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TAKAFUL BUSINESS MODEL AND BUSINESS PERFORMANCE: A COMPARATIVE EVIDENCE FROM THE GLOBAL TAKAFUL INDUSTRY

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ABSTRACT

As a means for takaful operators to survive and sustain their business within the industry, they must appropriately choose takaful business models for their products. Different types of takaful business models will determine the different types of income for the business. Thus, this study aims to identify the most competitive takaful business model that relies on the takaful operators' business performance. This study employed qualitative and quantitative methods on eight selected global takaful operators. The qualitative method is employed through content analysis to identify the application of the Shariah contract and the respective standards. Meanwhile, the quantitative method analyzes each takaful operator's business performance (profit-after-tax and the return on assets). The finding indicates that three out of eight operators adopted the *wakalah-mudarabah* model, two operators with the *wakalah* model, two with the *wakalah-waqf* model, and one with the *wakalah-qard* model. The finding also highlights that Syarikat Takaful Malaysia Keluarga Bhd recorded the highest profit-after-tax average and the average of return on assets using a wakalah-qard model. This study betrays an exigent insight into the effect of takaful business model selection on business performance. As a practical implication to the takaful operators, they need to re-strategize their business model to boost revenue through an appropriate model. This study also provides a

breakthrough to the body of knowledge. This paper bids its originality by narrowing down the segment of the takaful industry and focusing only on the family takaful segment.

Keywords: Takaful business model; business performance; global takaful industry; takaful operator & Shariah contract

INTRODUCTION

In the early 1980s, the takaful industry was established in Malaysia to meet the Muslim community's demand for an insurance option that complied with Shariah law. It also aimed to support the Islamic bank that was established in 1983. The Malaysian National Fatwa Committee issued a decree stating that life insurance in its current form is void due to uncertainty (*gharar*), usury (*riba*), and gambling (*maysir*). This triggered the establishment of a Special Task Force in 1982 to investigate the possibility of creating an Islamic insurance company. The task force's recommendations led to the enactment of the Takaful Act in 1984, and the first takaful operator was incorporated in Malaysia in November of that year (Bank Negara Malaysia, 2005).

The Takaful industry experienced significant growth in the Asia Pacific and Gulf Cooperation Council (GCC) region, which has a sizeable Muslim population (IMARC Group, 2020). This growth is in line with the development of Islamic finance and banking. Takaful products are an alternative to conventional insurance products for Muslims worldwide, providing protection based on Shariah concepts. This makes it a preferred approach to managing risk according to Islamic principles and guidelines.

The global takaful industry experienced significant growth despite the impact of the COVID-19 pandemic in 2020, as reported by statistics. In 2021, the total assets for the sector reached USD 73 billion, based on data from Refinitiv. The same report shows a consecutive growth of USD 47 billion to USD 54 billion and USD 62 billion from 2018 to 2020. This represents a 17 percent increase in takaful assets growth in 2021. Currently, there are 335 global takaful operators. Additionally, these operators have demonstrated a 79 percent positive performance, with a rise in net income and a decrease in net loss or a turnaround from loss to profit (Refinitiv, 2022). The same report also mentioned that the top 3 countries with the highest number of takaful assets are Iran (USD 30 billion), Saudi Arabia (USD 18 billion) and Malaysia (USD 12 billion).

Focusing on the Malaysian scenario, the market share for the takaful industry, specifically family takaful products, has collected RM 10.06 billion of the total contribution for the new business in 2022. This figure indicates an increment of 18.3 percent, which amounted to RM8.5 billion for 2021 (Malaysian Takaful Association, 2022). The same report also shows an increment of 25.4 percent from RM6.28 billion in 2021 to RM7.87 billion in 2022 for new business single contributions. Moreover, the penetration rate for the takaful industry in Malaysia was also recorded at 20.1 percent for 2022, which is better than 2021, which recorded 18.6 percent. The family takaful business growth indicates a suitable catalyst for the industry to forge ahead and give its best efforts.

The takaful market is growing globally due to several factors, such as retirement financial planning, indemnity for health issues and death, takaful business models, and other related factors. Takaful companies worldwide use various business models to provide services based on Islamic muamalat (finance) and Islamic law regulations. Each takaful business model has distinctive features and rules that align with the contract's objective. It is crucial to select the appropriate contract that fulfils the needs of all parties involved in the takaful arrangement and achieves the purpose of takaful (International Shariah Research Academy for Islamic Finance, 2012). The suitable takaful business models will determine the type of income stream for takaful operators. Therefore, takaful operators need to choose the most appropriate takaful business model that could boost business growth.

The need to conduct research on the effect of different takaful business models on business performance is underscored by several critical issues in the current literature and industry practices. Firstly, despite its rapid growth, the takaful industry faces challenges related to its operational models, regulatory environments, and market dynamics. There is a noticeable gap in empirical studies that systematically analyze how variations in takaful business models influence key performance indicators such as profitability, customer satisfaction, and operational efficiency. For instance, while some studies highlight the potential benefits of profit-sharing models in enhancing customer trust and retention (Kamaruddin et al., 2017), others suggest that risk-sharing models might offer more sustainable growth in certain market contexts (Said et al., 2019). Moreover, differences in regulatory frameworks across regions like Malaysia, Indonesia, and the UAE introduce additional complexities that can significantly impact business strategies and outcomes (Ariff & Rizvi, 2014). Thus, addressing these issues through rigorous empirical research is crucial to providing actionable insights for policymakers, industry practitioners, and academics aiming to foster sustainable development and competitiveness within the global takaful sector.

Concerning this issue, this paper outlined two research objectives: (RO1) to identify the applicability of the takaful business model from the global takaful operators and their respective standards/guidelines and (RO2) to evaluate and compare the business performance based on different business takaful models. Nevertheless, to the best of the researcher's knowledge, the empirical studies on the effect of the business takaful model on business performance are still scant. Many previous studies focused on the determinants of the performance of takaful operators as a whole, including general and family takaful segments. In fact, the main income stream for the takaful operators is from the family takaful segment. Thus, this study will provide new insight by unveiling the effect of the takaful business model on business performance from the global takaful industry practices.

LITERATURE REVIEW

Takaful & Its Business Models

Takaful comes from the Arabic word "*kafala*," which means responsibility, guarantee, amenability, or suretyship. Thus, takaful means a joint guarantee, shared responsibility, shared guarantee, collective assurance, and mutual undertaking. This highlights a reciprocal relationship and agreement of mutual help among members in a particular group. Takaful is based on three essential principles of mutual aid - mutual help, mutual responsibility, and mutual protection from losses. Participants contribute to a shared fund and collaborate to protect each other against specific risks. This system offers a sense of security and peace of mind to all involved. Its strength is promoting a stronger sense of community and cooperation (Malik & Ullah, 2019).

Participating in a takaful scheme involves seeking protection for oneself while cooperating with other participants to provide mutual financial aid and assistance in times of need. According to Section 2 of the Takaful Act of Malaysia 1984, takaful is "a scheme based on brotherhood, solidarity, and mutual assistance, where participants agree to contribute to providing aid to each other" (The Government of Malaysia, 2007) Islamic cooperative insurance, known as takaful *ta'awuni* (corporation), operates differently from traditional buying and selling contracts. Instead, it involves a group of individuals who each contribute a fixed amount of money. If any group member experiences a loss, compensation is paid out of the total sum. This arrangement promotes a sense of brotherhood and solidarity among participants willing to assist each other during times of difficulty.

The applicability of takaful business models can be broadly divided into non-profit and for-profit. The first non-profit category is binding between participants using *tabarru'* contract (donation). *Tabarru'* refers to an agreement where a participant donates a certain sum to a takaful fund. This donation is intended to provide mutual indemnity to takaful participants, acting as a joint guarantee in case of any defined losses. Participants contribute a portion of their contribution as a donation, which can be an outright gift (*hibah*) or an endowment (*waqf*). Current practice does not specify the donation form (International Shariah Research Academy for Islamic Finance, 2012).

Alongside the non-profit *tabarru'* contract model, other models have been created that allow for compensation and profit for takaful service providers. Four takaful models that apply to different types of contracts between participants and the takaful operator are used globally. The most used models are *mudarabah* (profit-sharing-based contract) and *wakalah* (agency-based contract), with some operators using a hybrid model that combines different models such as *wakalah-mudarabah* and *wakalah*-*waqf*. However, the most frequently used contracts are *mudarabah* (profit-sharing), *wakalah* (agency), and *waqf* (endowment).

Wakalah **Model**

The *wakalah* model is the first model used in takaful products. In Islamic finance, wakalah refers to a contract of agency or delegated authority. The principal, or *muwakkil*, appoints an agent, or *wakeel*, to carry out certain activities on their behalf. The agent must have the necessary knowledge, skills, and talents to perform the assigned duties. This agent-principal relationship forms the basis of several takaful models. The takaful operator acts as a *wakeel* for the participants, overseeing the pool's operations for a specified payment.

In a *wakalah* contract, the takaful fund is owned by the participants and managed by a *wakeel* (agent) based on *mudarabah* (if applicable) and *tabarru'* principles. Before operating the fund, the agent deducts a *wakalah* fee/operator fee for administration and service charges. The remaining balance is used for claim reserves, technical reserves, re-takaful costs, and investments in Sharia-compliant platforms. Any surplus or underwriting excess will be contributed among the participants. However, in a modified *wakalah* contract, the takaful operator also entitles the surplus (International Shariah Research Academy for Islamic Finance, 2012).

The takaful operator, also called a *wakeel* or agent, has various duties. These include collecting participants' contributions, depositing them in the takaful fund, investing money from the fund, compensating participants if a covered event occurs, and distributing surplus among those who have not made a claim. The takaful operator is paid for these services through a *wakalah* fee, a service fee, and a performance fee (commission fee) from investment activities. This fee is typically a fixed upfront fee and may be calculated as a percentage of the takaful contributions. Figure 1 below illustrates the mechanism of the *wakalah*-based model in the family takaful product segment.

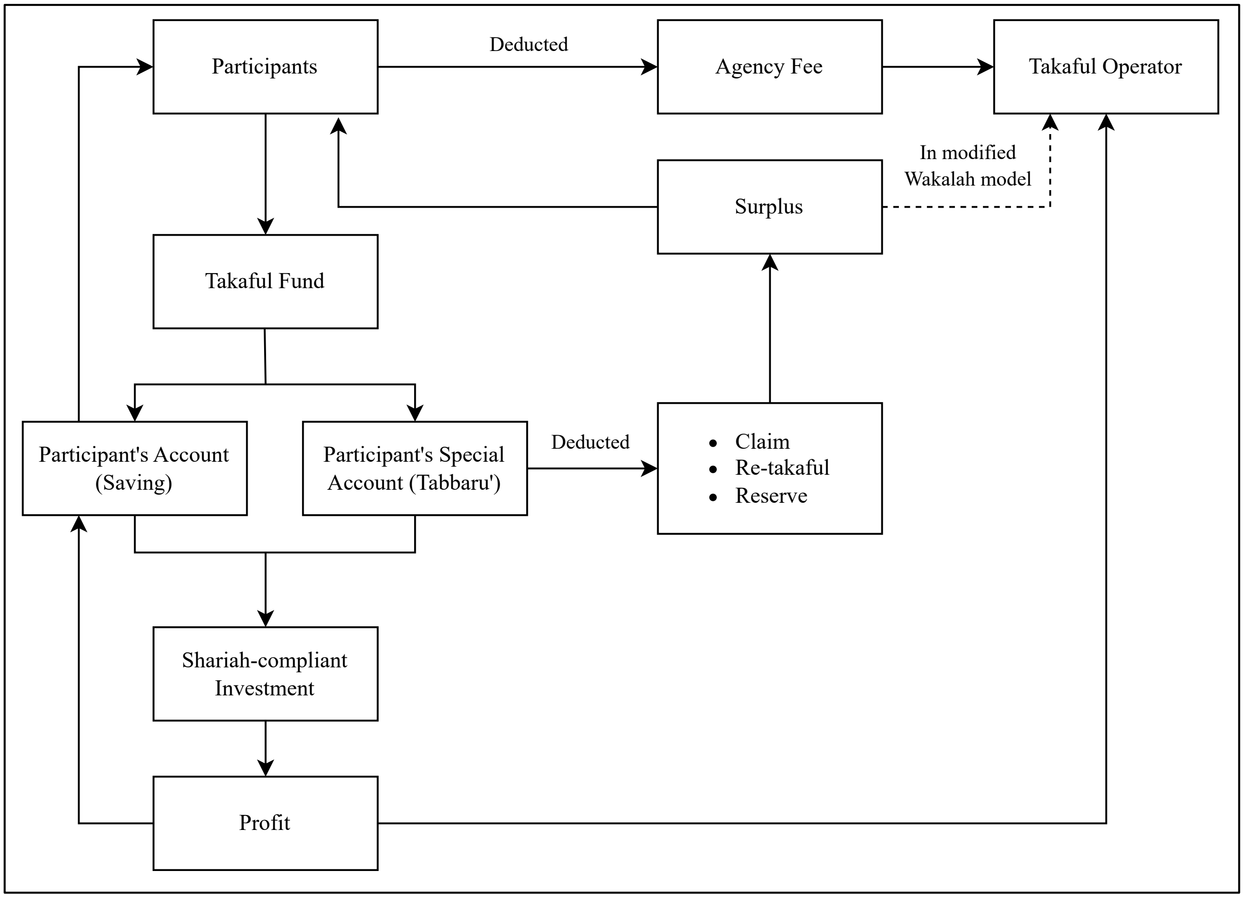

Figure 1. Wakalah-based takaful model

Mudarabah Model

The *mudarabah* model is the initial model used in Malaysia's takaful industry (Akram Laldin, 2008). This model is based on Islamic law and involves a profit-sharing agreement (Alhumoudi, 2012). Two parties are involved in this arrangement: the first party is the participants, referred to as the capital provider or *sahibul-mal*, who provide the funds. The second party is the takaful operator, the fund manager or *mudarib*. They offer their services and expertise in managing the funds. In the *mudarabah* model, the takaful operator or *al-mudarib* receives payment of the takaful contributions, also known as premium, from the takaful participants or sahibul mal.

According to the *mudarabah* contract, the revenue generated from using takaful funds will be divided based on the contract between the participants and the takaful operator. The surplus profit can be distributed in any ratio agreed upon by the parties involved, for instance, 5:5, 6:4, 7:3, and so on (International Shariah

Research Academy for Islamic Finance, 2012). The takaful company is entitled to a specific percentage of the profit gained from the investment.

This arrangement enables the Takaful Operator (TO) to benefit from the investment performance of both the participant's saving account and special account (*tabarru'*). This separation of contribution funds is only applicable to family takaful products. Suppose the participant's special account does not yield profits. In that case, the TO will offer the participant an interest-free loan (*qard al-Hassan*) that must be repaid when the special account becomes profitable before any future surplus is distributed. Takaful companies rely on a specific ratio of investment profit for their major revenue.

As such, they must be prudent and active in investing takaful funds to gain profits. Shariah-compliant instruments should be used when investing takaful funds, as recommended by Bank Negara Malaysia (Htay & Zaharin, 2011). The *mudarabah* model can be cancelled, and after deducting administrative costs, all cumulative capital plus profit must be repaid to the participants (Abdul Wahab et al., 2007). Figure 2 illustrates the modus operandi of the *mudarabah*-based model for family takaful products.

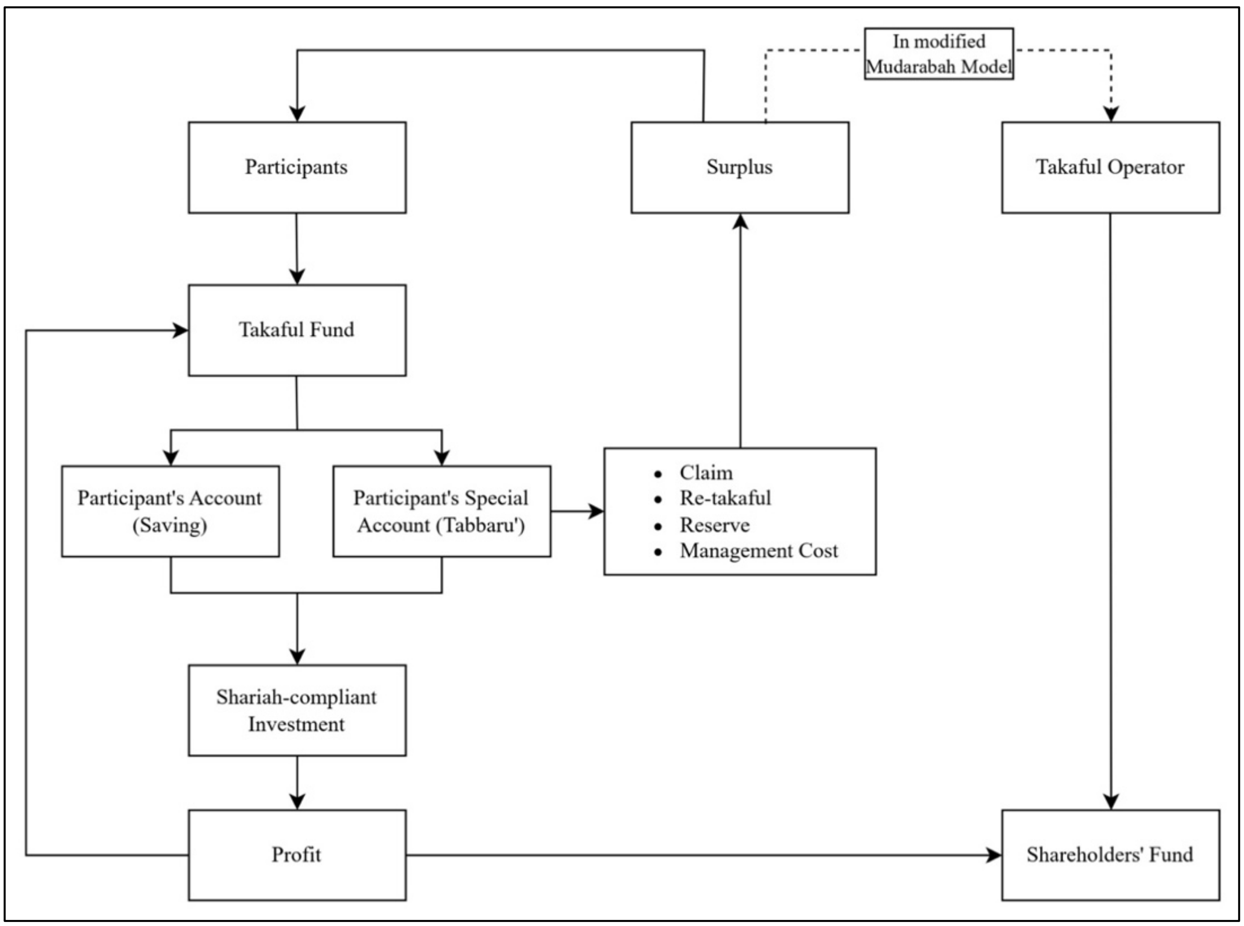

Figure 2. Mudarabah-based takaful model

Hybrid of *Wakalah* and *Mudarabah* Model

A hybrid contract combines two different contracts, namely the *wakalah* and *mudarabah* models. The underwriting procedures follow the *wakalah* principle, while the takaful fund investment uses the *mudarabah* contract. This model allows the takaful operator to earn an agency fee for administering the fund as a *wakeel* and a profit share for managing the fund's investment as a *mudarib*. This hybrid form is commonly used for family takaful products.

Participants in the takaful program will begin by making donations, which will be divided into agency fees and takaful funds. These categories are allocated based on the agreed-upon ratio between the takaful operator and the contract participants. The takaful operator's fund will receive the agency charge, which includes agency commission and administrative costs. This fund will then be invested in Shariah-compliant securities. Any profits made will be distributed between the participants and the takaful operator according to the agreed-upon ratio. Once claims, re-takaful, and reserve have been settled, any surplus will be divided between the participants and takaful operator based on the contract's agreed-upon percentage. The *wakalah-mudarabah* hybrid model is illustrated in Figure 3 below.

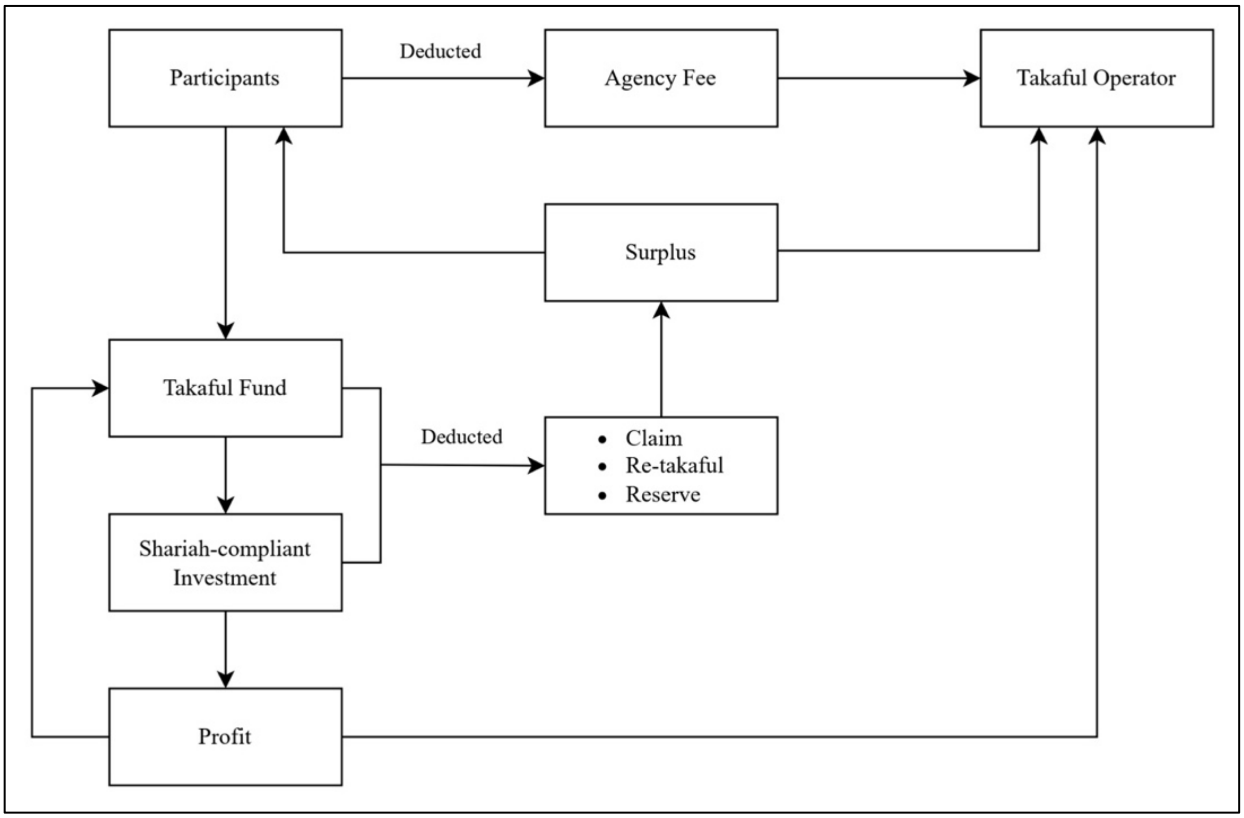

Figure 3. The hybrid of the Wakalah-Mudarabah-based takaful model

Hybrid of *Wakalah* and *Waqf* Model

Renowned Pakistani Shariah scholar Taqi Usmani has recently proposed a unique takaful model that merges the *wakalah* (agency) and *waqf* (endowment) models. This innovative hybrid model is designed to help individuals build up savings funds that can be utilized for charitable purposes in the future. The basic concept behind this model is that shareholders can make regular contributions to the fund, which can be donated later as a charitable contribution. This model is expected to revolutionize how people approach philanthropic donations and provide a more sustainable means of giving back to the community.

The shareholders of a takaful operator, who are also the owners of the *waqf* fund, have granted the operator the authority to act as the fund's administrator. This entails the settling of claims made from the fund. Additionally, the shareholders of the takaful company serve as investment agents responsible for investing in the *waqf* fund. This arrangement is based on the *wakalah bil-istithmar* contract. As a result, the shareholders of the takaful operator are entitled to a portion of the investment earnings as a performance fee. The sources of income for the takaful operator in this model are like those in the *wakalah* model, precisely the agency fee. This income is rightfully due to the takaful operator's services as a *wakeel* in managing the *waqf* fund.

Moreover, the takaful operator also receives a performance fee for their role as an investing agent. This approach is relatively recent and is commonly used by non-profit organizations. Overall, this arrangement ensures that the *waqf* fund is effectively managed and invested, with the shareholders of the takaful operator benefitting from their efforts. Figure 4 below indicates the flow of a hybrid *wakalah-waqf* framework for the takaful model.

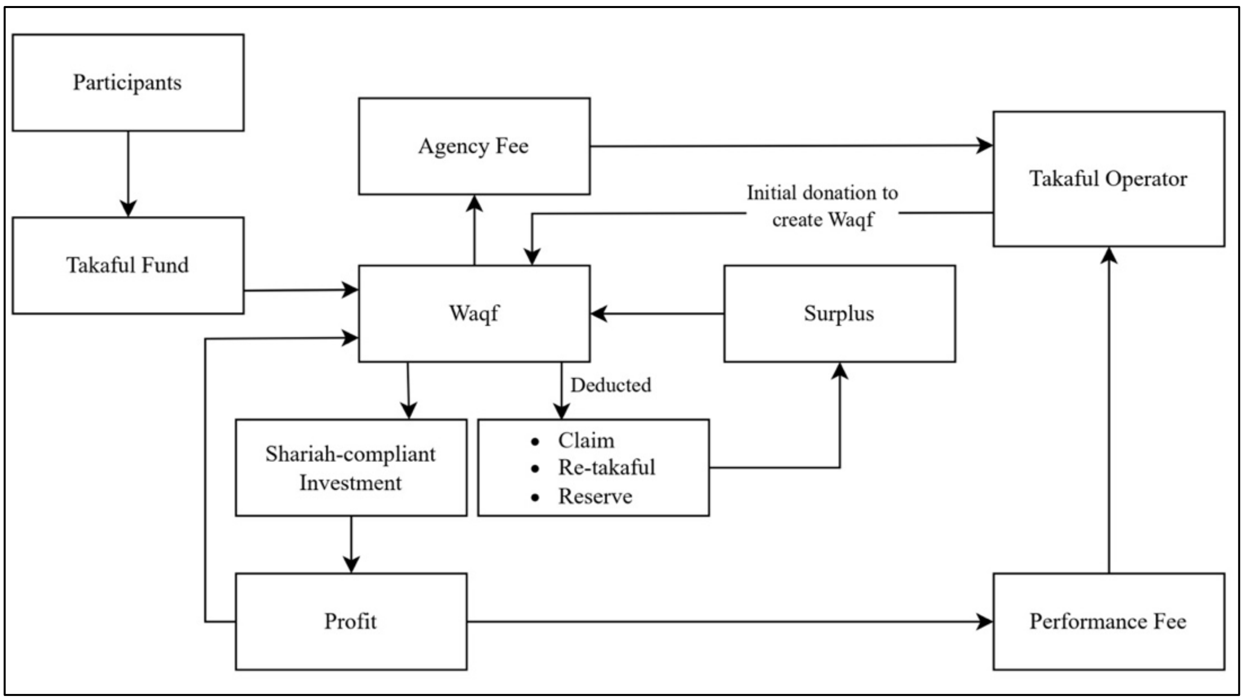

Figure 4. The hybrid of the wakalah-waqf -based takaful model

METHODOLOGY

This study conducts a mixed methodology in which qualitative and quantitative analyses are used. In qualitative methods, content analysis is used to achieve the study's first research objective (RO1): to identify the application of the takaful business model from the global takaful industry and their respective standards/guidelines. This method examines the relevant documents that indicate applying the takaful business model for their family takaful products. The relevant documents include the products' brochure sheet, the audited annual reports on the company's website and the respective guidelines from the authorities (e.g., Takaful Operational Framework for Malaysian takaful operators, issued by BNM).

Meanwhile, the quantitative method is performed to achieve the second research objective: to evaluate takaful operators' business performance based on the chosen takaful business model. This method uses a secondary data set on profit-after-tax from the audited annual reports published on their websites (Saeed, 2019). To ensure the validity and reliability of the data, the study only dug out the profit-after-tax from the audited financial statement. The average of changes in the value of the profit-after-tax is calculated for ten years, starting 2013 up to 2022, on eight selected global takaful operators. The highest average of changes in the profit-after-tax value will indicate the most efficient takaful business model. To robust the finding and as a comparison, this study also supplements one financial ratio, which is the return on asset (ROA), in assessing the business performance of family takaful operators.

This study employs the comparison analysis of the business performance of eight selected takaful operators. These eight takaful operators are within the Asia Pacific region, which included Abu Dhabi National Takaful Co. (United Arab Emirates), Great Eastern Takaful Bhd (Malaysia), Pak-Qatar (Pakistan), Salaam Takaful Limited (Pakistan), Syarikat Takaful Malaysia Keluarga Bhd (Malaysia), Damaan Islamic Insurance Company - Beema (Qatar), Takaful Ikhlas (Malaysia) and Takaful Keluarga (Indonesia). The selection criteria for these eight takaful operators were based on the availability of audited financial reports on their websites for at least ten years, starting from 2013 to 2022.

RESULTS AND ANALYSIS

Table 1 below illustrates the eight global takaful operators in relation to their application of the takaful business model. Quoting from the table, three takaful operators were from Malaysia: Great Eastern Takaful Bhd., Syarikat Takaful Malaysia Keluarga Bhd., and Takaful Ikhlas. Furthermore, two takaful operators were from Pakistan: Pak-Qatar and Salaam Takaful Limited. Only one takaful operator is from Indonesia, Takaful Keluarga, and one is from Qatar, Damaan Islamic Insurance Company - Beema.

Regarding their application of the takaful business model, the two Malaysian takaful operators (Great Eastern Takaful Bhd.) applied the *wakalah* contract as their business model. Meanwhile, one takaful operator from the United Arab Emirates (Abu Dhabi National Takaful Co.), one takaful operator from Indonesia (Takaful Keluarga) and one takaful operator for Qatar (Damaan Islamic Insurance Company – Beema) implemented the *Wakalah-Mudarabah* hybrid contract as their business model. Moreover, the two takaful operators from Pakistan (Pak-Qatar and Salaam Takaful Limited) employed a *wakalah-waqf* contract in their business model. Finally, only one takaful operator, Syarikat Takaful Malaysia Keluarga Bhd from Malaysia, utilized a *wakalah-qard* contract.

Table 1.
Takaful Operators and their Takaful business model

Takaful Operator	**Country**	**Takaful Business Model**
Abu Dhabi National Takaful Co.	United Arab Emirates	*Wakalah-Mudarabah*
Great Eastern Takaful Bhd.	Malaysia	*Wakalah*
Pak-Qatar	Pakistan	*Wakalah-Waqf*
Salaam Takaful Limited	Pakistan	*Wakalah-Waqf*
Syarikat Takaful Malaysia Keluarga Bhd	Malaysia	*Wakalah-Qard*
Damaan Islamic Insurance Company - Beema	Qatar	*Wakalah-Mudarabah*
Takaful Ikhlas	Malaysia	*Wakalah*
Takaful Keluarga	Indonesia	*Wakalah-Mudarabah*

The selection of the takaful business model by Malaysian takaful operators (Great Eastern Takaful Bhd., Syarikat Takaful Malaysia Keluarga Bhd., and Takaful Ikhlas) is in line with the guidelines set by Bank Negara Malaysia (BNM) under Section 10 (10.14), (10.15) (a)(b)(c)(d)(e). As required in Section 10 (10.14), when offering a takaful product, a licensed operator is responsible for ensuring that the terms and conditions outlined in the legal documentation meet the standards of Shariah contracts and can be enforced.

The following sub-section (10.15) also stipulates that the terms and conditions of Shariah contracts in a takaful product will be clearly stated in the legal documentation. These terms will include *tabarru'*, *wakalah*, *mudarabah*, *qard* for PIF saving, and *hibah* contract as a minimum requirement (Bank Negara Malaysia, 2019). Therefore, as in practice, we can conclude that Malaysian takaful operators have followed and fulfilled the minimum requirement as set by the BNM. Only one takaful operator, Syarikat Takaful Malaysia Keluarga Bhd (Malaysia), employs a *wakalah-qard* contract. Nonetheless, the application of the *wakalah-qard* contract is according to Section 10 (10.15) (a)(b)(c)(d)(e). Interestingly, through the content analysis, the study unveiled that most takaful operators in Malaysia employed a modified *wakalah* contract in their family takaful products.

Meanwhile, other countries such as Qatar and Pakistan must apply the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards (Mohd Zain et al., 2021). Thus, as stipulated in the standards – Shariah Standard No. 26 sub-section 4 (4/2), the relationship between the operator and customer is based on a *wakalah* contract regarding management and *mudarabah* contract regarding the investment of the fund's assets (AAOIFI, 2015). This stipulated guideline justifies the application of a *wakalah-mudarabah* hybrid contract in their takaful products. Through its content analysis, the study verified that most MENA region countries, such as Qatar, the Kingdom of Saudi Arabia, the United Arab Emirates, the Kingdom of Bahrain, Jordan, etc., incorporated a *wakalah-mudarabah* contract in their takaful products.

Furthermore, takaful operators in Indonesia adopted the Undang-Undang No 40 (UU40) as their principal guidelines for their business operation (Wan Daud et al., 2018). Sometimes, Indonesia also adopted the AAOIFI accounting standards as a basis for national accounting standards (Mohd Zain et al., 2021). Nevertheless, to the best of the researcher's knowledge, UU40 has not implicitly mentioned the application of the Shariah contract for their takaful product. This statement may justify adopting AAOIFI standards and, therefore, applies a *wakalah-mudarabah* model in their operation.

Finally, the United Arab Emirates incorporated its standard, Insurance Authority Board Decision, Number (26) of 2014 Pertinent to Financial Regulations for Takaful Insurance Companies, as the underlying guidelines for takaful business. They also voluntarily adopt the AAOIFI standard. However, no direct clause in the Section mentions the standard Shariah contract that the takaful operators can apply. The only related clause mentioned in Section No. 7, Article (3) is that the operator shall charge the fee either based on the *wakalah-mudarabah* or the *wakalah* model (Insurance Authority United Arab Emirates, 2014). Hence, this article supports adopting a *wakalah-mudarabah* model for takaful operators in the United Arab Emirates.

The second research's objective is to evaluate and compare the business performance of the selected global takaful operators based on their takaful business model. This research objective is attained by calculating the average profit-after-tax (PAT) and the average changes in profit-after-tax (CVPAT) for ten years, starting 2013 up to 2022. Table 2 below indicates each takaful operator's average PAT and CVPAT. Syarikat Takaful Malaysia Keluarga Bhd [Malaysia] recorded the highest average value for PAT at USD 55.1 million through the *wakalah-qard* model. Noteworthily, the same operator has recorded the highest average in CVPAT, which is at USD 4 million. Then, the highest average of PAT is followed by Abu Dhabi National Takaful Co. (*wakalah-mudarabah*) at USD 17.6 million, Damaan Islamic Insurance Company – Beema (*wakalah-mudarabah*) at USD 12.1 million, Takaful Ikhlas (*wakalah*) at USD 3.5 million, Takaful Keluarga (*wakalah-mudarabah*) at USD 907 thousand, Pak-Qatar (*wakalah-waqf*) at USD 361,615 and Salaam Takaful Limited (*wakalah-waqf*) at USD 112,958. Unfortunately, Great Eastern Takaful Bhd has taped the profit loss at USD 175,622 through the *wakalah* model.

Table 2.
Average of PAT vs. Average of Changes in value of PAT

Takaful Operator [Country]	**Takaful Business Model**	**Average of Profit-After-Tax (USD)**	**Average of Changes in Value of Profit-After-Tax (USD)**
Abu Dhabi National Takaful Co. [United Arab Emirates]	*Wakalah-Mudarabah*	17,603,218	1,498,941
Great Eastern Takaful Bhd. [Malaysia]	*Wakalah*	(175,622)	444,353
Pak-Qatar [Pakistan]	*Wakalah-Waqf*	361,615	24,139
Salaam Takaful Limited [Pakistan]	*Wakalah-Waqf*	112,958	68,523
Syarikat Takaful Malaysia Keluarga Bhd [Malaysia]	*Wakalah-Qard*	55,059,104	4,396,940
Damaan Islamic Insurance Company – Beema [Qatar]	*Wakalah-Mudarabah*	12,124,419	793,085

Takaful Ikhlas [Malaysia]	*Wakalah*	3,497,293	491,990
Takaful Keluarga [Indonesia]	*Wakalah-Mudarabah*	907,552	(121,227)

Regarding the average CVPAT, and worth noting, Syarikat Takaful Malaysia Keluarga Bhd, through its *wakalah-qard* model, disclosed the highest value at USD 4.4 million. This significant amount contributes at least 8 percent to the total average of PAT. Another million digits have been recorded by Abu Dhabi National Takaful Co. via the *wakalah-mudarabah* model at USD 1.5 million. The highest average of CVPAT is followed by Damaan Islamic Insurance Company – Beema (*wakalah-mudarabah*) at the USD 793,085, Takaful Ikhlas (*wakalah*) at USD 491,990, Great Eastern Takaful Bhd. (*wakalah*) at USD 444,353, Salaam Takaful Limited (*wakalah-waqf*) at USD 68,523 and Pak-Qatar (*wakalah-waqf*) at USD 24,139. Only one takaful operator, which is Takaful Keluarga via *wakalah-mudarabah* has recorded a negative average of CVPAT at USD 121,227. This comparison shows that the most competitive takaful business model belongs to the *wakalah-qard* model, followed by *wakalah-mudarabah*, *wakalah* and *wakalah-waqf*.

Table 3.
Profit-after-tax vs. Changes in the value of each takaful operator

Takaful Operator	Abu Dhabi National Takaful Co. [United Arab Emirates] (Wakalah-Mudarabah)		Great Eastern Takaful Bhd. [Malaysia] (Wakalah)		Pak-Qatar [Pakistan] (Wakalah-Waqf)		Salaam Takaful Limited [Pakistan] (Wakalah-Waqf)	
Year	Profit after Tax in USD	Changes in Value (USD)	Profit after Tax in USD	Changes in Value (USD)	Profit after Tax in USD	Changes in Value (USD)	Profit after Tax in USD	Changes in Value (USD)
2013	11,135,237		(868,613)		175,710		54,198	
2014	9,554,343	(1,580,894)	492,800	1,361,413	102,962	(72,748)	30,130	(24,068)
2015	12,112,779	2,558,437	(2,637,122)	(3,129,921)	293,354	190,391	106,203	76,073
2016	12,518,783	406,004	(4,018,889)	(1,381,768)	427,959	134,606	73,992	(32,211)
2017	14,561,372	2,042,589	(3,018,077)	1,000,812	440,009	12,050	10,933	(63,059)
2018	25,831,133	11,269,761	(2,113,040)	905,037	375,081	(64,928)	(269,463)	(280,396)
2019	20,804,613	(5,026,521)	652,853	2,765,892	365,719	(9,362)	59,338	328,800
2020	20,003,454	(801,158)	1,973,770	1,320,918	521,945	156,226	17,996	(41,342)
2021	24,884,764	4,881,310	3,956,539	1,982,769	520,457	(1,487)	375,350	357,354
2022	24,625,706	(259,058)	3,130,564	(825,975)	392,958	(127,499)	670,907	295,556
Average	**17,603,218**	**1,498,941**	**(175,622)**	**444,353**	**361,615**	**24,139**	**112,958**	**68,523**

Table 4.
Profit-after-tax vs. Changes in the value of each takaful operator (continue)

Takaful Operator	Syarikat Takaful Malaysia Keluarga Bhd [Malaysia] (Wakalah-Qard)		Damaan Islamic Insurance Company - Beema [Qatar] (Wakalah-Mudarabah)		Takaful Ikhlas [Malaysia] (Wakalah)		Takaful Keluarga [Indonesia] (Wakalah-Mudarabah)	
Year	**Profit after Tax in USD**	**Changes in Value (USD)**	**Profit after Tax in USD**	**Changes in Value (USD)**	**Profit after Tax in USD**	**Changes in Value (USD)**	**Profit after Tax in USD**	**Changes in Value (USD)**
2013	28,792,362		8,418,514		2,168,105		1,274,107	
2014	29,725,468	933,106	10,904,890	2,486,376	3,456,455	1,288,350	1,147,951	(126,156)
2015	34,990,069	5,264,601	12,780,776	1,875,886	4,150,017	693,562	1,359,527	211,577
2016	37,380,791	2,390,722	12,081,616	(699,160)	(7,462,703)	(11,612,719)	973,199	(386,328)
2017	43,939,099	6,558,308	12,133,479	51,863	(1,839,643)	5,623,060	718,151	(255,048)
2018	62,696,344	18,757,245	11,488,328	(645,151)	8,091,344	9,930,987	858,005	139,855
2019	78,483,506	15,787,162	11,510,557	22,229	6,074,721	(2,016,622)	631,007	(226,998)
2020	77,900,288	(583,218)	12,403,318	892,761	9,558,816	3,484,094	707,249	76,242
2021	88,318,289	10,418,001	13,966,433	1,563,115	4,179,799	(5,379,017)	1,223,262	516,013
2022	68,364,827	(19,953,463)	15,556,282	1,589,848	6,596,018	2,416,219	183,061	(1,040,202)
Average	**55,059,104**	**4,396,940**	**12,124,419**	**793,085**	**3,497,293**	**491,990**	**907,552**	**(121,227)**

Tables 3 and 4 above illustrate the extracted PAT and CVPAT for the eight selected takaful operators. The results below show that five out of eight takaful operators recorded a positive profit after tax for ten consecutive years. These five operators are Abu Dhabi National Takaful Co. (United Arab Emirates), Pak-Qatar (Pakistan), Syarikat Takaful Malaysia Keluarga Bhd (Malaysia), Damaan Islamic Insurance Company – Beema (Qatar) and Takaful Keluarga (Indonesia). Furthermore, three of these five operators incorporated a wakalah-mudarabah model, one operator with a wakalah-waqf model and one with a *wakalah-qard* model.

On the other hand, the rest of the three operators, which are Great Eastern Takaful Bhd (Malaysia), Salaam Takaful Limited (Pakistan) and Takaful Ikhlas (Malaysia), registered a profit loss after tax. The worst scenario is that Great Eastern Takaful Bhd (Malaysia) has recorded five years of profit loss after tax by applying the *wakalah* model. Meanwhile, Salaam Takaful Limited (Pakistan) and Takaful Ikhlas (Malaysia) have recorded a profit loss after tax for one and two years, respectively.

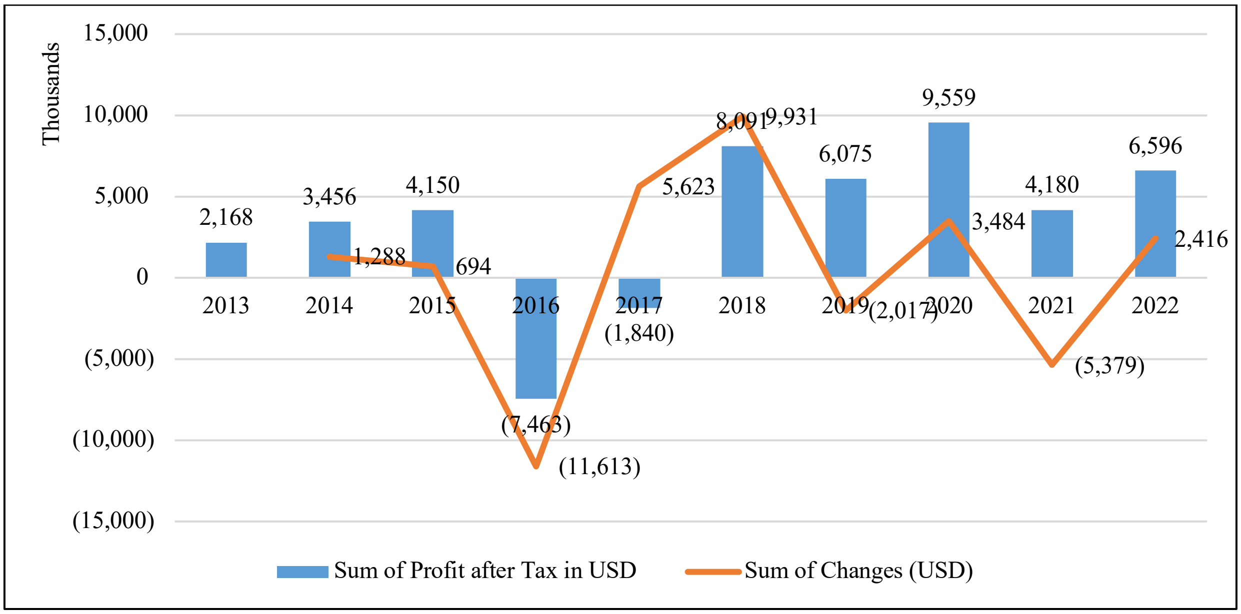

Figure 5 Profit-after-tax vs. changes in value for Takaful Ikhlas Family Berhad [Malaysia] (*Wakalah*)

Figure 5 above illustrates the graph of profit-after-tax (PAT) and changes-in-value of PAT for Takaful Ikhlas Family Berhad (Malaysia). As in the figure, the operator has jotted eight years of positive PAT (2013, 2014, 2015, 2018, 2019, 2020, 2021 & 2022) and two years of negative profit-after-tax (2016 & 2017). The profit gained by the operator consists of an agent fee income, a performance fee income as a *mudarib* and an underwriting surplus as they implement a modified *wakalah* model in the products.

Nevertheless, the operator recorded the lowest profit-after-tax in 2016 at a negative USD 7,463. According to the annual report, this profit loss is due to the high net claims and benefits (donations by the gross claims and benefits paid and gross change to certificate liabilities), which is as high as 61 percent compared to the previous year.

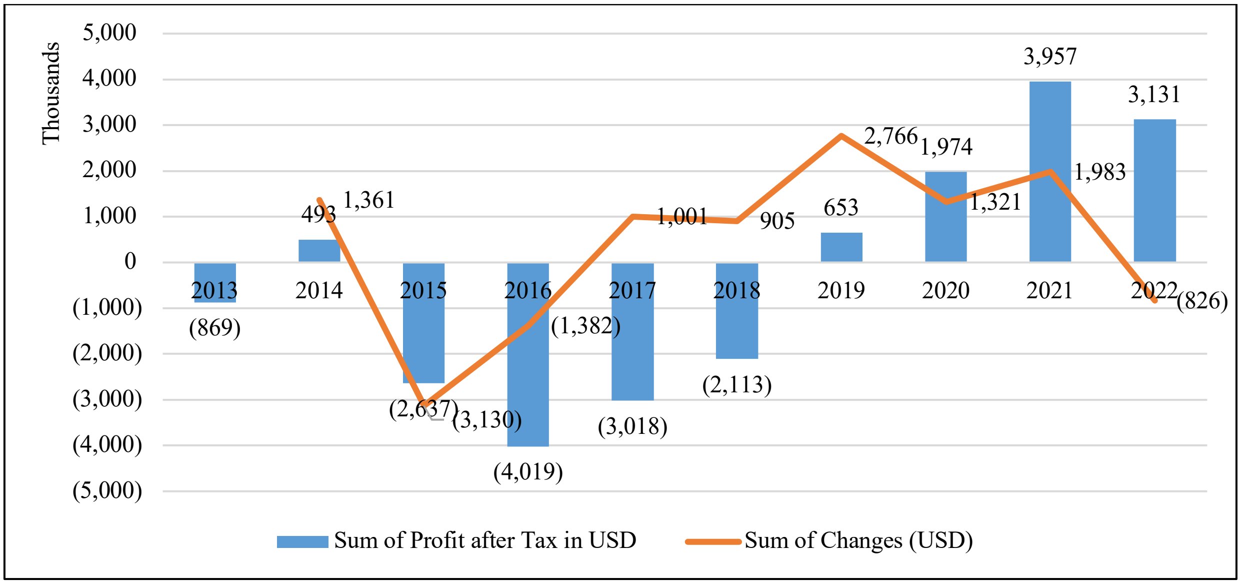

Figure 6 Profit-after-tax vs. changes in value for Great Eastern Takaful Berhad [Malaysia] *(Wakalah)*

Figure 6 above depicts the graph of profit-after-tax (PAT) and changes-in-value of PAT for Great Eastern Takaful Berhad (Malaysia). Unfortunately, the operators indicated the most profit loss for at least five years, with the lowest loss recorded in 2016 at -USD 4,019. The graph also presents the highest profit gained in 2021 at USD 3,957. The same goes for this operator; the annual report mentioned that the massive number of net claims and benefits in 2016 led to this unfortunate event of loss. As the operator applies the same takaful business model, the operator gains an agent fee income, a performance fee income as a *mudarib* and an underwriting surplus.

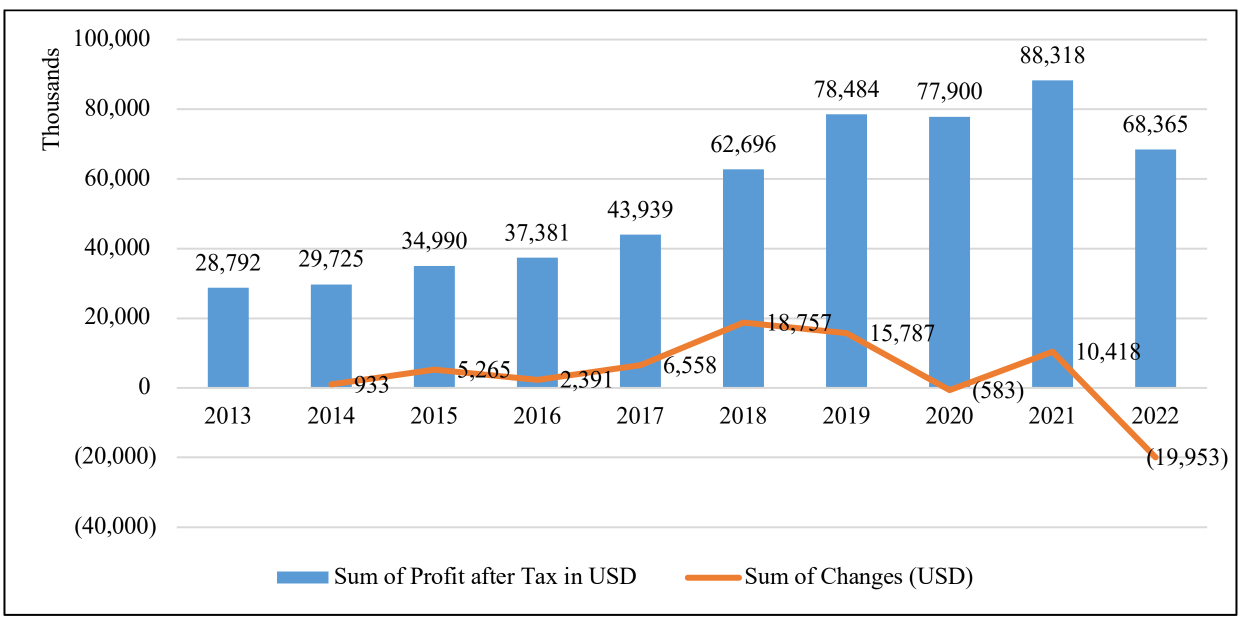

Figure 7 Profit-after-tax vs. changes in value for Syarikat Takaful Keluarga Malaysia Berhad [Malaysia] *(Wakalah-Qard)*

Figure 7 exhibits the graph of profit-after-tax (PAT) and changes-in-value of PAT for Syarikat Takaful Keluarga Malaysia Berhad (Malaysia). The operator profitably recorded ten consecutive years of positive profit through a *wakalah-qard* model. The operator's top profit peak was recorded at USD 88,318 in 2021. The profit reflects 16 percent of the total profit for those ten years. Recently, despite incredible profit gained, the operator has noted a slight downtrend between 2021 and 2022 from USD 88,318 to USD 68,365. This slump amounted to USD 19,952.

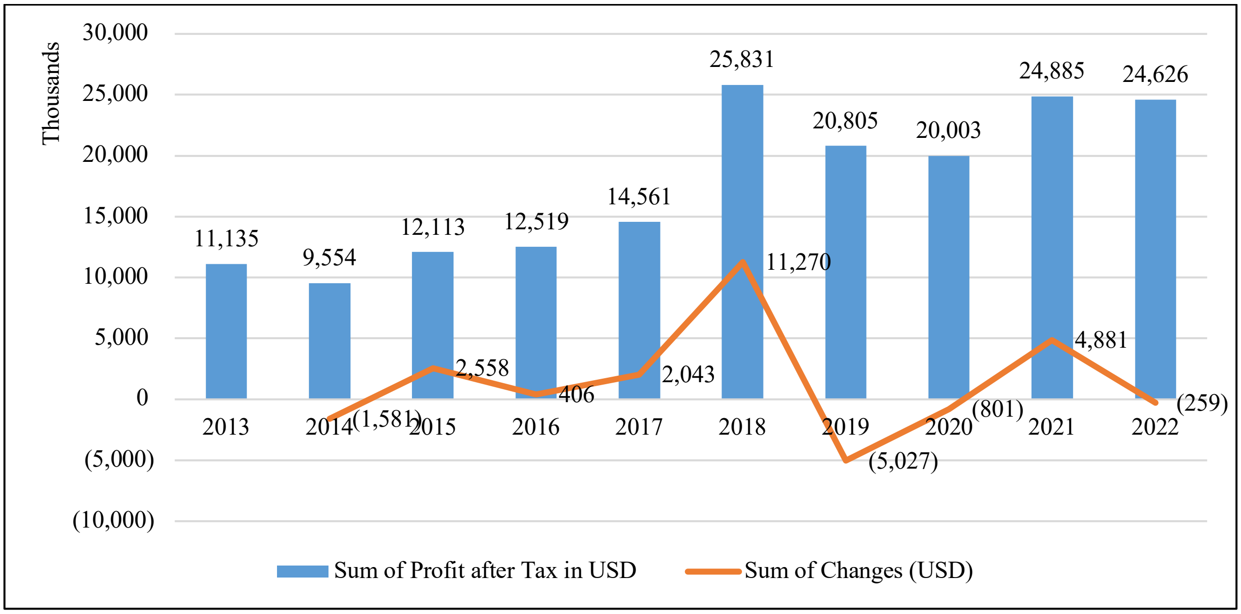

Figure 8 Profit-after-tax vs. changes in value for Abu Dhabi National Takaful Co. [United Arab Emirates] *(Wakalah-Mudarabah)*

Figure 8 above elucidates the pattern trend of profit-after-tax (PAT) and changes-in-value of PAT for Abu Dhabi National Takaful Co. (United Arab Emirates). Even though the operator jotted a tremendous profit from 2013 up to 2022, they have been dumped with a huge loss of as much as USD 5,828 for 2019 and 2020. Through this *wakalah-mudarabah* hybrid model, the operator enjoys two types of income: the agent fee income and the portion of profit share from investment funds as a *mudarib*.

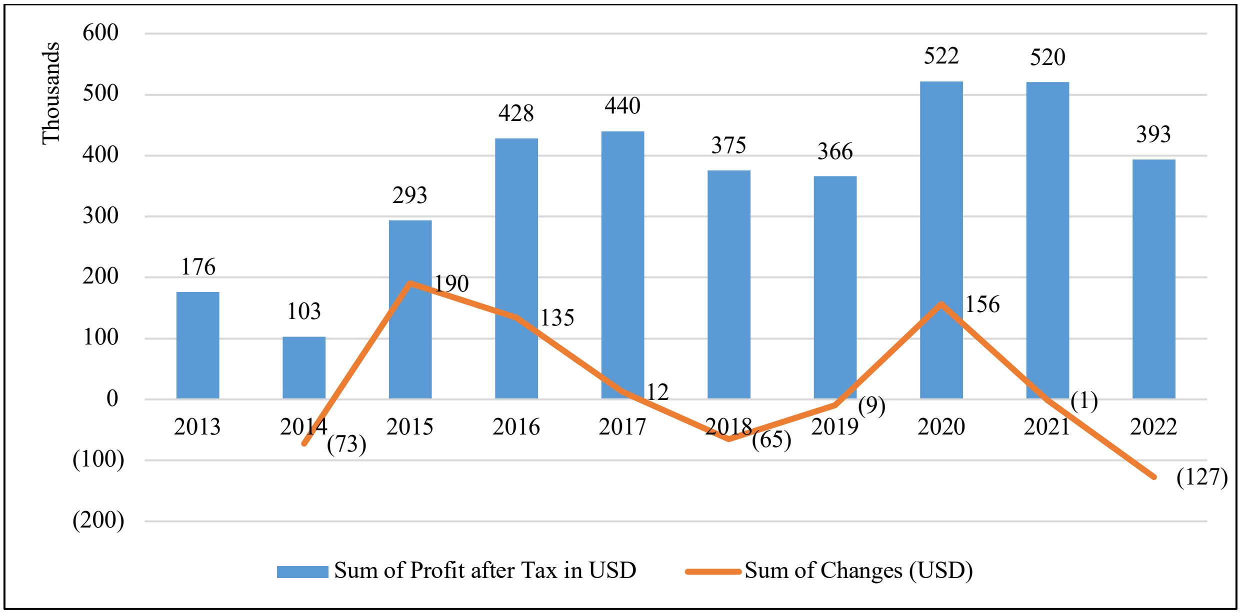

Figure 9 Profit-after-tax vs. changes in value for Pak-Qatar [Pakistan*] (Wakalah-Waqf)*

Figure 9 depicts the graph of profit-after-tax (PAT) and changes-in-value of PAT for Pak-Qatar (Pakistan). The operator faces two series of downtrends in profit after tax, which are from 2017 up to 2019 and 2020 up to 2022. The operator raised USD 156,000 from the first downtrend in 2019 to 2020 before they started to decline in 2021 and 2022. The decline in the profit after tax for 2020 and 2021 is the highest, recorded at USD 128,000 or equal to 28 percent of the profit after tax in 2020.

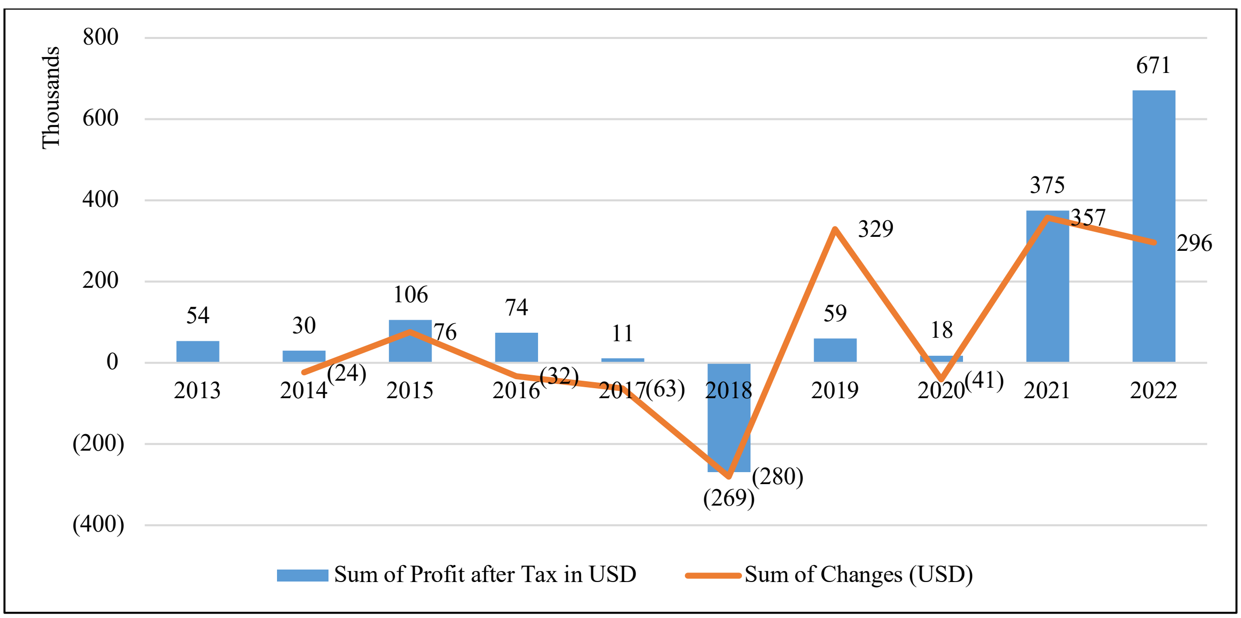

Figure 10 Profit-after-tax vs. changes in value for Salaam Takaful Limited [Pakistan] *(Wakalah-Waqf)*

Figure 10 elucidates the pattern trend of profit-after-tax (PAT) and changes-in-value of PAT for Salaam Takaful Limited (Pakistan). The graph illustrates that the operator has almost doubled its profit after tax from 2021 to 2022, as much as USD 296,000. This earn is the most remarkable event for the operator in ten years. Furthermore, the operator also remarked on the most outrageous loss of USD 269,000 in 2018. Surprisingly, the following year, 2019, revealed the most significant changes in value at USD 329,000.

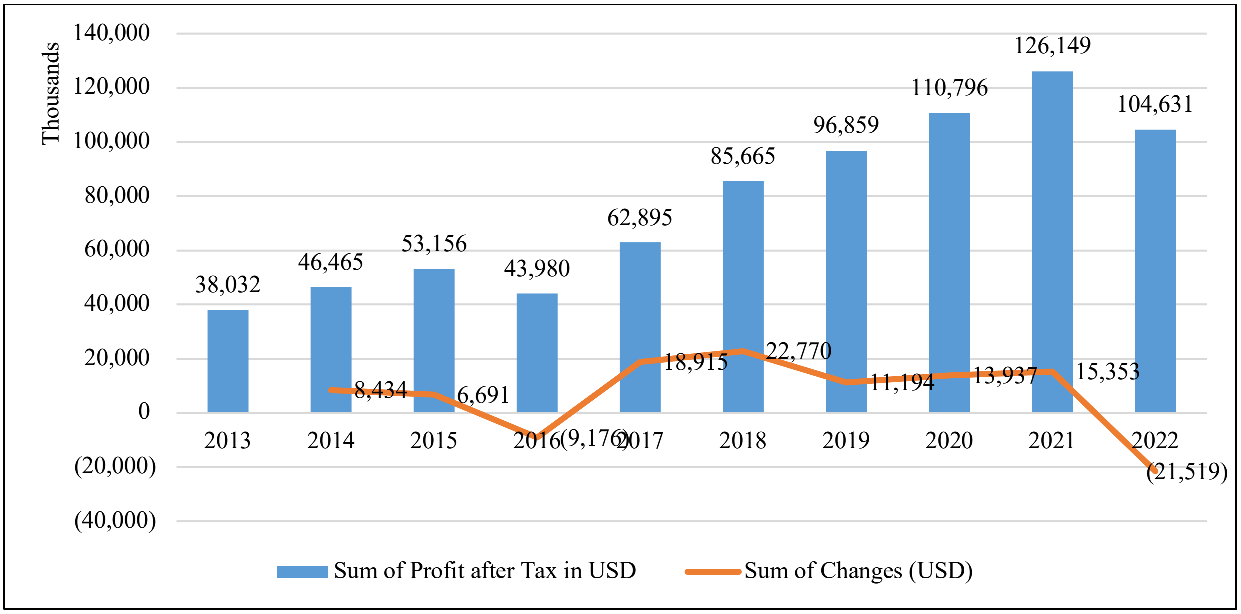

Figure 11 Profit-after-tax vs. changes in value for Damaan Islamic Insurance Company - Beema *[Qatar] (Wakalah-Mudarabah)*

Figure 11 exhibits the graph of profit-after-tax (PAT) and changes-in-value of PAT for Damaan Islamic Insurance Company - Beema (Qatar). The operator profitably recorded ten consecutive years of positive profit through a wakalah-mudarabah hybrid model. The operator has noted three consecutive years of profit gains, starting in 2020 and continuing up to 2022. The operator's top profit peak was recorded at USD 15,556 in 2022. Nevertheless, the operator asserted the lowest profit after tax at USD 8,419 in 2013. Meanwhile, the operator jots a huge falloff at USD 699,000 from 2015 to 2016.

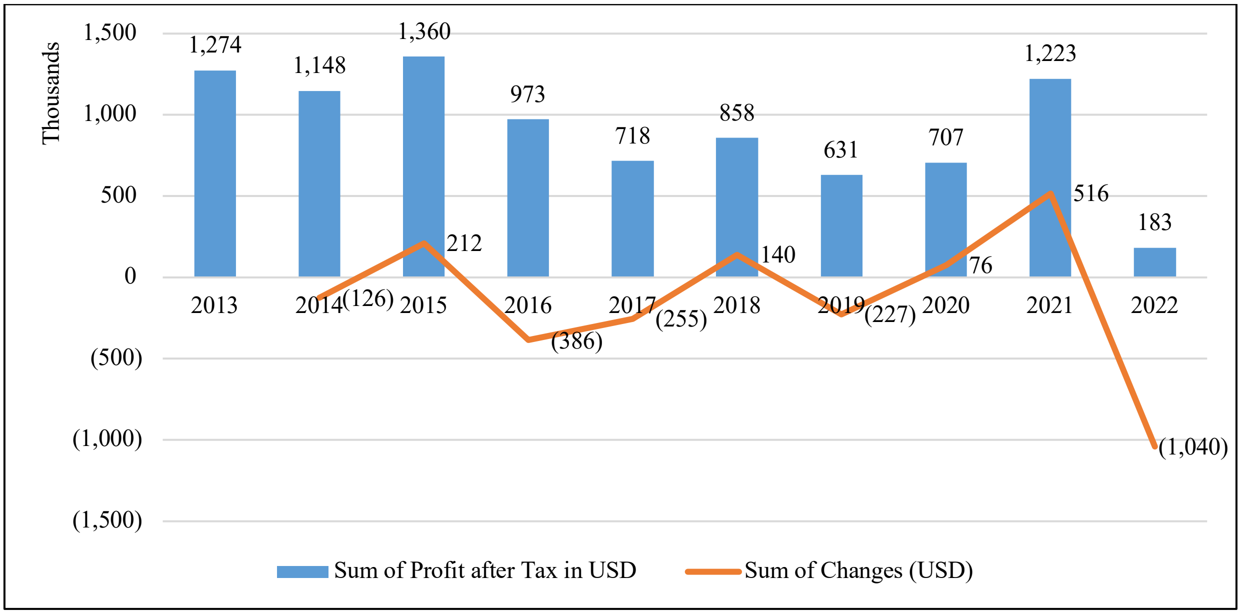

Figure 12 Profit-after-tax vs. changes in value for Takaful Keluarga [Indonesia] *(Wakalah-Mudarabah)*

Figure 12 below portrays the graph of profit-after-tax (PAT) and changes-in-value of PAT for Takaful Keluarga (Indonesia) through a *wakalah-mudarabah* hybrid model. The operator discloses a significant profit after tax for 2013, 2015 and 2021 at USD 1,274,000, USD 1,360,000, and USD 1,223,000, respectively. Nonetheless, the operator showed the most shocking changes in value for profit after tax in 2022 at only USD 183,000. This decline in profit after tax has accounted for at least 85 percent, which is at -USD 1,040,000 in 2022.

Table 5 depicts the Takaful business models and their corresponding average return on assets (ROA) for diverse takaful operators across different countries. The included takaful business models are *wakalah-mudarabah, wakalah-waqf, wakalah-qard,* and *wakalah*. The Abu Dhabi National Takaful Co. [United Arab Emirates] operates under the *wakalah-mudarabah* model, yielding an average ROA of 5.815 percent. Pak-Qatar [Pakistan] and Salaam Takaful Limited [Pakistan] employ the *wakalah-waqf* model, achieving ROAs of 0.514 percent and 1.784 percent, respectively. Syarikat Takaful Malaysia Keluarga Bhd [Malaysia] follows the *wakalah-qard* model, recording the highest ROA of 7.164 percent, suggesting that the *wakalah-qard* model may be the most effective in terms of profitability.

Damaan Islamic Insurance Company – Beema [Qatar] and Takaful Keluarga [Indonesia] both utilize the *wakalah-mudarabah* model, with ROAs of 3.884 percent and 0.746 percent, respectively. Takaful Ikhlas [Malaysia] and Great Eastern Takaful Bhd. [Malaysia] operates under the *wakalah* model, reporting a ROA of 0.193 percent and 3.037 percent, respectively. These variations in takaful business models and their corresponding ROAs underscore the differing efficiencies and profitability of takaful operations across various regions, with the *wakalah-qard* model emerging as notably successful.

Table 5
Takaful Business Model and the Average ROA

Takaful Operator [Country]	**Takaful Business Model**	**Average of ROA [%]**
Abu Dhabi National Takaful Co. [United Arab Emirates]	*Wakalah-Mudarabah*	5.815
Pak-Qatar [Pakistan]	*Wakalah-Waqf*	0.514
Salaam Takaful Limited [Pakistan]	*Wakalah-Waqf*	1.784
Syarikat Takaful Malaysia Keluarga Bhd [Malaysia]	*Wakalah-Qard*	7.164
Damaan Islamic Insurance Company – Beema [Qatar]	*Wakalah-Mudarabah*	3.884
Takaful Ikhlas [Malaysia]	*Wakalah*	0.193
Takaful Keluarga [Indonesia]	*Wakalah-Mudarabah*	0.746
Great Eastern Takaful Bhd. [Malaysia]	*Wakalah*	3.037

Figure 13 shows Syarikat Takaful Malaysia Keluarga Bhd [Malaysia] performance analysis from 2013 to 2022 with significant fluctuations. There was an initial decline in ROA from 10.406 percent in 2013 to 5.657 percent in 2016, followed by a notable recovery to 7.149 percent in 2017, peaking at 9.768 percent in 2019. The subsequent decline to 5.203 percent in 2021, during the COVID-19 pandemic, was followed by a partial recovery to 6.414 percent in 2022. This analysis highlights the interplay between strategic management and macroeconomic factors in shaping the financial performance of takaful operators.

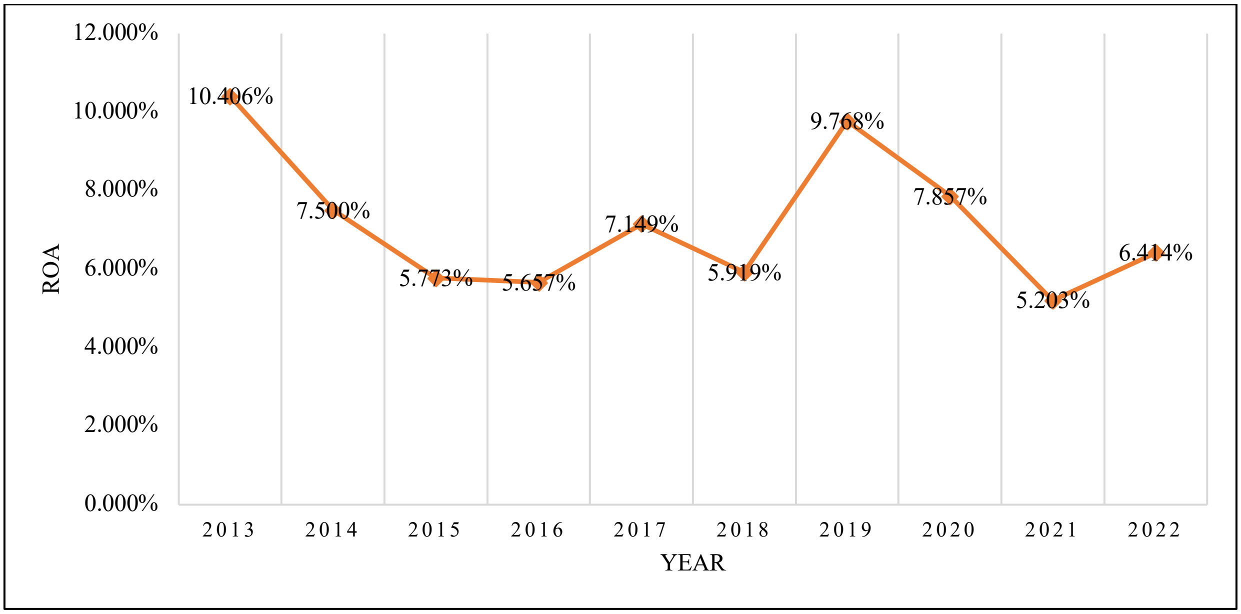

Figure 13 ROA trend for Syarikat Takaful Malaysia Keluarga Bhd [Malaysia]

The performance of Abu Dhabi National Takaful Co. [United Arab Emirates] from 2013 to 2022 shows significant fluctuations (refer Figure 14). After an initial decline from 6.473 percent in 2013 to 5.654 percent in 2014, the company stabilized around 5.966 percent until a peak of 6.732 percent in 2018. However, there was a decline to 5.228 percent in 2020, followed by volatility, reaching 5.774 percent in 2021 and dropping to 4.174 percent in 2022 due to the COVID-19 pandemic and other economic disruptions.

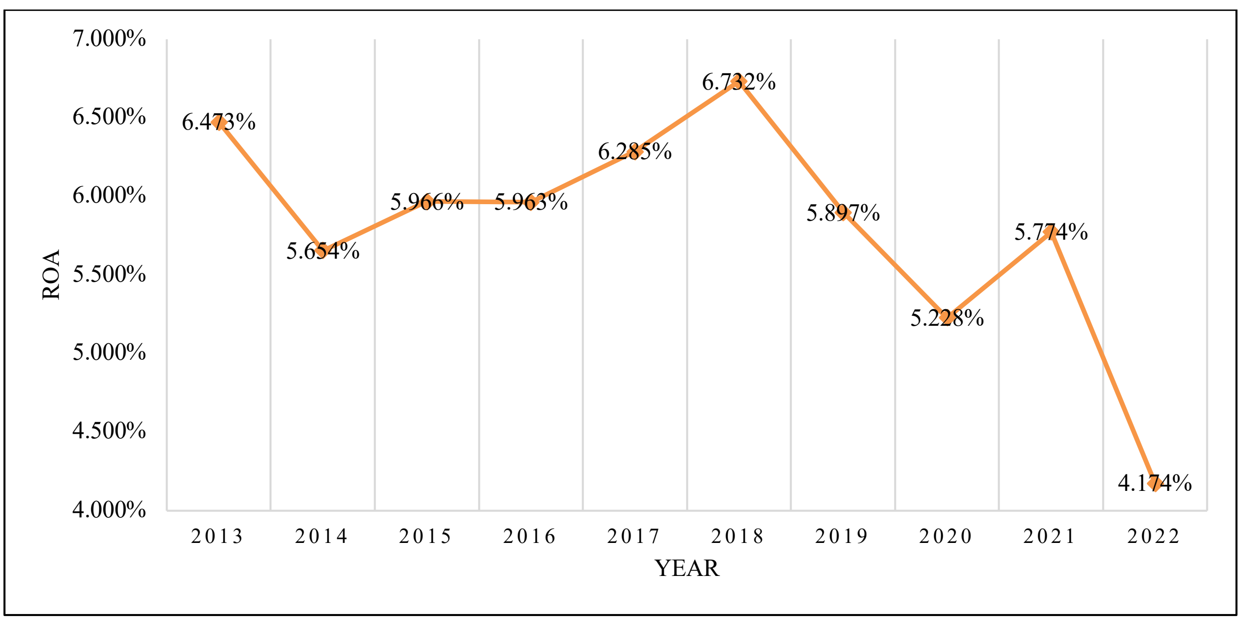

Figure 14 ROA trend for Abu Dhabi National Takaful Co. [United Arab Emirates]

Figure 15 indicates the trend analysis of Damaan Islamic Insurance Company – Beema [Qatar] from 2013 to 2022, which shows fluctuating financial performance. The return on assets (ROA) peaked at 5.174 percent in 2015, indicating optimal profitability and asset utilization, but then declined to 3.197 percent in 2022, highlighting ongoing challenges in sustaining profitability.

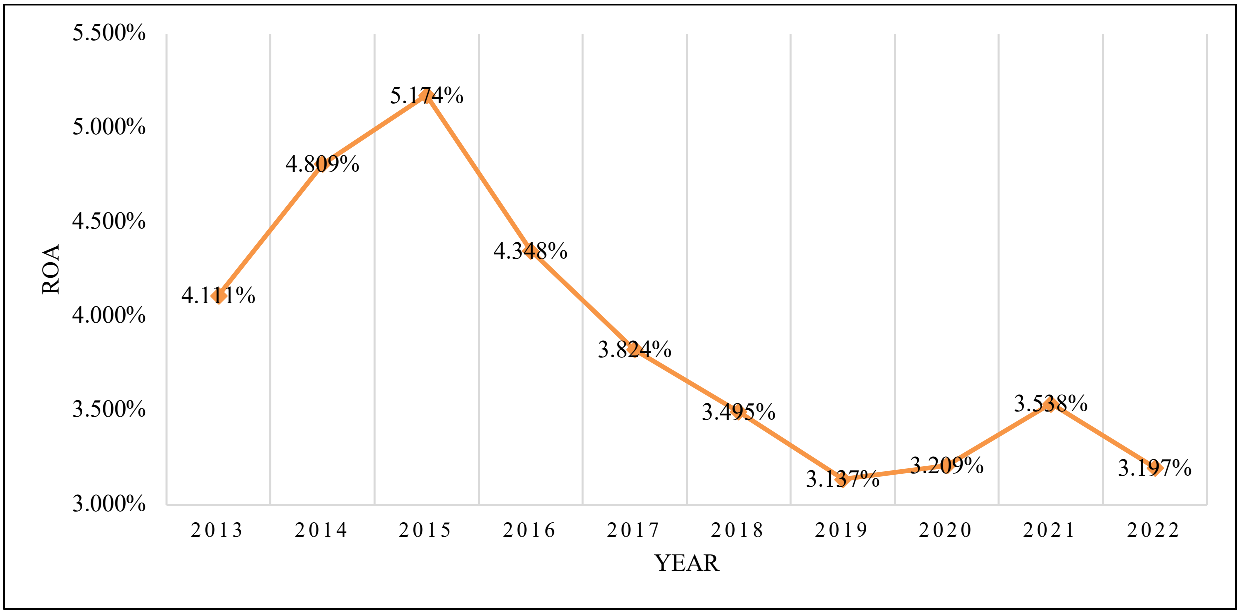

Figure 15 ROA trend for Damaan Islamic Insurance Company – Beema [Qatar]

The ROA trend for Salaam Takaful Limited [Pakistan] (refer Figure 16) from 2013 to 2022 shows highly volatile financial performance, with fluctuations indicating both profitability and financial difficulties. The operator demonstrated a remarkable recovery in 2019, with the trend continuing upward to 2022, highlighting effective strategic adjustments and resilience in operations.

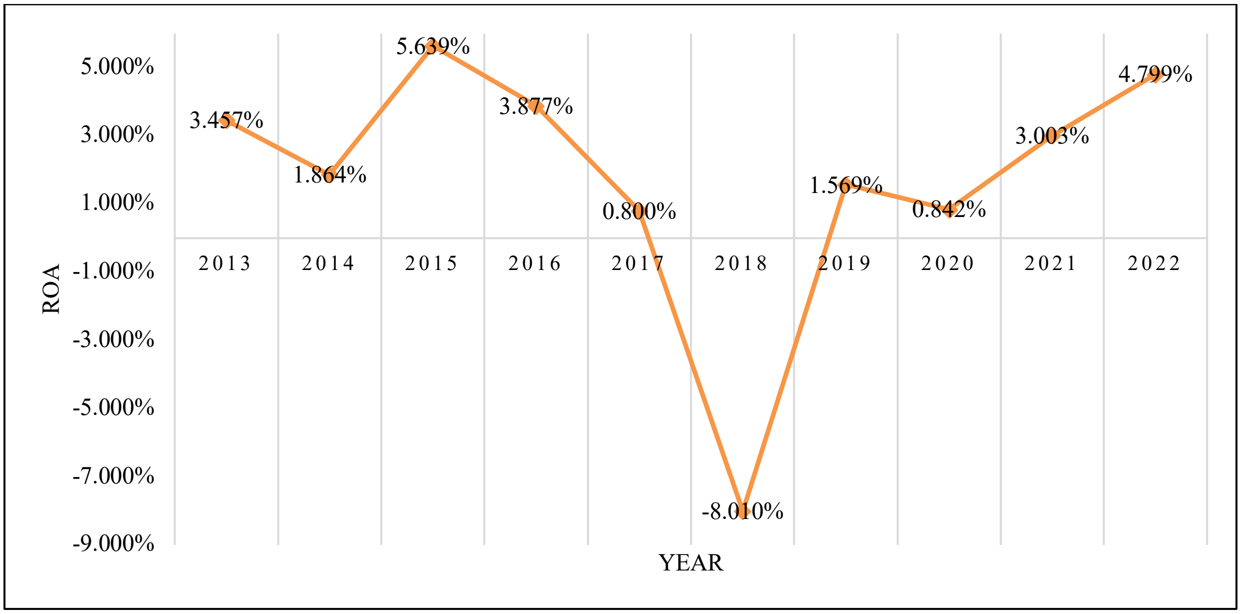

Figure 16 ROA trend for Salaam Takaful Limited [Pakistan]

The performance of Pak-Qatar [Pakistan] showed significant variability from 2013 to 2022, with fluctuations from 0.413 percent in 2013 to a peak of 0.910 percent in 2017, followed by a decline and subsequent partial recovery (refer Figure 17). This underscores the operator's struggle to maintain consistent profitability amidst varying market conditions, highlighting the need for strategic adjustments to achieve long-term financial stability.

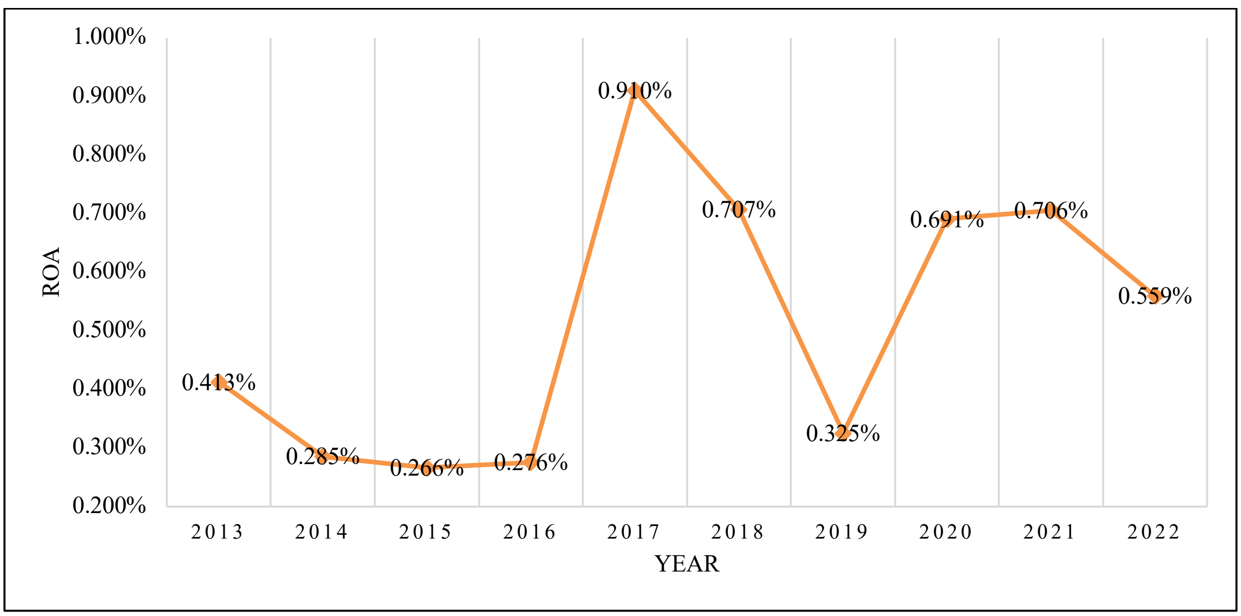

Figure 17 ROA trend for Pak-Qatar [Pakistan]

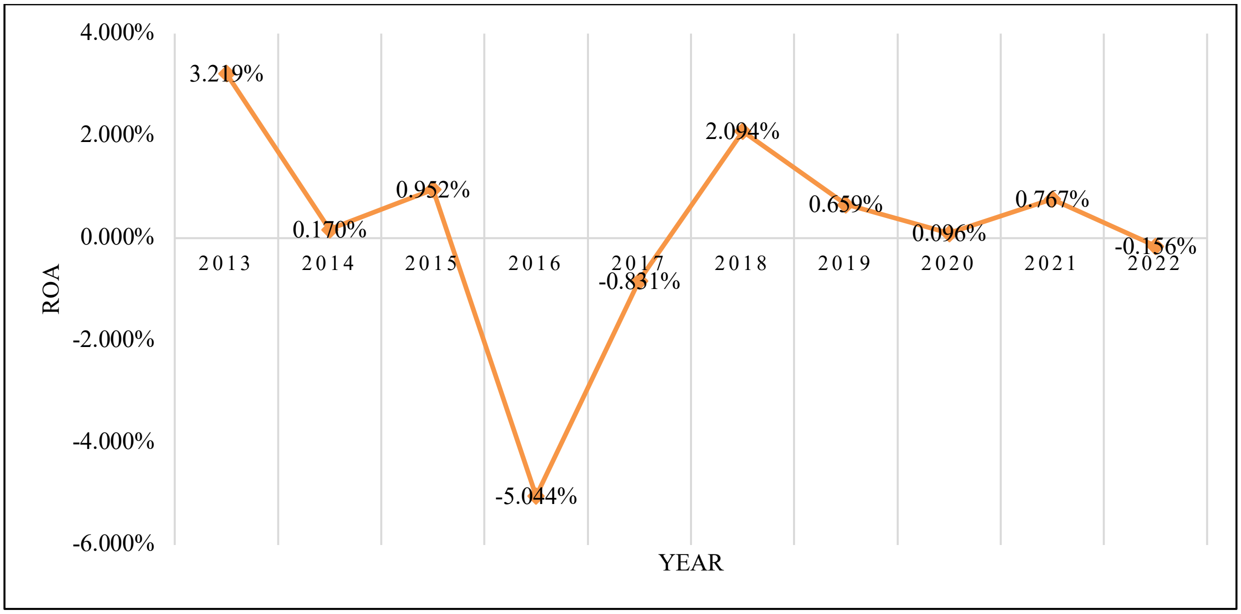

Figure 18 ROA trend for Takaful Ikhlas [Malaysia]

Figure 18 suggests the ROA trend for Takaful Ikhlas [Malaysia] from 2013 to 2022 reveals significant volatility, with notable fluctuations in financial performance. Starting at 3.219 percent in 2013, it sharply declined to 0.110 percent in 2014, then recovered to 0.952 percent in 2015. However, a dramatic drop to -5.044 percent in 2016 indicated financial difficulties. Despite remarkable resilience with 2.094 percent ROA in 2018, it fell again to -0.156 percent in 2022, underscoring ongoing profitability challenges. This highlights the need for robust strategic planning and effective risk management for long-term financial stability.

Figure 7 depicts the ROA of Takaful Keluarga [Indonesia] spanning the years 2013 to 2022. The ROA initiated at 0.475 percent in 2013 and exhibited an upward trajectory, culminating at 2.003 percent in 2016. Subsequently, a substantial decline ensued, with ROA plummeting to 0.827 percent in 2017 and -0.006 percent in 2018, signifying a brief period of negative returns. The trajectory reversed from 2018 onwards, showcasing a marginal recovery to 0.477 percent in 2019 and 0.601 percent in 2020. However, this recuperation was not sustained as the ROA regressed to 0.297 percent in 2021 and subsequently to 0.069 percent in 2022. The data encapsulates a pattern of oscillating performance for Takaful Keluarga, featuring notable crests and troughs in ROA during the observed period.

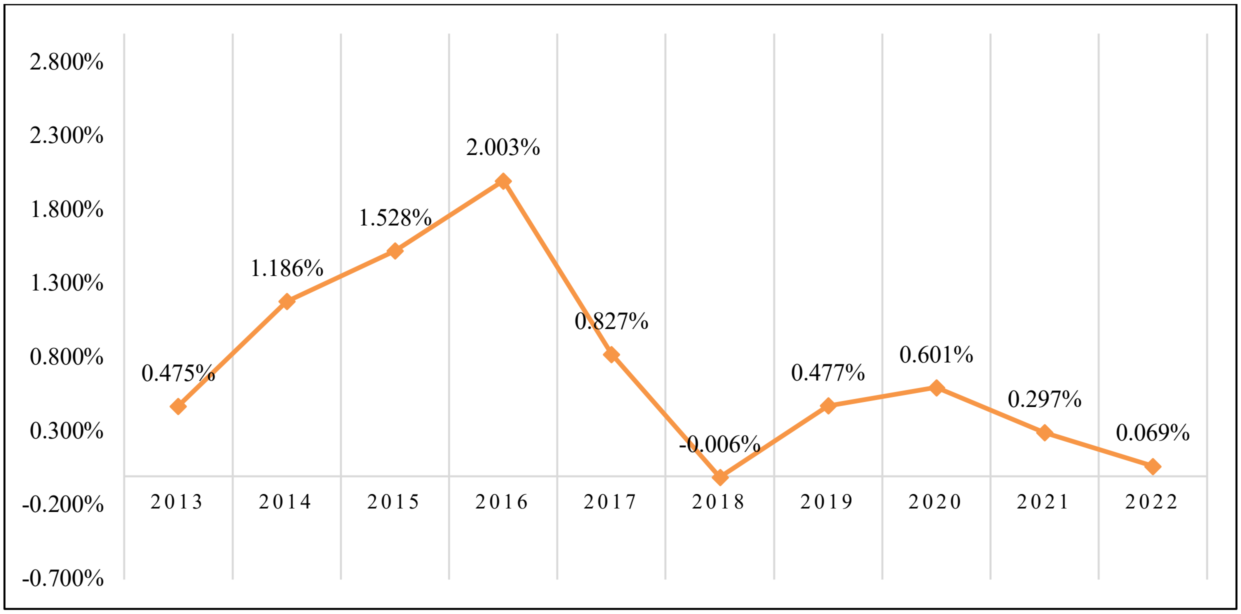

Figure 19 ROA trend for Takaful Keluarga [Indonesia]

The provided information demonstrates the ROA of Great Eastern Takaful Bhd [Malaysia] from 2013 to 2022, as illustrated in Figure 8. The ROA commenced at 0.475 percent in 2013, displaying an upward trajectory and culminating at 2.003 percent in 2016, denoting a phase of robust financial performance. However, post-2016, the ROA experienced a substantial decline, plummeting to 0.827 percent in 2017 and reaching a nadir of -0.006 percent in 2018, resulting in a transient period of negative returns. Following this downturn, there was a partial recuperation, with the ROA ameliorating to 0.477 percent in 2019 and further to 0.601 percent in 2020. Notwithstanding this recovery, the ROA once again dwindled, declining to 0.297 percent in 2021 and further to 0.069 percent in 2022. This fluctuation in ROA over the decade underscores the volatile financial performance of Takaful Keluarga, characterized by pronounced peaks and troughs.

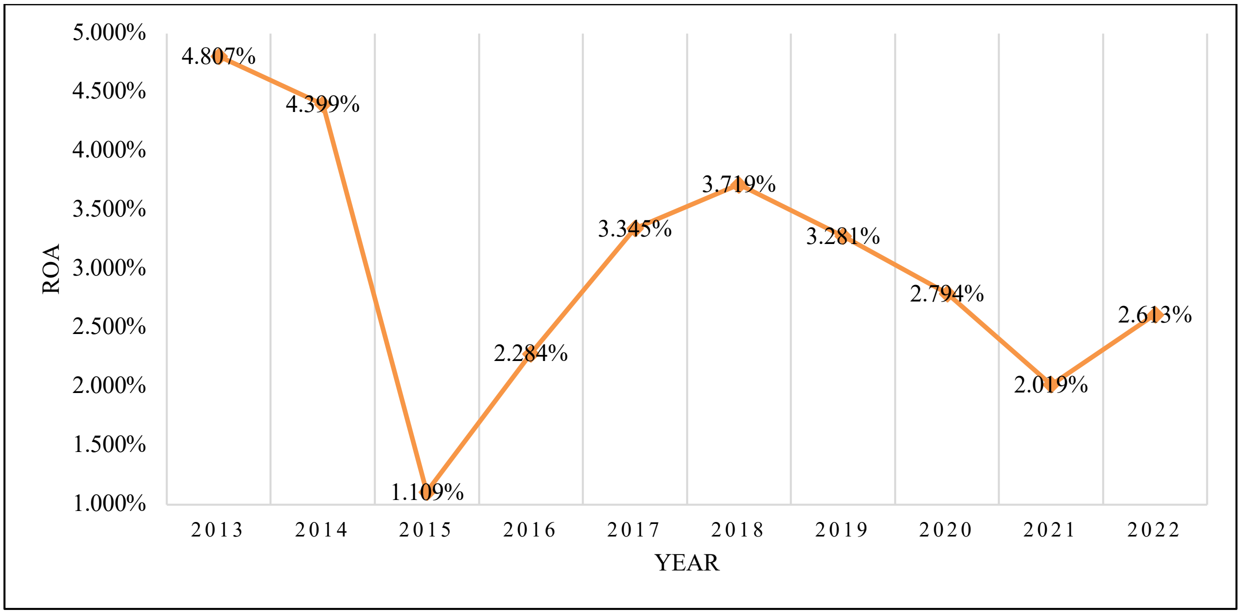

Figure 20 ROA trend for Great Eastern Takaful Bhd [Malaysia]

CONCLUSION AND RECOMMENDATION

This study highlights two main research objectives: to identify the application of the takaful business model from the selected global takaful industries and to evaluate and compare the business performance based on the business model. The first research objective unveiled that three of eight takaful operators incorporated a *wakalah-mudarabah* model into their products. These three operators are Abu Dhabi National Takaful Co. (United Arab Emirates), Damaan Islamic Insurance Company - Beema (Qatar) and Takaful Keluarga (Indonesia). The application of a *wakalah-mudarabah* model by takaful operators in Qatar is pursuant to the mandatory use of the AAIOFI standards for their takaful industry. In the meantime, the utilization of this model for takaful operators in Indonesia and the United Arab Emirates is still under the principle of the AAIOFI as a basis for national standards. Specifically, these two countries have their underlying principles for takaful operation, UU40 and Financial Regulations for Takaful Insurance Companies.

Moreover, for the Malaysian case, most takaful operators employed a modified *wakalah* model in their takaful products, with exceptional to Syarikat Takaful Malaysia Keluarga Bhd that utilized a *wakalah-qard* model. Nonetheless, the use of these two models is still in conformance with the stipulated guidelines, namely the Takaful Operational Framework by Bank Negara Malaysia. The guidelines utterly underlined the application of models either/or *tabarru'*, *mudarabah*, *wakalah*, and *qard* for PIF saving and *hibah* contract. The rest of the two takaful operators from Pakistan applied the *wakalah-waqf* model in accordance with the stipulated Takaful Rules 2005 of the Securities & Exchange Commission of Pakistan (SECP) and the refined hybrid model as in the Takaful Guide of the SECP.

The second research objective emphasizes the most competitive takaful business model based on business performance. Based on the comparison for each takaful operator, we can summarize that the *wakalah-qard* model (Syarikat Takaful Malaysia Keluarga Bhd.) confers the highest average of profit after tax and the return on assets. The most competitive takaful business model is followed by the *wakalah-mudarabah* hybrid model, *wakalah* model and *wakalah-waqf* hybrid model. Different takaful business models will provide the operator with different income streams. For instance, as mentioned in the preceding discussion, Malaysian takaful operators adopted a modified *wakalah* model. Thus, these operators (Great Eastern Takaful Bhd., Takaful Ikhlas, and Syarikat Takaful Malaysia Keluarga Bhd.) earned three types of incomes: the agent fee income, performance fee income (as an investing agent of the funds) and the underwriting excess (modified model) (International Shariah Research Academy for Islamic Finance, 2012).

The same goes for the operators that incorporated a *wakalah-waqf* hybrid model; they gained the same income except for the underwriting excess. Pak-Qatar and Salaam Takaful Limited are Pakistan's takaful operators that employ a *wakalah-waqf* hybrid model. Meanwhile, the three takaful operators that employed a *wakalah-mudarabah* hybrid model (Abu Dhabi National Takaful Co. – the United Arab Emirates, Damaan Islamic Insurance Company Beema – Qatar and Takaful Keluarga – Indonesia) draw two types of incomes, which are an agent fee for managing the funds and a profit share based on an agreed ratio from investment as a *mudarib*.

This study offers fresh insight by unveiling the competitive takaful business model for the global takaful industry. Determination of an appropriate takaful business model will help the operators to upsurge their income channel as each of the models proffers different types of income. Thus, this study bids a practical implication to the global takaful industry in re-strategizing their business model. Operators with a competitive takaful business model will hand in a sustainable business. However, it is important to note that this study has certain limitations. This study exploits a direct comparison analysis (observational study) based on business performance by taking the profit-after-tax and the return on assets. Thus, further study should consider various impactful factors on takaful business performance and use different rigorous empirical tests.

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