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THE ROLE OF TAKAFUL IN INSURANCE COMPANIES OPERATING IN UZBEKISTAN: INSTITUTIONAL PRECONDITIONS AND THE MALAYSIAN BENCHMARK

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Abstract. *This article examines the role that takaful may play within the operations of insurance companies currently active in Uzbekistan. The insurance market of Uzbekistan has been characterised throughout its development by low penetration, a weak voluntary segment and a persistent deficit of household confidence in long-term financial intermediation. A portion of unrealised demand originates not from an absence of insurable interest but from religious objection to the structure of conventional insurance contracts, and takaful addresses precisely this segment. Integrating the regulatory literature on Islamic insurance with the development trajectory of the national insurance market, the study argues that the realistic entry route in present conditions is not the establishment of standalone takaful operators but the introduction of takaful windows within existing licensed insurers, and it specifies the institutional conditions under which such windows retain substantive rather than nominal compliance. The Malaysian framework, which regulated takaful through dedicated legislation from 1984 and consolidated it under the Islamic Financial Services Act of 2013, serves as the reference benchmark. Findings indicate that the credibility of a takaful segment is determined by the genuineness of fund segregation and the independence of Shariah supervision rather than by product design.*

Keywords: *takaful, Islamic insurance, insurance market of Uzbekistan, takaful window, tabarru', wakalah, qard al-hasan, retakaful, Shariah governance, insurance penetration.*

INTRODUCTION

The insurance market of Uzbekistan has undergone a long institutional transition, moving from a state-dominated structure in the early 1990s through successive waves of licensing and consolidation towards the more concentrated and better capitalised sector that exists today. Growth over this period has been real but uneven, and it has depended substantially on compulsory classes rather than on voluntary retail demand. Insurance penetration has remained well below comparable international averages, and the life segment in particular has developed slowly, reflecting a durable deficit of household confidence in long-term financial intermediation (Ismailov, 2026a).

A market with low penetration contains, by definition, a large population of non-consumers, and the relevant analytical question is why they abstain. Part of the explanation lies in purchasing capacity and financial literacy. A further part lies in the structure of the conventional insurance contract itself. For a segment of the population, abstention is a matter of religious conviction rather than affordability, and no adjustment of price or distribution will convert this segment into policyholders. Takaful is the instrument that addresses this specific constraint, and recent research in Uzbekistan has begun to assess it in precisely these terms, as a means of drawing into the market those who decline conventional products on religious grounds (Ismailov, 2026a).

This article therefore poses a narrower question than the general literature on Islamic insurance. It does not ask whether takaful is desirable in principle, but what role it can realistically play within the operations of insurance companies that are already licensed and operating in Uzbekistan, and what institutional conditions determine whether that role is substantive or merely nominal.

Takaful as an Institutional Structure Rather Than a Product

The starting point is a distinction frequently blurred in policy discussion. Takaful is not a conventional insurance product with modified terminology. In a takaful arrangement, protection is financed from a fund constituted by participants on the basis of mutual donation, or tabarru', and the company does not own that fund but administers it as operator. Surplus and deficit belong to the participants collectively. The objections raised in Islamic jurisprudence against conventional insurance concern gharar, the indeterminacy of an exchange in which the payout is contingent; maysir, its resemblance to a wager; and riba, which enters through the investment of reserves in interest-bearing instruments (Wahab, Lewis, & Hassan, 2007; Billah, 2022). Takaful answers these objections through the ownership structure of the fund rather than through contractual drafting, which is why the credibility of a takaful offering depends on structural facts that are not visible in the product brochure.

Entry Routes: Standalone Operators and Takaful Windows

Two entry routes are available to any market introducing takaful. The first is the licensing of standalone takaful operators. The second is the authorisation of takaful windows within existing insurance companies, under which a licensed insurer conducts takaful business through a separately constituted and separately accounted fund. For Uzbekistan the second route is considerably more realistic in present conditions, for reasons that are structural rather than merely pragmatic.

Existing insurers possess three assets that a new entrant would need years to accumulate: a distribution network, an underwriting and claims infrastructure, and a supervisory relationship with the regulator. Establishing standalone operators would require replicating all three at a scale that the current level of market capitalisation does not readily support. The window model allows the existing infrastructure to be used while the participants' fund accumulates the reserves necessary for independent operation. This is the route through which several markets have introduced takaful, and it is also the route that carries the greatest risk of nominal compliance, which is why the conditions attached to it matter more than the decision to adopt it.

The Malaysian Framework as a Regulatory Benchmark

The Malaysian framework provides the most instructive benchmark, for two reasons. Malaysia placed takaful on a dedicated statutory footing in 1984, before the market existed, so that industry practice developed within a defined framework rather than requiring subsequent reform. It then consolidated that framework in the Islamic Financial Services Act of 2013, which brought Islamic banking and takaful under a single statute and required that family and general takaful business cease to be conducted under a composite licence, granting operators a transitional period of five years to separate them (Bank Negara Malaysia, 2013; Archer, Karim, & Nienhaus, 2009). The rationale was prudential: long-term savings commitments and short-term risk underwriting expose participants to different risk profiles and should not be commingled.

Three further features of the Malaysian model bear directly on the window question. The first is centralised Shariah governance: the Shariah Advisory Council established within Bank Negara Malaysia issues rulings that bind market participants, and institution-level Shariah committees operate within the parameters it sets. This eliminates the possibility of competing institutional boards issuing divergent opinions on materially identical products, a problem that transfers the burden of adjudication to the consumer (Iqbal & Mirakhor, 2011). The second is the statutory segregation of the participants' risk fund from the shareholders' fund, established in law rather than in internal accounting policy. Where segregation exists only at the level of management accounts, the operator retains discretion over transfers between the two, and the tabarru' principle is compromised at the point where it matters most, namely in the disposition of surplus and the absorption of loss (IFSB, 2009). The third is the structure of remuneration: Malaysian practice rests predominantly on the wakalah model, under which the operator receives a fee fixed and disclosed in advance, with a mudarabah share applied to investment returns in hybrid arrangements, and with an obligation to advance an interest-free loan, qard al-hasan, when the risk fund falls into deficit (Swartz & Coetzer, 2010).

Institutional Readiness of Insurance Companies in Uzbekistan

Applied to insurance companies operating in Uzbekistan, this framework yields a specific assessment of institutional readiness. On the favourable side, the existing companies have the operational capacity, the licensing relationship and the distribution reach required to bring a takaful product to market within a comparatively short period. On the unfavourable side, three constraints are material. Capital adequacy requirements calibrated for conventional insurance do not account for the qard al-hasan obligation, which represents a contingent claim on the operator's own resources during the years in which the participants' fund is still accumulating reserves. Specialist personnel capable of designing takaful products and staffing Shariah committees are scarce, and this constraint binds more tightly than capital in the short term. Domestic retakaful capacity does not exist, so risk cession will initially require arrangements with international retakaful operators, which in turn requires a legal basis permitting them.

The role that takaful can play within these companies should therefore be understood as market-widening rather than product-substituting. Takaful does not compete for existing policyholders; it addresses a population that is currently outside the market and will remain outside it regardless of conventional product development. Its introduction expands the insured base rather than redistributing it, and this distinction has direct consequences for how a takaful window should be evaluated commercially: its success is measured by new participants attracted, not by premium volume transferred from existing lines (Ismailov, 2026b).

Preconditions for Authorising Takaful Windows

Five preconditions follow from the preceding analysis. First, takaful window operations should be authorised under a dedicated regulatory regime with its own licensing conditions, rather than through amendment of existing insurance legislation, since the two rest on different conceptions of fund ownership. Second, a single national Shariah authority with binding jurisdiction should be established before multiple companies open windows, because harmonising divergent rulings retrospectively is considerably more difficult than coordinating them initially. Third, the separation of the participants' fund from the operator's assets should be secured in law, with independent audit of the segregation. Fourth, operator remuneration should follow a disclosed wakalah structure, and any entitlement to underwriting surplus should be expressly addressed in the contract rather than left to interpretation. Fifth, the legal basis for international retakaful arrangements and a programme for training specialists should be developed concurrently with the regulatory framework rather than after it.

The risk of partial adoption warrants explicit statement. Where a company introduces takaful terminology without the corresponding structure, the result is a product that is conventional in substance and Islamic in name. In a market whose principal constraint is already a deficit of household confidence, the reputational cost of such an outcome falls not only on the company concerned but on the segment as a whole, and confidence lost at the introduction of a market is recovered slowly.

CONCLUSION

The role of takaful in insurance companies operating in Uzbekistan is best understood as an instrument for extending the boundaries of the insured population rather than as an alternative product line competing for existing customers. The window model offers the most realistic entry route given current market capitalisation, but it is also the model in which the distance between formal and substantive compliance is easiest to conceal. The Malaysian experience indicates that this distance is closed not by product design but by institutional architecture: dedicated legislation, a binding national Shariah authority, statutory fund segregation, disclosed wakalah remuneration and a functioning retakaful arrangement. Each of these is considerably easier to establish before windows open than to impose upon them afterwards.

Two questions merit further research. The first concerns the calibration of capital adequacy requirements for takaful windows in markets with low insurance penetration, where the qard al-hasan obligation may constitute a recurring rather than exceptional exposure. The second concerns the conditions under which cession to conventional reinsurers may be regarded as admissible during a transitional period in jurisdictions without domestic retakaful capacity.

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