to Islamic principles provides a strong ethical foundation, it also imposes constraints that interact with evolving international financial standards and competitive pressure. The major challenges are as follows:

3.2.1 Compliance Costs

Ensuring full alignment with the Shariah principles entails additional operational expenditures compared to conventional insurers. Takaful operators are required to establish and maintain Shariah Supervisory Boards (SSBs), which oversee compliance with Islamic jurisprudence across underwriting, investment, and governance activities (Bounchada and Ouzazna 2022). These oversight structures, while critical for legitimacy and investor trust, increase the administrative and governance costs. Over time, such costs may reduce profitability and weaken the comparative attractiveness of the Takaful firms to potential capital providers.

3.2.2 Multiplicity of Fatwas and the Need for a Unified Shariah Reference

Differences in jurisprudential interpretations across jurisdictions have created a fragmented Shariah landscape. What is deemed compliant in one country may be contested in another, complicating international expansion and cross-border capital raising (Bouafoula, 2021; Oman Capital Market Authority, 2019). This multiplicity of fatwas not only slowed product innovation, but also raised uncertainty for global investors. Scholars have increasingly called for greater harmonization and the development of unified Shariah references to ensure consistency and predictability in Takaful operations.

3.2.3 Limited Availability of Shariah-Compliant Instruments

A key challenge for Takaful companies is the limited depth and liquidity of the Shariah-compliant financial markets. Investment options such as sukuk, Islamic equities, and Shariah-compliant funds remain comparatively constrained in terms of volume and diversity (Oman Capital Market Authority 2019). This restricts the ability of operators to optimize capital deployment, balance risk-return profiles, and compete with conventional insurers that have access to broader and higher-yielding instruments. The lack of diversification opportunities increases investment concentration risks and limits growth potential.

3.2.4 Regulatory Adaptation

The global financial sector is characterized by constant evolution in accounting standards, solvency regimes, and prudential requirements. For instance, the adoption of risk-based capital frameworks and international accounting standards (such as IFRS 17 for insurance contracts) demands significant expertise and investment in systems, training, and compliance infrastructure (Minimum Capital Requirements, 2019; Bouafoula, 2021). For many Takaful operators, particularly in emerging markets, these transitions impose financial and human resource strain, potentially slowing growth and innovation.

3.2.5 Competition from Conventional Insurers

Takaful firms frequently compete against larger and more established conventional insurers that enjoy economies of scale, diversified product portfolios, and wider distribution channels (Al-Owaidi, 2017). While Takaful differentiates itself through ethical and Shariah-based value propositions, conventional insurers often attract investors by offering better financial performance and lower operational costs. This competitive imbalance may deter capital inflows into the Takaful sector unless operators innovate and highlight their unique value-added features such as ESG alignment and community-oriented protection.

In summary, Takaful companies face a complex set of challenges in capital mobilization rooted in the dual necessity of meeting Shariah compliance requirements while adapting to international financial standards and market competition. High compliance costs fragmented jurisprudential interpretations, limited Shariah-compliant instruments, regulatory pressures, and strong competition from conventional insurers, collectively constraining capital attraction. Overcoming these challenges will require the harmonization of Shariah interpretations, greater innovation in Islamic financial instruments, and strategic positioning to highlight Takaful’s ethical and social advantages within the broader financial ecosystem (Table 2).

Table 2. Takaful vs Conventional Insurers

Aspect	Takaful Companies	Conventional Insurers
Compliance Costs	Must maintain Shariah Supervisory Boards and additional governance processes to ensure compliance with Islamic principles, which increases operational costs.	No Shariah compliance required; lower governance-related expenses.
Shariah Governance	Subject to jurisprudential diversity across jurisdictions, leading to variations in fatwas and potential complexity in cross-border operations.	Operate under standardized global insurance and financial regulations without religious governance considerations.
Investment Instruments	Limited to Shariah-compliant assets, restricting diversification and potentially lowering yield.	Broad access to conventional financial instruments, including bonds and derivatives, offering greater flexibility and returns.
Regulatory Adaptation	Must comply with both international financial standards (IFRS, solvency regimes) and Shariah guidelines, requiring significant expertise and dual compliance frameworks.	Compliance limited to conventional accounting and solvency standards without additional religious requirements.
Competition	Face structural disadvantages compared with larger conventional insurers, including limited economies of scale and narrower product offerings.	Benefit from established market presence, scale efficiencies, and diversified products.

(Source: Compiled by Author)

4.0 Research Methodology

This study adopts a qualitative, exploratory design using secondary sources and comparative case analysis to investigate capital inflow strategies in Takaful insurance. A qualitative exploratory design is appropriate because the research seeks to interpret policies, governance arrangements and market behaviour across different Takaful models rather than test hypotheses. Secondary documentary sources such as regulatory texts, annual reports, industry/consultancy reports, and academic literature were used to capture regulatory and market developments across jurisdictions, and permit a cross-case comparison of capital-attracting strategies. International case studies were selected purposively to ensure relevance, variation and data availability. The following inclusion criteria were applied:

1. Market significance: country has a sizeable or fast-growing Takaful market (e.g., leading contribution levels, recent premium growth) or is otherwise important to the international Takaful landscape.

2. Regulatory innovation or recent reforms: evidence of recent policy or regulatory activity affecting capital, solvency or Shariah governance.
3. Model diversity: representation of different operational models (Wakalah, Mudarabah, Hybrid, Waqf) where possible.
4. Data availability and transparency: presence of publicly available, authoritative documents (regulator publications, company annual reports, credible industry reports) in English or translated to English.
5. Geographical and institutional variety: selection aims to include markets from different regions to improve external validity.

Using these criteria, the study gave priority to jurisdictions that meet multiple criteria (e.g., Malaysia, Saudi Arabia and the UAE), and then selected additional jurisdictions for comparative examples where documents satisfied the inclusion rules.

5.0 Results and Discussion

5.1 The Role of the Legislative and Regulatory Environment

A central finding from the case studies is that clear and well-designed legislative and regulatory environments significantly enhance the attractiveness of Takaful to investors. In Malaysia, the enactment of the Takaful Act (1984) and subsequent updates under Bank Negara Malaysia created the earliest and most comprehensive governance framework for Takaful. The emphasis on strong Shariah governance, mandatory Shariah Supervisory Boards (SSBs), and gradual reforms, such as the Risk-Based Capital Framework (RBC-T), has steadily built investor confidence (Bank Negara Malaysia, 2018; Funding Souq, 2024). In Saudi Arabia, regulatory momentum under the Saudi Arabian Monetary Authority (SAMA), particularly the introduction of compulsory health and motor Takaful, generated substantial gross written premiums and created a strong demand. This compulsory coverage framework not only attracted sustained capital inflows but also contributed to national economic growth through insurance penetration (Al-Owaidi, 2017; Al-Sharqi et al., 2022). Similarly, the United Arab Emirates (UAE) leveraged its advanced legislative infrastructure, including liberalized foreign investment laws, to attract foreign direct investment (FDI) in the insurance sector. By combining regulatory clarity with a business-friendly environment, the UAE has positioned itself as a regional hub for Takaful investments (Ministry, 2022). Taken together, these experiences demonstrate that transparent and supportive legislation reduces uncertainty, facilitates cross-border expansion, and reassures investors. The practical implication is that countries seeking to strengthen their Takaful sectors must prioritize customized Shariah-compliant regulatory frameworks rather than relying on adapted conventional insurance models.

5.2 Solvency, Capital Adequacy, and Investor Confidence

Capital strength and solvency emerged as critical determinants of investor confidence in the examined case studies. In Malaysia, the transition from static capital requirements to the Risk-Based Capital Framework for Takaful (RBC-T) linked solvency measures directly to actual risk exposures, aligning local practices with global standards and reassuring investors of the sector's resilience to financial shocks. In Saudi Arabia, rapid premium growth driven by compulsory health and motor Takaful schemes strengthened solvency margins and profitability, which, in turn, elevated sectoral credit ratings and attracted significant institutional capital. In the United Arab Emirates (UAE), regulators emphasized capital adequacy as a strict precondition for licensing foreign insurers, ensuring that solvency safeguards were in place while simultaneously enabling foreign capital inflows. Collectively, these cases demonstrate that solvency frameworks function not only as regulatory compliance mechanisms but also as strategic tools for enhancing market credibility. By linking capital adequacy to risk exposure, regulators can provide stronger assurances to investors regarding the Takaful industry's long-term stability and sustainability.

5.3 Governance, Transparency, and Shariah Compliance

Governance quality, transparency, and Shariah compliance are decisive factors shaping investors' perceptions of Takaful. Malaysia has institutionalized strong governance mechanisms by mandating Shariah Supervisory Boards (SSBs) for all licensed operators, thereby reinforcing credibility and market confidence through independent compliance and disclosure oversight. In Saudi Arabia, while compulsory coverage stimulated rapid premium growth, the expansion also revealed governance challenges, as operational capacity sometimes

lagged behind market growth, raising concerns regarding efficiency and oversight. In contrast, the United Arab Emirates (UAE) emphasizes transparent reporting and adherence to international accounting standards, such as IFRS 17, aligning local operators with global best practices while maintaining Shariah compliance. These examples illustrate that effective governance reduces information asymmetry, enhances credibility, and strengthens both participant trust and investor confidence in the market. Accordingly, transparent disclosure practices combined with credible Shariah oversight are essential for ethical legitimacy and attracting and sustaining foreign capital inflows into the Takaful sector.

5.4 Financial Performance and Returns

Competitive financial performance was identified as a core driver of investor interest across the case studies, demonstrating that capital inflows are closely tied to profitability and return. In Saudi Arabia, major Takaful operators, such as Al Rajhi Takaful and Bupa Arabia, reported strong profitability and double-digit returns on equity, positioning the sector as an attractive destination for institutional investors. Malaysia, characterized by more moderate growth, provided steady and reliable returns supported by regulatory consistency and market stability, which appealed to investors seeking lower-risk, long-term opportunities. In the United Arab Emirates (UAE), operators leverage diversified portfolios and foreign investment inflows to achieve competitive financial outcomes, with robust solvency and transparency further reinforcing their appeal. Collectively, these findings indicate that investors evaluate Takaful not only on its ethical and Shariah-compliant foundations but also on its ability to deliver consistent, risk-adjusted financial returns. Profitability metrics, such as return on equity (ROE), return on assets (ROA), and solvency ratios, serve as critical benchmarks for signaling the investment attractiveness of Takaful operators.

5.5 Innovation and Fintech Integration

Innovation and fintech integration have emerged as transformative factors in mobilizing capital and enhancing the competitiveness of Takaful across different jurisdictions. In Malaysia, operators have pioneered the use of digital platforms and micro-Takaful products to expand their outreach and reduce distribution costs, thereby strengthening financial inclusion. The UAE has advanced further by adopting insurtech solutions, such as mobile platforms and digital policy management systems, which have improved operational efficiency and facilitated broader market participation. Saudi Arabia has increasingly embraced digital distribution channels, although their integration remains uneven across operators, highlighting the potential for further growth. These experiences collectively illustrate that fintech not only reduces costs and increases scalability, but also enhances investor appeal by modernizing service delivery and aligning the sector with global trends in digital finance. Consequently, fintech integration can be considered a strategic enabler for attracting new categories of capital, particularly from technology-oriented and ESG-conscious investors.

5.6 Practical Lessons from International Case Studies

A comparative analysis of Malaysia, Saudi Arabia, and the United Arab Emirates (UAE) highlights several practical lessons for strengthening capital inflows into Takaful (Table 4). Malaysia's experience underscores the value of gradual regulatory evolution, where consistent reforms, strong Shariah governance, and risk-based solvency frameworks have created a stable environment for long-term investments. Saudi Arabia demonstrates that compulsory coverage schemes, particularly in health and motor Takaful, can generate rapid premium growth and attract substantial capital inflows, although these must be matched with robust governance systems to ensure sustainability. The UAE illustrates how investor-friendly policies, advanced legislative infrastructure, and alignment with international financial standards can position a jurisdiction as a regional hub for Takaful investments. Together, these lessons suggest that capital mobilization in Takaful requires a combination of regulatory clarity, governance credibility, market innovation, and institutional support tailored to the context of each jurisdiction.

Table 4. Comparative International Experiences in Attracting Capital for Takaful Development

Country	Regulatory & Legislative Framework	Key Drivers of Capital Attraction	Impact on Takaful Growth & Investment
Malaysia	Islamic Financial Service Act (1984) and subsequent updates under Bank Negara Malaysia	Comprehensive regulatory framework, strong Shariah governance, gradualist regulatory approach, continuous product and capital market innovation	Positioned as a global leader in Islamic finance; steady inflows of domestic and foreign capital; enhanced investor confidence through Shariah governance reforms
Saudi Arabia	Compulsory insurance regulations; reforms under Saudi Arabian Monetary Authority (SAMA)	Largest Takaful market by gross contributions; regulatory momentum; mandatory health and motor insurance driving demand	Significant capital inflows; premium growth outpacing conventional insurance; positive contribution to GDP and sectoral investment levels
United Arab Emirates (UAE)	Advanced legislative infrastructure and foreign investment laws	Business-friendly environment; investor-focused reforms; strong FDI orientation	Increasing foreign direct investment into Takaful; improved competitiveness of the sector within the MENA region

(Source: Compiled by Author)

5.7 Synthesizing Practical Insights

Synthesizing the evidence across the case studies reveals that capital inflows into Takaful are shaped by the interplay of regulatory quality, solvency strength, governance practices, financial performance, and tech innovation. Transparent and harmonized regulations have emerged as the foundation for investor confidence, while robust solvency frameworks and risk-sensitive capital adequacy requirements signal resilience against financial shocks. Governance mechanisms, particularly Shariah Supervisory Boards and transparent reporting standards, reduce information asymmetry and enhance legitimacy, further strengthening investor trust. Simultaneously, profitability indicators, such as return on equity and return on assets, confirmed the sector's competitiveness relative to conventional insurers, while fintech integration broadened access and lowered costs, positioning Takaful as both an ethical and innovative investment option. The practical insight from these findings is that policymakers, operators, and investors must view capital not merely as a compliance requirement but also as a strategic resource. By aligning regulation, governance, and innovation with the ethical mission of Takaful, the industry can attract sustainable investment, enhance its resilience, and position itself as a viable and socially responsible alternative to the global financial system.

6.0 Conclusion and Recommendations

This study examined the dynamics of capital inflows in Takaful through a qualitative analysis of international case studies in Malaysia, Saudi Arabia, and the United Arab Emirates (UAE). The findings demonstrate that capital is not merely a financial requirement but a strategic enabler of solvency, resilience, and long-term sustainability in the Takaful industry. Across contexts, five interlinked themes emerged as decisive in shaping investor confidence: regulatory clarity, solvency and capital adequacy, governance and Shariah compliance, financial performance, and innovation through Fintech integration. These themes reveal that effective capital mobilization depends on aligning regulatory safeguards with market incentives and ensuring that the distinctive principles of Takaful are not diluted when adapted to global financial frameworks.

Malaysia's gradual reforms, including the Risk-Based Capital Framework for Takaful (RBC-T), demonstrate how consistent regulatory evolution and strong Shariah governance can generate stable investment inflow. Saudi Arabia illustrates how compulsory health and motor insurance schemes can rapidly increase premiums and attract capital, but they must be complemented by robust governance mechanisms to ensure sustainability. The UAE highlights the importance of investor-friendly legislation and integration with international accounting and reporting standards, positioning itself as a regional hub for foreign direct investment in Takaful. Together, these cases confirm that while pathways may differ, the underlying drivers of capital mobilization are consistent: solvency assurance, governance legitimacy, and credible profits.

A further dimension of the findings is the close alignment between Takaful principles and the Environmental, Social, and Governance (ESG) framework, which is increasingly prioritized by global investors. Takaful's cooperative and risk-sharing ethos directly reflects the social pillar of ESG by promoting solidarity, financial inclusion, and mutual protection. Its prohibition of unethical or speculative investments, coupled with oversight by Shariah Supervisory Boards, reinforces the governance pillar by institutionalizing transparency and accountability. Moreover, the sector's growing role in financing sustainable Shariah-compliant initiatives, such as healthcare and renewable energy, demonstrates its potential contribution to the environmental pillar. This synergy positions Takaful not only as a faith-based alternative but also as a natural partner in advancing the global sustainability agenda.

Based on these findings, several recommendations are proposed. For policymakers, the priority should be to develop harmonized, Shariah-compliant regulatory frameworks that integrate risk-based capital standards with supportive measures, such as tax incentives and innovation-friendly policies. Regulators should also strengthen disclosure requirements and align them with international standards, such as the IFRS 17, to enhance investor comparability and confidence. Takaful operators must focus on improving governance structures, diversifying investment portfolios, adopting fintech solutions to enhance efficiency, and reducing dependence on qard hasan as a source of deficit financing. Investors should recognize the dual advantage of Takaful: competitive financial returns and alignment with ESG criteria, which increasingly shape global investment strategies.

Future research should build on these insights by employing quantitative methods to measure the impact of specific regulatory or technological reforms on capital inflows and by exploring the role of emerging tools such as blockchain and artificial intelligence in strengthening governance and transparency.

In conclusion, the evidence demonstrates that capital mobilization in Takaful is most effective when it integrates regulatory clarity, robust solvency standards, strong governance, financial innovation and ESG alignment. By leveraging these factors, Takaful can consolidate its position as a resilient, competitive, and socially responsible alternative to the global financial system.

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