



Midocean University

Faculty of Management

Department: Business Administration

Research Title

**"Exploring the challenges Facing Takaful Insurance Companies in the Saudi Arabia
Market and the proposed solutions: A mixed method study**

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Introduction:

Takaful insurance, or Islamic insurance, is a cooperative financial system rooted in Islamic principles, providing a Sharia-compliant alternative to conventional insurance. It operates on the concepts of mutual aid and collective risk-sharing, distinguishing itself from traditional insurance by emphasizing ethical collaboration rather than profit-making.

While takaful presents a robust alternative to conventional insurance, challenges such as regulatory compliance and market acceptance remain significant hurdles to its broader implementation and understanding.

There are key differences between Takaful (Islamic Insurance) and conventional insurance. From risk model perspective we can see conventional insurance uses risk transfer mechanism while Takaful model uses risk sharing model. Also insurers own the premium collected from customers in normal insurance while in Takaful the policy holders are collectively owning the premiums. All Takaful transactions & investments must be Shariah-compliant but with conventional insurance there is no constraints. Takaful uses profit sharing for surplus not like conventional where the profits go to company's owners specifically.

Saudi Arabia has one of the largest Takaful markets globally, driven by a predominantly Muslim population and government efforts to align financial services with Islamic principles. Despite this, Takaful operators in the Kingdom face notable challenges.

Research Problem

Takaful insurance companies are experiencing increasing growth in the Islamic world, particularly in the Saudi Arabia, due to their compliance with Sharia principles. However, these companies face numerous challenges that hinder their growth and sustainability compared to their conventional insurance counterparts.

Despite the gradual expansion of Takaful insurance in Saudi Arabia, Takaful companies still face regulatory, marketing, and competitive hurdles, as well as challenges related to management and public awareness.

This research is going to explore the existing challenges for Takaful insurance Companies in KSA and also is going to make analysis for root causes which affect the financial results of the insurance Companies. Hence there is improvements of the existing working model of Takaful in KSA market, this research will illustrate the model of takaful used and suggest enhancement that may help to improve financial results.

1. Regulatory Challenges

a. Regulatory Changes

- The Insurance Authority (IA): frequently updates insurance regulations as it had became the insurance regulator for KSA market after SAMA to help insurance bodies increase and strengthen solvency, governance, and customer protection.
- While positive, the pace and complexity of changes strain smaller Takaful operators.

b. Capital and Solvency Requirements

- IA imposed higher capital requirements to ensure financial soundness, which some Takaful firms struggle to meet, leading to **mergers and acquisitions**.
- Smaller firms face difficulty competing or expanding without access to more capital.

c. Limited Shariah Standardization

- No unified national standard on Shariah interpretation exists for Takaful.
- Differences in Shariah boards across companies lead to inconsistent practices and slower product innovation.

2. Operational Challenges

a. Underwriting and Pricing Inefficiencies

- Many Takaful operators rely heavily on third-party administrators or brokers for underwriting.
- Lack of actuarial capacity and reliance on manual processes result in inefficiencies and mispriced risk.

b. Shariah Governance Burden

- Each Takaful firm must maintain its own **Shariah Board**, increasing overhead and decision delays.
- Ensuring proper segregation between **Participant Risk Fund (PRF)** and **Shareholders' Fund (SHF)** is complex and requires strong internal controls.

c. Limited Human Capital

- Shortage of skilled professionals who understand both **insurance and Islamic finance**.
- Overreliance on expatriates in senior roles; localization (Saudization) mandates add pressure to fill positions with scarce local talent.

d. Digital Transformation Lag

- Compared to conventional insurers and banks, Takaful operators are slower in adopting **insurtech** and digital platforms.
- This affects customer acquisition, servicing, and retention.

3. Market Challenges

a. Intense Competition

- The market is crowded with over 20 insurers (mostly Takaful), making it highly competitive.

- Aggressive pricing wars and thin profit margins hurt smaller operators the most.

b. Customer Awareness and Perception

- Many consumers **do not understand** how Takaful differs from conventional insurance, viewing it as just a rebranded product.
- Low awareness weakens brand differentiation and trust in Takaful's mutual benefits model.

c. Limited Product Innovation

- Most Takaful products in Saudi Arabia are **standardized** (motor, health, property), with limited offerings in **family Takaful**, retirement, or investment-linked products.
- Regulatory caution and lack of technical expertise contribute to limited diversification.

d. Re-Takaful Constraints

- Limited access to high-quality **re-takaful** providers (Islamic reinsurance) leads to dependence on conventional reinsurance, raising Shariah compliance concerns.

Research Objectives:

1. Identify the most prominent challenges facing Takaful companies.
2. Identify and analyze the key regulatory challenges faced by Takaful insurers
3. Assess market-related obstacles impacting the growth and competitiveness of Takaful providers
4. Propose policy recommendations and strategies for enhancing the performance and reach of Takaful companies.

Importance of Research:

The importance of this research lies in its ability to shed light on one of the most important Islamic financial sectors, which has a growing impact on the economies of Saudi Arabia. It also enhances academic and practical understanding of the development of the takaful insurance industry and supports decision-makers in developing appropriate regulatory policies.

Saudi Arabia is considered one of the key influencing Islamic countries in the world. Most of insurance companies in KSA use Takaful model in their operation. The Saudi government seeks to diversify income sources and invigorate the non-oil sector via "Vision 2030," and the Takaful sector is a significant component of this initiative. The Saudi government substantially supports the Takaful sector by establishing a robust infrastructure and regulatory framework, facilitating future growth. This assistance has augmented both domestic and international investment in the Takaful sector and enabled growth prospects. Also, Takaful insurance contributes to creating job opportunities for citizens.

The Impact of Takaful Insurance on the Stability of the Financial System and Risk Management as stability and risk management of the financial system are greatly influenced by Takaful Insurance, which distributes risks equally among participants through the principles of participation and cooperation. Takaful insurance avoids usury and speculation, making the financial system more resilient to financial shocks.

Research Questions:

1. What are the major regulatory challenges that affect Takaful insurance operations in Saudi Arabia?
2. How do operational structures and Shariah compliance impact efficiency and performance?
3. What are the market-related factors that limit the growth and acceptance of Takaful insurance in Saudi Arabia?
4. What are the best practices or reforms can be implemented to overcome these challenges?

Research Hypotheses:

This research is targeting to study existing and current working Takaful insurance models in KSA market. Many Takaful Companies in KSA make losses in one year and then achieve profits in the year after with no consistent results for consecutive years. This inconsistency affects many factors which are already discussed above, while this research is going to suggest enhancements to the existing models or create a suitable new model which may be more convenient to KSA Takaful market.

Related Studies:

The most prominent academic studies and reports that addressed the performance and challenges of Takaful insurance companies were presented, with their results compared to the problem and objectives of the current research.

- Financial Technology and Islamic Insurance: The Saudi Context Othman Altwijry , Mustafa Omar Mohammed and Ahmad Alrazni Alshammari (Scientific Journal, King Faisal University) Link (<https://doi.org/10.37575/h/mng/220039>)
- Takaful Insurance and Its Impact on Enhancing Economic Growth in the Kingdom of Saudi Arabia During the Period (2010–2021) (PREMIER JOURNAL OF ECONOMICS) by Noha Almanea.
- EXAMINING OPPORTUNITIES AND CHALLENGES IN TAKAFUL: AN IN-DEPTH ANALYSIS OF THE DEVELOPMENT AND APPLICATION OF ISLAMIC INSURANCE WITHIN THE INDUSTRY by Asrarov Shukhrat Abdusattarovich Link (<https://doi.org/10.5281/zenodo.10829659>).
- ISSUES IN REGULATION AND SUPERVISION OF TAKAFUL (ISLAMIC INSURANCE) by ISLAMIC FINANCIAL SERVICES BOARD and INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS.

Theoretical foundations of the study:

- Definition of Takaful insurance and its Shariah principles.
- The difference between Takaful and conventional insurance.
- Regulatory and Shariah frameworks in the KSA.
- Key risk management models in insurance companies.
- Describing operational & market issues for existing Takaful Companies in Saudi Market.

Methodology and research methods:

a. Research Design

- A mixed method study (qualitative interviews and quantitative study) targeting insurance practitioners and general public in Saudi Arabia

b. Data Collection

<u>Source</u>	<u>Type</u>	<u>Description</u>
<u>Primary</u>	<u>Interviews &</u>	Conduct semi-structured interviews with executives, regulators, Shariah scholars, and customers. Surveys to gather insights from Takaful employees and policyholders.
<u>Data</u>	<u>Surveys</u>	

c. Data Analysis

- Thematic analysis for qualitative interview data.
- Statistical analysis using SPSS tool for survey data.

Research Tools:

An interview meeting topic guides and a survey will be prepared from previous examined surveys to answer our research questions.

The guide will include ten questions, and the survey will cover two items, specifically the challenges and the solutions. Each item will include around ten questions.

The questions will cover the following areas: the challenges , market-related factors.

Various types of statistical tools help derive information from collected data. Data gathered will be prepared for analysis through many tools like SPSS, STATA ...etc. we may use appropriate tools that would help figure out required results meets research objectives.

Scope of Research:

- **Geographic Focus:** Saudi Arabia Takaful market.
- **Time Frame:** from 1999 till 2025, since medical insurance Takaful Companies started in 1999 by regulator with medical insurance law.
- **Industry Focus:** Takaful (general, medical, motor & life), comparison with conventional insurers for benchmarking.

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- The impact of field challenges on the Takaful insurance industry in the Kingdom of Saudi Arabia.
- Takaful Insurance and Its Impact on Enhancing Economic Growth in the Kingdom of Saudi Arabia During the Period (2010–2021)
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- Financial Technology and Islamic Insurance: The Saudi Context Othman Altwijry , Mustafa Omar Mohammed and Ahmad Alrazni Alshammari