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Takaful (Islamic Insurance) Industry in Malaysia and the Arab Gulf States: Challenges and Future Direction

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Abstract

The Arab Gulf States in the Middle East and some other countries in South East Asia particularly Malaysia have been the epicenters for the development of Islamic banking and finance, as the last couple of years have not only witnessed tremendous development in the Industry but also much attention had been given to it by experts and professionals to brainstorm on its future direction, whereas less attention had been given to the discussion on the Islamic insurance; otherwise known as takaful despite its overwhelming growth. This paper, in a comparative context, examines the growth and development of the takaful industry in Malaysia and the Arab Gulf States by offering an insight into the challenges, prospects and future direction of the industry between these two fertile markets. It also examines the contributing factors to the growth and development of the industry in both markets through the use of historical reports, corporate documentations and professional analyses to arrive at a conclusion that the future of the industry in those two regions is not only germane but lucrative as well.

Keywords: Takaful Industry, Islamic insurance, Malaysia, Arab Gulf States, challenges and future direction

1. Introduction

In the recent years, Takaful industry has expanded rapidly, as at 2012, the records have shown that the industry continues to register 15% annual growth since 2007 (Kumar, 2014). The steady increase of the market of this product over the last seven years, to the key players, is generally regarded as a product with ample growth potentialities.

Malaysia and the Gulf Cooperation Council (GCC) countries are regarded as the leading key players in the global takaful market as they have become fertile grounds for the expansion of takaful industry. To buttress this assertion, it is said that their share of the total global market currently stands at an estimated 10% and 15% respectively (The World Takaful Report, 2012). Malaysia's takaful industry grew at an impressive rate of 24% while the GCC achieved 16% growth in 2011. Saudi Arabia, the largest takaful market, contributed US$4.3 billion (a 51.8% share of worldwide Takaful). Malaysia, which is ranked second contributed US$1.4 billion, while the United Arab Emirates (UAE) contributed US$818 million (Nazneem Halim, 2012). Thus, the report clearly shows that GCC's takaful segment dominates the world takaful market.

The takaful industry has become more diverse internationally while the number of takaful operators operating worldwide has risen considerably. Yet, it is important to note that 77 out of the 200 Takaful operators worldwide as of 2012, are based in the GCC countries and 16 in Malaysia. Also, the Saudi Arabia's takaful contributions per operator (US$141) are equal to those of their Malaysian counterparts, whereas contributions per operator from the other GCC countries are just half of those of Malaysian operators. In emphasizing the growth recorded in this market, Ernst & Young's World Takaful Report (2012) confirmed that in 2012, the global takaful contributions reached US$8.3 billion, while Deloitte's recent study reports that the takaful business could as well reach US$20 billion by 2017 (The Deloitte(IFKC), 2013).

The above given background goes to show the extent to which both Malaysia and Arab Gulf States serve as the fertile grounds for the expansion of takaful industry. Thus, at this stage, a critical review of the marketing strategies as adopted by these countries on takaful industry became imperative. Hence, the focus of our next discussion on the historical development of the takaful industry in those countries, factors responsible for the growth of the industry and the examination of the challenges and prospects that would further lead us to foretelling the future direction of the industry at the global market.

2. Historical Development

The emergence of takaful (Islamic insurance) in both Malaysia and GCC countries was believed to be through the demand of the Muslim community itself. Although, the current development in the industry has been largely influenced by the market, Muslims in the early 1970s particularly were highly concerned with the “halalness” (permissibility) of conventional insurance as it is regarded as an unlawful in Islam. The commercial conventional insurance is strictly prohibited due to certain elements such as interest, uncertainty and gambling. These elements are the underlying Factors responsible for the prohibition of conventional insurance system in Islam. This decision was taken by numbers of *Fatwa* (legal opinion) committees at different locations in the Muslim world. Among them are: (1) *Fiqh* Council of the Muslim World League (2) Islamic Research Institute of *Al-Azhar* University in 1965 (3) Grand Council of *Ulama* of Saudi Arabia (4) *Majlis Tahqiqat al-Shari'yah* Lucknow, India (5) Al Majma’ al-Fiqhi al- Islami of OIC in 1975 (6) Council of Islamic Ideology, Pakistan (7) International conference on Islamic Economic in 1976, and (9) European Council for Fatwa.

Following this decision, Muslims then proposed “takaful or Islamic insurance” as an alternative to the commonly known “conventional insurance”. The word takaful is an Arabic term, meaning: "guaranteeing each other". It is a kind of a welfare system in which members in a community mutually agreed to voluntarily assist each other in the event of losses or damages that may occur to one’s property. Although, the operation of Islamic insurance was re-introduced in the Muslim world in 1970s to replace the conventional type of insurance, it is, however, argued that the practices of helping and guaranteeing each other was a norm in the Arab culture even before the advent of Islam. The practice which is known as ‘*aqilah*’, though, was said to resemble the conventional insurance in concept, but differs to it in the way and manner it is operated.

Basically, the takaful comprises three main principles: (1) mutual responsibility, (2) cooperation with each other, and (3) protecting one another from any kind of difficulties, or disasters, or other misfortune. It is a system whereby the financial contribution (premium) is based on the concept of *tabarru’* (donation). The first modern Islamic insurance company was established in Sudan in 1979, known as the Islamic Insurance Company of Sudan. Then followed by the establishment of Islamic Arab Insurance Company in Saudi Arabia in 1979. Several other Arab Gulf States later lunched their own takaful companies. For example the United Arab Emirates established her own in 1980, while the Islamic Arab Insurance Company was established by Bahrain in 1983. In 1999, Bahrain Islamic Insurance Company was re-capitalized and renamed Takaful International. Another one was established in Saudi Arabia in 1983, Takaful Islamic Insurance Co., Bahrain in 1985, Islamic Insurance and Reinsurance Company Saudi Arabia in 1986, National Company for Cooperative Insurance Saudi Arabia (1992), al Rajhi Islamic Company for Cooperative Insurance Qatar (1995), Islamic Insurance Company of Qatar and UAE (1997), and Dubai Takaful Insurance Co. (1997). (Fisher & Taylor, 2010).

As for Malaysia, the first takaful company known as Syarikat Takaful Malaysia was established in 1984 as a result of a recommendation made by a Special Task Force put together to study the possibility of establishing Islamic insurance companies in Malaysia due to the yearnings of the Muslims for a Shariah-compliant insurance company in place of the conventional one. In terms of regulatory framework, especially in the GCC countries, the regulation and supervision are relatively put in place and operated respectively through the basic principles of takaful, except for Bahrain which offers highly sophisticated regulatory framework (GCC Takaful Industry Report, 2010). The essence of having stringent governance and regulatory frameworks are important features not only for the purpose of business expansion strategic plan but also necessary to guaranteeing the continuity and sustainability of the industry. That is the more reason why in Malaysia for example, the apex Bank; Bank Negara Malaysia (The Central Bank) shoulders the responsibility of regulating and supervising the takaful industries. Also, the industry in Malaysia is also backed up by standalone act which is known as Takaful Act 1984. This act was introduced to accelerate the operation of the first takaful company; Syarikat Takaful Malaysia Sdn. Bhd and at the same time regulate takaful products (Prime Minister Department, 1984). This is the biggest different between the takaful industry in the GCC and Malaysia.

As for the GCC countries, especially the Arab States, the establishment of takaful industry is generally regulated either by the existing insurance regulatory law within a country or by the respective country’s central bank or financial authority (see Table 1 for further details). However, recent development shows that country like Oman is now moving toward establishing an independent shariah compliant regulatory framework for its takaful industry (GCC Takaful Industry, 2010). In addition to a particular country’s regulatory and supervisory frameworks, a standardized regulatory framework codified by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) also serves as secondary reference so that its operation within the context of the contemporaneous insurance industry is in compliance with the principles of the Shariah and its provisions.

The introduction of takaful Act 1984 in Malaysia is a remarkable element responsible for the current achievement of Malaysia as a hub for takaful industry in the global market, the reason being that the level of achievement recorded so far for the industry in Malaysia is rarely found in any other country. Following the success of the first takaful company, a number of takaful companies, since 1990, have been established in response to the growing market in Malaysia (Rahman, Mohamad, Ahmad, & Hussin, 2011). These include MNI Takaful Sdn. Berhad, later known as Takaful Nasional which has now been merged with Maybank Etiqa. Others are ASEAN Takaful Group and ASEAN Retakaful International. During 1990s, the emphasis of the regulators of the industry in Malaysia was to increase competition and cooperation among the takaful operators (Lim, Idris, & Yuri Carissa, 2010), thus those numerous takaful companies that came into existence since then greatly influence the development of the industry in the country. At the subsequent developmental phase which commenced in the early 2000, Malaysian regulatory authority introduced the Financial Sector Master Plan (FSMP) in 2001. The main objective of this master plan, among others, is to improve the capacity of the takaful operators and strengthen its legal and Shariah regulatory frameworks. Thus, the last decades in Malaysia, witnessed an increase in the number of takaful providers which now runs into 16 in total.

Table 1. Takaful regulators in Malaysia and Arab Gulf States

	Bahrain	**Kuwait**	**Oman**	**Qatar**	**Saudi Arabia**	**The UAE**	**Malaysia**
Regulator	Central Bank of Bahrain (CBB)	Ministry of Commerce and Industry	Oman Capital Markets Authority	Oman Capital Markets Authority	Saudi Arabian Monetary Agency	Insurance Companies Division at UAE Ministry of Economy. Dubai Financial Services Authority for entities registered at the DIFC	Bank Negara Malaysia (BNM))
Regulatory Law or Reference Work	Insurance Rulebook, April 2005	Insurance Law, 1961	Insurance Companies Law, March 1979	Emiri Decree No. 1/1966, QFCRA regulations	Cooperative Insurance Companies Control Law, 2003	Federal Law No. 9 of 1984 concerning insurance companies Federal Law No. 6 of 2007 regarding the incorporation of the insurance authority and work regulation	Takaful Act of 1984. From 2013 onwards, this will be replaced by Islamic Financial Services Act 2013.

Source: GCC Takaful Industry Report

On the other hand, the Saudi Arabia's takaful legal framework is regulated, somehow, in different manner when compared to what is obtainable in Malaysia. For example, the Saudi Arabian Monetary Agency (SAMA) mandates all insurance companies, be it conventional or otherwise to be established in form of a cooperative insurance model. That is the more reason why Ernst and Young (2012) concluded that there are "similarities between the cooperative model and takaful. In fact, various regional Takaful operators in Saudi Arabia have subsidiaries under this cooperative model." Other Shariah scholar who shared the same opinion is Abouzaid, 2007 in Alnemer, 2013 who also concluded that the cooperative model as adopted in the Saudi Arabian insurance industry is somehow similar to takaful model in terms of funds segregation and surplus distribution. Another remarkable step which was introduced in Saudi Arabia by the authority concerned is the conversion of the existing conventional insurance system into takaful. Thus, since 2009, Saudi Arabia was able to introduced new innovation to its takaful industry, and this has relatively resulted in its tremendous contribution to the global takaful industry. In 2010 for example, it was estimated that Saudi Arabia takaful industry contributed US$4.3billion which amounted to half of the global gross takaful contributions totaling US$8.3billion in estimation (World Takaful Report, 2012).

3. Products of Takaful Model

At present, two major products are being derived from takaful. These are (1) family takaful which is an alternative to the life insurance policy as obtainable in the conventional insurance system and, (2) general takaful which is meant to cover tangible items and properties like motorcars, motorcycles, houses, etc. In developing these products, three different types of models were utilized. These are: (1) *mudarabah takaful* model, (2) *wakalah* model; and, (3) modified *mudarabah* model which is also known as hybrid model (Rahman et al., 2011). Each of these three dynamic models does not only determine the way and manner by which profit is shared between the participators and the takaful company but also classified the different roles being played by the takaful company accordingly:

1. As for *mudarabah* based takaful, also known as: "profit sharing model". The relationship between a takaful provider and client is like that of a manager and an investor. By utilizing *mudarabah* concept, it implies that the client is an investor and the takaful providers have the right to share the profits generated from the takaful business.
2. With respect to *wakalah* model, it is quite different from the previous one, in this model the relationship between a takaful provider and the clients is an agency-based relationship. Instead of having to share out of the profit generated from the takaful businesses, the takaful company is only eligible to receive some amount of fee as payment for managing the takaful businesses (Ali & Odierno, 2008).
3. As for the hybrid model, it is a kind that uses both the principles of *wakalah* and *mudarabah*, whereby the operating agent receives a fixed *wakalah* fee that is charged upon the policyholders' contribution and the percentage of profits earned on investments that are based on *mudarabah* principle. Hence, the costs of underwriting are to be borne from the *wakalah* fee while the investment management costs are shouldered through the *mudarabah* fee (GCC Takaful Industry, 2010).

In addition to the above three models, Htay & Zaharin (2011) are of the opinion that there are three other models that could be practiced by the takaful providers as well, but which are not widely utilized due to several reasons. Among these models is the one that include *wakalah* model with performance incentive. Others being the one known as: "*wadi'ah yad dhamanah* model and *waqf* model. These additional three models are the newly proposed ones by the Shariah scholars and they are expected to be put in operation not only for the purpose of meeting the market demand but also for the purpose of allowing the takaful providers to maintain the takaful products' competitiveness in the insurance industry. The reason adduced for the emergence of these additional models is due to the interpretations given by the muslim jurists of the various schools of law, but because the modern insurance system is based on conventional framework, these additional innovative business ideals as proposed by the Islamic insurance system has to take cognizance of the various contemporary issues related the insurance providers and the participators'. That is the more reason why some of the models are in favor of the insurance providers and some are in the favour of the participators. In view of this, it is therefore, imperative that some shariah legal issues have to come on board to take decisive stance on some of the issues arising from these newly introduced takaful models. For example, in *mudarabah* model, the participator's contribution is not guaranteed due to the fact that the *mudarabah* principles do not allow the *mudarib* (in this case takaful operator) to guarantee a return from the capital (contribution) and, also the *tabarru'* fund cannot be guaranteed under the *mudarabah* contract. So it, therefore, seems as if it is the takaful operators that are responsible for the *tabarru'* funds, even though, in practice, they are not. To avoid running into bankruptcy, *wakalah* model was then proposed to reconstruct and restructure the takaful products (GCC takaful Industry, 2010). Operation wise, since each of the models is tailored towards certain business advantage, takaful providers are free to opt for any of these models or even combine them to become hybrid. They could also combine any two or more of those models depending on their targeted investment (Ali & Odierno, 2008; Htay & Zaharin, 2011). In Malaysia for example, the *mudarabah* and *wakalah* models are the most prevalent models and the commonly known takaful products (Ali & Odierno, 2008; Htay & Zaharin, 2011), while in the GCC countries, the *mudarabah* model is the most preferable one to the takaful providers, especially in Saudi Arabia, whereas, in the case of United Arab Emirates and Bahrain, the hybrid model is widely adopted (GCC Takaful Industry, 2010).

4. Contributing Factors for the Growth of Takaful Industry

Several factors are responsible for driving the expansion of takaful industry in Malaysia and GCC countries (Abu-Hussin, 2013). Among these are the strong economic growth and the rise of middle-income earners which invariably led to the rise in the purchasing power among the Muslim consumers; the main target of the takaful products in these countries. In addition to that, there is also an increasing awareness by the public about the existence and benefits of insurance and financial protection plan, especially, the one provided by the shariah-compliance indemnity products. It is also essential to mention the meticulous case of Malaysia system of takaful operational system where the government is directly involved in giving the necessary support through the creation of a conducive atmosphere and enabling environment for an efficient, progressive, and comprehensive Islamic financial system that significantly contributes to the Malaysian fiscal, economic and monetary industries. This assertion is further buttressed by the words of Syed Moheeb (2011) when he says: "Malaysian takaful industry can be considered as a matured industry when compared to other countries. This in specific, is its capability in underwriting services, giving better returns as well as creating and, maintaining stable and efficient financial system (See the table below for clarification).

Table 1. Key financial Indicator (Malaysia Vs. GCC)

Indicators	Malaysia	GCC
Return on equity	7.60%	-6.50%
Net Retention ratio	95.50%	63.00%
Net Claim Ratio	28%	± 50%
Net Income Break Up (Investment Income : underwriting Income)	22.78	16.84
Contribution /shareholder Equity	263%	150%
Investment Yield	5.00%	3.50%
Combined Ratio	53.30%	71.90%

Source: as modified by Syed Moheeb (2010)

A survey conducted on takaful market shows that the Islamic insurance system is predominantly dominated by family fakaful (i.e. life insurance) and medical takaful, despite the fact that the industry offers property and motor/general takaful (Ismail, Jaffer, Noor, & Unwin, 2011). According to Ernst & Young (2012), medical takaful contributed significantly to takaful industry growth in the GCC countries, while family takaful emerged as the dominant business venture in Malaysia, for it amounts to nearly two-thirds of the takaful gross contribution (The World Takaful Report, 2012). In Saudi Arabia for instance, the medical takaful is the major product. This is due to the mandatory insurance legislation which requires every citizen to have medical coverage. This factor, largely, contributes to the Saudi Arabia's takaful industry (Hawser, 2013). It is, however, noted that the contributions of motor/general takaful products are relatively low in this country. This is believed to be due to a *fatwa* permitting Muslim consumers to opt for conventional motor/general insurance products (Billah, 1993), and this has invariably affects the performances of the takaful market in general.

5. Challenges and Future Direction

Though, takaful industry in countries like Malaysia, Bahrain, Qatar, UAE, Kuwait and Saudi Arabia has made a remarkable headway, but much are still needed to be done to sustain the industry due to the decline recorded in its market output. For instance, the takaful contributions in the countries mentioned above grew at an average of 10% in 2010, compared to a compound annual growth rate (CAGR) of 41% during the period 2005–2009. Bahrain and UAE suffered the steepest decline in growth rates, from 55% to 17% and from 98% to 28%, respectively (The World Takaful Report, 2012). Nevertheless, the population of the GCC countries is expected to expand as their demographics are changing, there is hope that the life insurance segment will expand massively, as affirmed by Jaffer (2012) that:

> "the region has a very young population with approximately 70 per cent in the 15–64 years bracket and according to World Bank forecasts; the total population of the GCC will grow by an average of 2.4 per cent per year in the next 5 years taking it to 45.6 million in 2015. As this young population in the region matures, the demand for financial products would see a tremendous increase."

Thus, according to that assertion, it is expected that the demand for family takaful will also increase in the near future. Apart from that, there is probability that the takaful industry in the Arab Gulf countries will expand to countries like Kenya, South Africa, and some other countries in Europe and Asia, such as UK, France, Germany, Turkey, India and Indonesia (Jaffer, 2012). The rest of the countries in the Middle East and North Africa (MENA) region are also expected to benefit from this expansion in the nearest future.

Although, the feat achieved so far by takaful industry in the GCC countries is said to be remarkable and promising, but that is without some challenges, and the most prevalent one is information transparency and qualitative corporate governance because the report provided by Alpen Capital (2010) indicates that the industry is yet to meet the expected global financial and marketing standards as the operators are still found to be deficient in terms of financial information dissemination, disclosure of underwriting performance, investment profile and portfolio, regulatory terms and, conditions of operations and services are among the weaknesses bemoaned on takaful industry. To overcome these challenges, there has been suggestion from Islamic Financial Services Board (IFSB) that for efficient business operation and sustainable growth, it is essential for a takaful operator to establish an autonomous corporate board of governance. The advice of which is yet to be heeded to by some of the existing companies (GCC Takaful Industry, 2010, pp. 15 - 17).

The other challenge facing the takaful industry is the perception of the public about some of its products. Although, the desires and agitations of the Muslims are the twin-factors largely responsible for the growing demands for takaful products, yet the level of its marketability is still considerably low. It is reported that takaful industry still has about 10% of marketing products which are shariah compliant but yet to be put into effective operation (The World Takaful Report, 2012). Some other studies revealed that the attention given to takaful products by the Muslims and the non-Muslims alike are still deemed to be very low (Hamid & Othman, 2009; Mohamed, Alhabsh, & Sharif, 2013). A study carried out by Hamid & Othman (2009) showed that Muslim consumers do not have adequate understanding and information about the concept and essence of takaful, and this had relatively impede the progression of takaful industry and its growth, especially in Malaysia. For example, the numbers of Muslim population in Malaysia, which is about 17 million, i.e. 60% of the total population (Department of Statistic, Malaysia, 2010) do not really reflect in the percentage of takaful policy holders. In 2010 for instance, the takaful policy holders were only about 11% when compared to the insurance industry which by then stands at 43% (see also, GCC Takaful Industry, 2010; Moheeb, 2011, pp. 20-21). It is discovered from the foregoing that, though, the takaful products are not only meant for the Muslim, yet, over the years the marketability of this product has been dominated by the Muslims, and that goes to show the extent to which improvement is still required in terms of its marketability. Also in a similar way, it is reported that the conventional insurance has only break through a small percentage of the world's Muslim markets because, generally, in the Muslim-majority countries, the awareness about insurance products, as well as savings and retirement plans are still considered to be relatively low (Hawser, 2013; see also, Moheeb, 2011). Across the GCC countries, however, the espousal of a banking institution known as bancatakaful has been the most prevalent approach and this has proven to be one of the efficient channel through which the Islamic insurance products could be distributed. Bancatakaful has proven to be very successful in circulating the family takaful products in the GCC countries. Through the banks' financial planning and wealth management systems, the takaful product is marketed directly to the bank customers. Also, the tailored-made family takaful products are offered through these aforementioned approaches (Jaffer, 2011). The marketing strategy and good relationship between banks and customers are the two factors largely responsible for the promotion and marketability of the takaful products in the region. Unlike the countries in the Southeast Asia which depends on *wakalah* (agency) in marketing the family takaful products. This mechanism is also acclaimed to have been successful in promoting the family takaful products, and this is the more reason why it is widely adopted by the famiy takaful operators in the region. Bancatakaful on the other hand, is just receiving the attention of the banking institutions. This kind of a channel proved to be very useful for the takaful companies owned or partly owned by Islamic banking institutions, such as HSBC Amanah Takaful (owned by HSBC), AmTakaful (owned by Ambank), Public Ehsan takaful (owned by Public Bank), Takaful Malaysia (owned by Bank Islam Malaysia Berhad), BSN-Prudential

Takaful (partly owned by BSN), ETIQa takaful (owned by Maybank), and Sun Life Malaysia Takaful (partly owned by CIMB). These banks take the advantage of their conventional banking system to introduce their takaful products scheme to their customers. For example, whenever a customer acquires a financing facility or obtained a home financing scheme, these banks would offer such a customer, a takaful coverage scheme in addition to what they might have acquired. With respect to stand-alone operator such as takaful Ikhlas, its operation is carried out through the establishment of a strategic alliance with any of the existing Islamic banking institutions to market their takaful products.

Malaysia, being among the pioneers of Islamic banking and finance industry is well noted for having the most developed and efficient takaful market in the world because over the years, Malaysia has developed a well-structured Islamic financial industry that is well backed with the necessary regulatory frameworks and established physical infrastructures. (Tobias Frenz in Nazneem Halim, 2012). The Takaful Act (1984) and the Islamic Financial Services Act 2013 for example, were purposely introduced to promote the industry towards attaining an excellent degree of growth and development at the mainstream of Malaysia and global insurance industry. In addition to that, the numbers of regulators that are actively supporting the entire value chain of Islamic finance have also helped the industry to grow better in the country.

Moreover, numbers of committed regulators that are actively supporting the entire value chain of Islamic finance have also helped the industry to grow. Moreover, a number of initiatives have been introduced to bring Islamic insurance into the mainstream of Malaysia's insurance industry (Cuyper, 2012), including:

The Malaysia International Islamic Financial Centre (MIFC) — a collaborative network, inaugurated in 2006 for the country's financial sector regulators like Bank Negara Malaysia (Central Bank of Malaysia), Securities Commission Malaysia, Labuan Financial Services Authority, Bursa Malaysia (Kuala Lumpur Stock Exchange), Government ministries and other financial agencies and institutions dealing in banking, takaful, re-takaful, capital market, human capital development and professional ancillary services.

International Takaful Operators (ITO) — the financial institutions licensed to conduct a wide range of takaful and re-takaful (Islamic reinsurance) business through the use of foreign currencies.

International Currency Business Unit (ICBU) — a platform for companies to conduct the businesses involving foreign denominated currencies. It is an initiative that provides opportunities to venture into international currencies business in offshore markets, and also a channel by which the available technical know-how and expertise of Islamic finance in Malaysia are being disposed and exported respectively.

The Malaysian Takaful Association (MTA) – An organization established to provide trainings, research, and education through some institutions like International Centre for Education in Islamic Finance (INCEIF) and Islamic Banking and Finance Institute Malaysia (IBFIM).

Given the proliferation of the Islamic financial sector in Malaysia, especially the takaful industry, some experts are of the view that the takaful industry in Southeast Asian countries like Indonesia, Brunei and Singapore could triple that of the Middle East by 2015 (Ismail et al., 2011).

6. Conclusion

It is demonstrated in the foregoing analysis that Malaysia and the Arab Gulf States countries champion the headway for Islamic finance industry. It is also noted that the takaful industry witnessed so many developmental stages since its introduction into the modern insurance business transaction, and the success that have been recorded for the industry in these countries has been remarkable. It is, however, discovered that the industry has been struggling to deal with a number of problems and challenges in both Malaysia and the Arab Gulf States. These include among others: the low level of awareness about the fundamental nature and essence of this kind of insurance products, low level of acceptability of its products, inadequate regulations and ineffective corporate governance, shortage of qualified personnel, lack of innovative products and limited investments ventures for takaful funds. There is, therefore, the need for the regulators of this industry to provide avenues for the expansion and sustainability of this industry in both Malaysia and the GCC countries through the creation of efficient public awareness system, improvement of operational strategy and provision of high-quality training for the personnel.

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