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History, Progress and Future Challenge of Islamic Insurance (Takaful) In Malaysia

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Abstract

Islamic Finance has gained huge attention in the recent decade not only in the Middle East region, but also in the south East Asian. Two subjects within Islamic finance, namely Islamic banking and Islamic capital market have been discussed very extensively by many researchers. However, another subject which received less consideration is the Islamic insurance. This paper aims to provide the experience and latest progress of the takaful (Islamic insurance) industries. Country of Malaysia is chosen due to several reasons, such as it is the pioneer in the south East Asian before Indonesia, Singapore, Brunei, Bangladesh, and Sri Lanka, the availability of the data and information, etc. Briefly, the first Islamic insurance in Malaysia was established in 1984. Followed by the 1985 Fiqh Academy ruling declared that conventional commercial insurance was forbidden while insurance based on the application of cooperative principles, Shari'ah compliance and charitable donations, was acceptable. To make depth discussion, we examine two biggest takaful operators, which are Takaful Malaysia and Takaful Nasional. The structure of this paper is as follows. First, it begins with the introduction which explains the performance of both takaful and conventional insurance in Malaysia. Second, it discusses the Islamic ruling pertaining the prohibition of conventional insurance. Third, some recent major case studies of those two companies will be elaborated. It will be followed by the challenges faced by this industry. This paper provides useful information especially to those countries which will adopt the similar concept.

Keywords: Takaful History, Takaful Development, Malaysia.

1. INTRODUCTION

Insurance has existed for many centuries. Some historians trace the origin of insurance to 215 CE, when the roman government was required by military supplies to accept all risks arising from enemy attacks, storms, and other natural disaster for supplies carried on their ships. (Omar Fisher, 2009). In other words, there is a need for human to prepare for the loss. And modern insurance can be traced its beginning to the 1600's, when British merchants and ship owners began to meet a coffeehouse near Lombard Street in London. The coffeehouse was called Llyod's, there they made an agreement to mutually share in the profits and losses of sea voyages (Omar Fisher, 2009). However, there is a need for muslim to join to insured themselves in islamic way. As the result, emerged the first Islamic insurance in Sudan in 1979.

Islamic insurance or takaful is a concept of mutual cooperation to guarantee mutual protection of the members (Mortuza Ali, 2006). Takaful is derived from the Arabic word *kafalah*, which is a pact that gurantees individuals in a group against loss or damage sustained by anyone of them (mohamad salihudin ahmad, icmif). The development of takaful in modern times was initially undertaken in Sudan in 1979 and Malaysia in 1984. As the result of the 1985 fiqh Academy ruling declaring that conventional insurance was *haram* (forbidden), while insurance based on cooperative principles, *sharia* compliance, and charitable donations are acceptable. The birth of takaful industry in Malaysia was shown by takaful act 1984 in November 1984. Furthermore, the development of takaful industry in Malaysia had shown a remarkable performance, from the birth of takaful industry until 2004, there were 4 takaful operators with 133 branches and 16,316 agents.

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	1985	1990	1995	2000	2004
Number of takaful operatos	**1**	**1**	**2**	**2**	**4**
Number of branches	**-**	**31**	**42**	**124**	**133**
Number of agents	**-**	**-**	**1,210**	**4,567**	**16,316**

Source: (20 years experience of Malaysian Takaful industry, mifc publication)

There are many differences point of view among people around us. In Muslim point of view, Muslims have to do what Islam has asked and avoid what Islam has prohibited. In everyday life, Muslim has to deal with any business according to shariah. It is the same thing when it goes to insurance. The emergence of Islamic Insurance as an alternative of conventional insurance, in which according to sharia is not in line, due to Riba (interest), Gharar (uncertainty), and Maysir (gambling). The performance of Islamic insurance or known well as Takaful has showed a remarkable growth from time to time. It can be seen by, a lot of Takaful operators in the present day and of course the average growth rate, it is 20% per year currently. As the result, it is an interesting subject to be discussed. The Takaful industry has a huge potential to be emphasized. However, still, there are many people which do not know what takaful is, and the term takaful itself seems not familiar since it is an Arabic term. Furthermore, this is one of the challenges which must be faced and answered by the Takaful industry, to be well known.

The objective of the study is focused on the development of takaful industry which Malaysian takaful industry will be highlighted. In Southeast Asia, Malaysia are the pioneer and the fastest growing in developing the Islamic insurance. The history, progress, and future challenge of takaful industry would be discussed further. However, in Islamic perspective, conventional insurance is prohibited, as the result, emerged Islamic insurance as an alternative to Muslim. This paper would also discuss about the prohibition of conventional insurance. Furthermore, this paper will provide useful information especially to those countries which will adopt the similar concept.

2. LITERATURE REVIEW

2.1 The Definition of Insurance

Insurance is a risk-sharing arrangement between two parties. In this arrangement, one party (the insurer) agrees to indemnify another party (the insured) against certain losses specified by a contract (the policy). Insurance is an economic device by which individuals and organizations can transfer pure risks (that is, uncertainty about financial losses) to others. (Obaidullah, 2005). In other words, insurance is basically a mutual-help where people intend to help each other. However, we have to underline, that insurance here is to transfer a risk from one party to another party, which risk itself is pure risk and not speculative risk. Pure risk is different with speculative risk, where the outcome for the pure risk is only loss not gain. On the other hand, speculative risk is where there is probability to gain.

One may say that insurance is not really needed due to people can be self-insured. In contrast, it can be accepted since people must be having an emergency fund for the loss which can be suddenly occurred. How about if the loss is too great? Or else the emergency fund is less than the loss, and we have to borrow some money and have to pay it back. As the result, people come out with the idea of insurance which they can mutually-insured.

Technically, insurance reduces risk, when individuals transfer risk to insurer they exchange a risk to the premium. After risk is transferred to the premium, there is no need to set up an emergency-fund anymore. In the insurer side, after receiving a risk as an exchange of the premium, risk will be summed up in one pool in which other people have transferred similar loss exposures to the insurer. If any loss occurs and the insured make a claim, then that claim will be taken from the pool in which with an assumption that not everyone who has joined into the pool not make a claim. How about if everyone makes a claim? Insurer has thought about it, insurer will invest the money which has been collected from the pool into another tools of investment so that loss could be covered plus make some profit in which according to Islam is prohibited and will be explained further.

2.2 Legal Ruling of Islamic Insurance in Malaysia

Section 2 of the takaful act of Malaysia 1984: "a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for that purpose".

Item 2 of shariah standard no.26, AAOIFI 2008: A process of agreement among a group of persons to handle the injuries resulting from specific risks to which all of them are vulnerable involves payment of contributions as donations and leads to the establishment of an insurance fund that enjoys the status of a legal entity and has independent financial stability. This fund is used to indemnify any participant who encounters injury, subject to a specific set of rules and a given process of documentation. The fund is managed by either a selected group of policyholders, or a joint stock company that manages the insurance operations and invests the assets of the fund, against a specific fee.

2.3 The Prohibition of Conventional Insurance under Islamic Law

Initially, conventional insurance contains three elements that contradict the shariah (Islamic law).

2.3.1 Uncertainty (Gharar)

Any transaction entered into should be free from excessive uncertainty. The purpose of this prohibition is to avoid fraud, injustice and exploitation. In a conventional insurance, uncertainty arises when insured pays a premium but does not know whether he is going to make a clam in the future. And the amount of financial benefit to be received is not known as well. Similarly, the insurer does not know whether he is going to be called upon to pay claims under the policy, nor the amount to be paid to the insured.

2.3.2 Gambling (Maisir)

Gambling is obviously not permissible under Islamic law. In a game of gambling, one party is always hoping for a gain as a cost of loosing for another party. In the context of insurance, the policyholder hopes (bet) to gain a large sum from his small amount of contribution. What the policyholder actually hopes is that the claim will exceed his contribution. In this case, the company would probably be in deficit. However, the policyholder would loss the money paid for premium if the insured event does not occur. Here, the gambling is playing its role.

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When the policyholder does not make any claim during the period, the insurance operator may obtain all the profit while the policyholder may not obtain any profit at all. The loss of premiums on abolition of contract by the policyholder will only be burden to the policyholder. Furthermore, only a proportional refund would be made if any termination of contract done by the insurance company.

2.3.3 Interest (Riba)

An insurance contract wherein the policyholder expects to obtain a fix amount of profit that is greater than what he has contributed is considered as riba. Hence, the conventional insurance is prohibited under Islamic law. Furthermore, the investment of premiums usually involves prohibited elements such as riba and maisir.

2.4 The Distinction between Conventional and Islamic Insurance

Different views have been expressed about the conventional insurance from the point of view of Islam (Ali Khan, 2004). It is said that conventional insurance is prohibited due to the elements of *Riba (interest),* Gharar (uncertainty) and Maisir (gambling). However, insurance is permissible in Islam when undertaken in the framework of *takaful* or mutual guarantee and *ta'awun* or mutual cooperation. It is not like conventional insurance where a party offers and sells protection and the other party accepts and buys the service at a certain cost or price. Rather, it is an agreement by a group of people with common interests to protect of guarantee each other from a certain misfortune. It is based on sincerity and willingness of the group to help anyone among them. Essentially, the concept of *takaful* is based on solidarity, responsibility and brotherhood among participants (Obaidullah, 2005). These are the main points of different between takaful and conventional insurance:

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1. Conventional insurance is a buy-sell contract in which the insurance company offers and sells protection and the participants (policyholders) accepts and buys the premium at a certain price. In case of Islamic insurance, the participants give up individual rights to attain collective rights over contribution and benefits along with the takaful operator as the one who manage the fund. The contract under Islamic insurance is usually involves the concepts of tabarru, mudaraba and wakala.
2. In case of conventional insurance, insurer's profits include underwriting surplus, which is the difference between total premiums received from and total claims and benefits paid to policyholders. Essentially, profit comprises underwriting surplus plus investment income. The distribution of profits or surplus is a managerial decision taken by the management of the insurer. As a result there is a conflict of interest between shareholders of the insurer company and the policyholders. In case of Islamic insurance, on the other hand, the operator has no claims in underwriting surplus. Further, it is the *takaful* contract, not the management of the operator company that specifies in advance how and when profit will be distributed. There is little room for conflict between interests of shareholders of the operator company and the policyholders. This point is further elaborated in the subsequent chapter dealing with alternative models of Islamic insurance (Obaidullah, 2005).
3. Conventional insurance is based on profit-motive and its goal is to maximize revenue to shareholder. The business of insurance is owned by shareholder. Islamic insurance, in contrast, is based on the motive of community welfare and protection. The nature of business is non-profit oriented. The one who manage the operation is called takaful

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operator. At this point, the takaful operator only received a fair compensation as being an agent for the policyholder and through a share in returns on investment of funds.

4. In case of conventional insurance, when there is no claim during the period agreed, the policyholder will lose his premium that has been paid to the insurer. In Islamic insurance, however, when there is no claim being made during the period agreed, the underwriting surplus is given back to the policyholder, or donated to charity.
5. In a life insurance policy, where the risk occurs, the beneficiary(s) shall have the right to claim whole amount named in policy. But, if in case the risk does not occur, the insured shall have the right to claim the policy value at maturity together with the interest if any. In a life takaful policy, on the other hand, if the risk occurs the beneficiary(s) shall have the right to claim the policy value from the PSA (Participant's Special Account) besides the accumulated entire amount from the PA (Participant's Account). But, if in this category of policy, the participant survives at the maturity of the policy, his/her claim shall be confined within the amount available in the PA (Ma'sum Billah & Patel, 2003).
6. In conventional insurance the investment of premiums is completely at the judgment of the insurer with no involvement by policyholder. As such investment usually involves prohibited elements of *riba* and *maisir*. In contrast, the takaful contract specifies how and where the premiums would be invested. Usually, the takaful operator will invest the premiums in shari'ah compliant areas.

The Islamic insurance company has an additional obligation to pay annual *zakat* while in conventional insurance, there is no such obligation.

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2.4 Takaful Models

2.4.1 Tabarru (Donation) -Based Takaful

The tabarru-based takaful is the most ideal model of takaful among other models. Initially, takaful is seen as a non-profit oriented activity. It based on solidarity, responsibility and brotherhood among participants. In this model, each participant is willing to make donation to the takaful fund with sincere intention to extend financial assistant to other participants faced with difficulties. It provides no return for both the takaful operator and the participants or policyholder. Therefore, such model prevents large-scale expansion of takaful business.

2.4.2 Mudaraba-Based Takaful

Mudaraba is an Arabic term, which means profit-sharing. Under this model, the takaful operator asks for no returns from managing the takaful business. It seeks returns from the business of investing the policyholder funds in agreed ratio such as 50:50, 60:40, 70:30, and etc.

Technically, the policyholders pay premium that is credited to a policyholders' fund, while the shareholders of the takaful operator company contribute to a shareholders' fund which is different from the policyholders' fund. The takaful operator, as mudarib, invest the policyholders' fund to the shari'ah compliant instruments. Profits generated from the investment are shared between the policyholder and takaful operator in agreed ratio. Any losses are charged to the policyholders' fund. In a mudaraba concept, operational expenses relating to investment are charged to the shareholders' fund. In managing the operations, general and administrative expenses other than relating to investments are charged to the policyholders' fund. As valid claims are made, takaful benefits are paid to beneficiaries depending upon occurrence of actual

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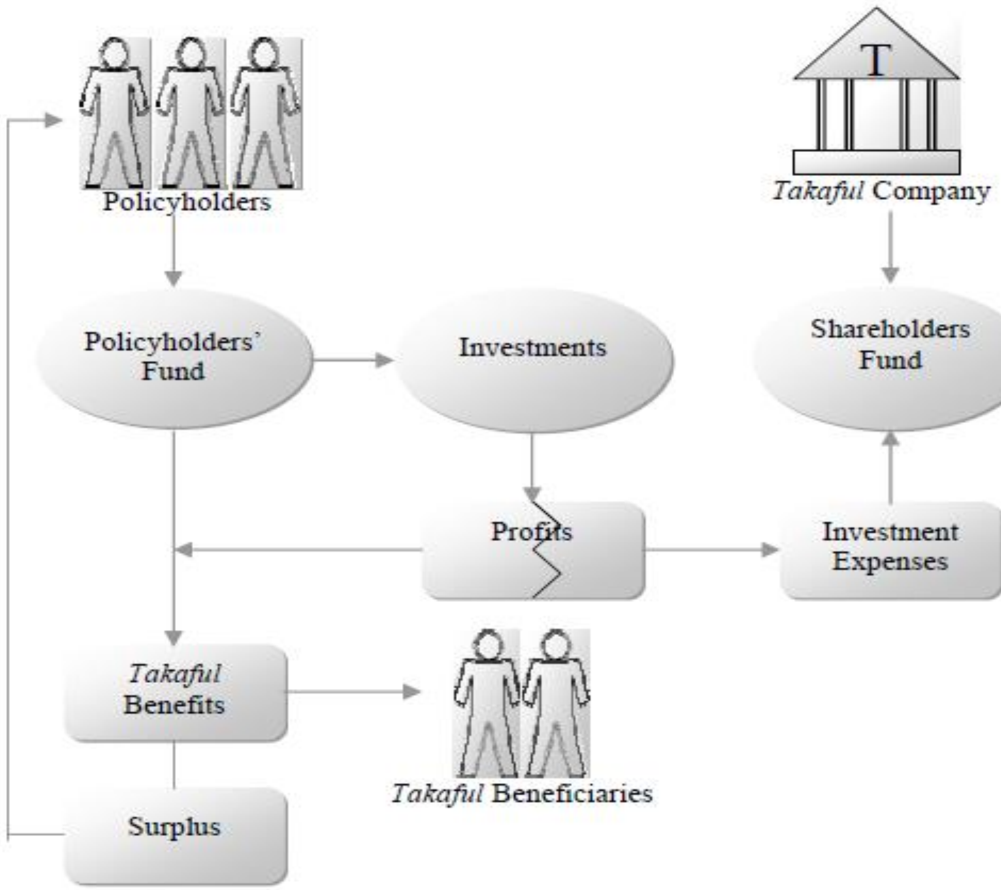
losses and damages. In case of surplus, the policyholders will receive full refund and have to make additional payment of deficit if any.



Source: (Obaidullah, 2005)

2.4.3 Wakala-Based Takaful

Under wakala-based model, the takaful operator performs as the wakil or agent of the policyholders and is consequently entitled to a fee for the services provided. In theory, the policyholders pay premium that is credited to a policyholders' fund. As an agent, the shareholders of the takaful operator company donate to a shareholders' fund which is maintained separately from the policyholders' fund. The takaful operator invests the policyholders' fund in

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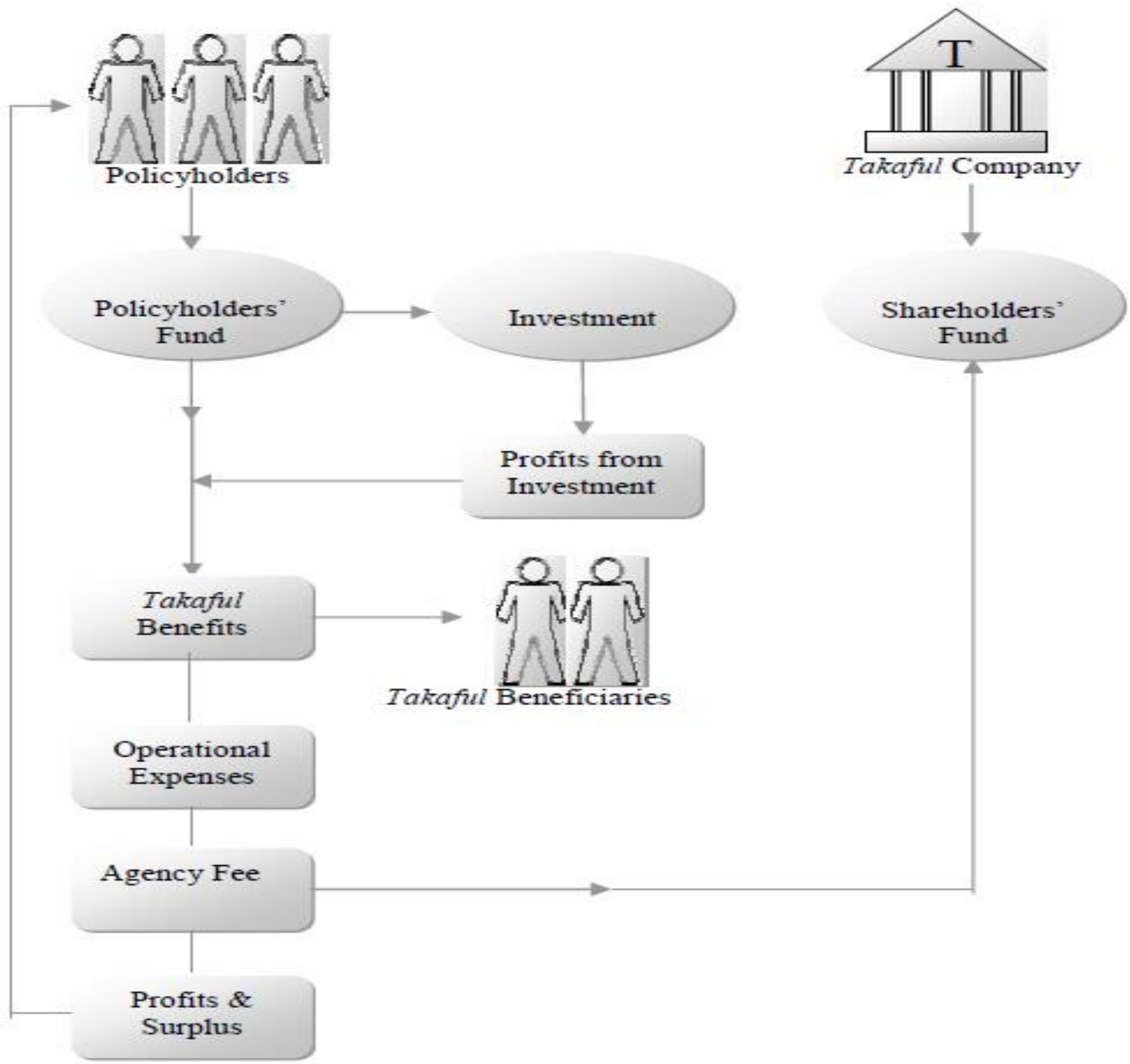
shari'ah compliant instruments in its capacity as wakil or agent. All operational general and administrative expenses are charged to the policyholders' fund. The takaful operator received an agency fee from the percentage of the gross premium received. As valid claims occur, the benefits are paid to the beneficiaries depending upon occurrence of actual losses and damages. Any underwriting surplus is given back to the policyholders. And the policyholders are required to make additional payment of deficit if any.



Source: (Obaidullah, 2005)

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2.4.4 Mixed Model

The mix model combines elements of the wakala and mudaraba models and is set so that the takaful operator has two funds; one for the shareholders and the other for policyholders. In this model, wakala contract is used for underwriting activities while mudaraba contract is used for investment activities. With regard to underwriting activities, the takaful operator act as wakil or agent on behalf of policyholders to manage their funds. In exchange for managing the funds, the takaful operator received a fee known a wakala fee of agency fee which normally a percentage of the contribution paid for the premium.

An incentive fee is entitled to the takaful company if there is a surplus in the policyholders fund as a result of managing the fund effectively. Generally, any surplus contributions will be invested in different Islamic instrument based on mudaraba contract, which the takaful operator acts as mudarib on behalf of policyholders (capital provider). Like other mudaraba contract, the ratio of profit is fixed and agreed upon between the two contracting parties.

3. FINDING AND ANALYSIS

3.1 History of Takaful in Malaysia

The development of the takaful industry in Malaysia in the early 1980’s was inspired by the needs of the muslim in Malaysia for sharia-compliant alternative to conventional insurance due to some prohibitions in islam regarding the conventional insurance. The Malaysian National fatwa committee issued that conventional insurance is haram due to the presence of the elements of Gharar (uncertainty), Riba (interest), and Maisir (gambling). A special Task force was established by the Government in 1982 to study the viability of the setting up of an islamic insurance company. And the following recommendations of the Task force, the Takaful Act 1984 and the first Takaful operator was incorporated in Malaysia.(mifc publication).

In more than twenty years takaful industry in Malaysia has experienced rapid growth and transformation. From a single player with limited product and become an industry which has several players inside. The successful of takaful industry in Malaysia could be achieved by the support from the Malaysia's government by publishing guidelines for international Takaful Operators (ITOs) in late 2006. The development of takaful industry can be seen from the several phases. In the early 1980's, which was the birth of takaful company in Malaysia was focused on the establishment of the basic infrastructure for the industry. And in the early 1990's emerged several companies of takaful in Malaysia which can be marked as the introduction of the competition and cooperation among other takaful operators. Furthermore, in the early 2000s began with the introduction of the financial sector master plan (FSMP) in 2001 which, among other obejctives, is to enhance the capacity of the takaful operators and strengthen the legal, Shariah and regulatory framework.(mifc publication).

Chronologies of events of the Malaysian takaful industry are as follow:

Dates	**Events**
October 1982	Setting up of special Task Force to explore the viability of setting up an islamic insurance company.
November 1984	Incorporation of Syarikat Takaful Malaysia Sdn. Berhad (STMB).
December 1984	Takaful Act 1984 gazette.
August 1985	STMB commenced operations.

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May 1988	Bank Negara Malaysia entrusted with the regulatory and supervisory role over the insurance and takaful industries.
October 1993	MNI Takaful Sdn. Berhad commenced operations.
October 1995	Setting up of ASEAN Takaful Group.
May 1997	Incorporation of ASEAN Retakaful International (L) Ltd. in the international offshore Financial Centre, Labuan.
November 1998	MNI Takaful changed its name to Takaful Nasional Sdn. Berhad.
February 2001	Establishment of islamic banking and Finance Institue Malaysia.
July 2002	Establishment of the Malaysian Takaful Association (MTA).
July 2003	Takaful IKhlas Sdn. Berhad commenced operations.
November 2004	Approval in principal granted to commerce Asset Holding to conduct takaful business.

Source: 20 years experience of takaful industry.

And later there were seven takaful operators in malaysia in 2006. And in 2005 Maybank acquired, via the insurance company Mayban Fortis, MNI Insurance and Takaful Nasional and later in 2007 were rebranded as Etiqa Insurance and Etiqa Takaful respectively. Subsequently, Mayban Takaful transferred all its business, assets and liabilities to Etiqa Takaful. Furthermore, now currently there are 8 takaful operators and 3 Retakaful operators in Malaysia.

List of Takaful Operators in Malaysia	**Years**
Syarikat Takaful Malaysia Sdn. Berhad	1984

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Takaful Nasional Sdn. Berhad	1993
Takaful Ikhlas Sdn. Berhad	2003
CIMB Aviva Takaful Berhad	2005
Prudential BSN Takaful Berhad	2006
HSBC Amanah Takaful Berhad	2006
Hong Leong Tokio Marine Berhad	2006
MAA Takaful Berhad	2006

3.2 Progress and Performance

As an Industry, takaful is relatively new. Even though the starting point of takaful can be traced back to Islamic practice 14 centuries ago during the Prophet Muhammad time, the development of takaful in contemporary was initially undertaken in Sudan in 1979 and Malaysia in 1984. The final stage of this initial development was sum up within the 1985 Fiqh Academy ruling declaring that conventional commercial insurance was haram (forbidden) and insurance based on the application of corporative principles, shari'ah compliance and charitable donations was halal (acceptable).

This takaful industry is seeing significant expansion during the past two decades, specifically in Islamic countries and countries with large Muslim community. In the Middle East, takaful operations have developed in Saudi Arabia, Bahrain, Iran, and Qatar as well as with new operation opening up in Egypt, United Arab Emirates and Kuwait in recent year. In Southeast Asia region, Malaysia has been at the forefront of takaful development with Bank Negara taking the lead with the introduction of separate takaful regulations allowing the takaful business to

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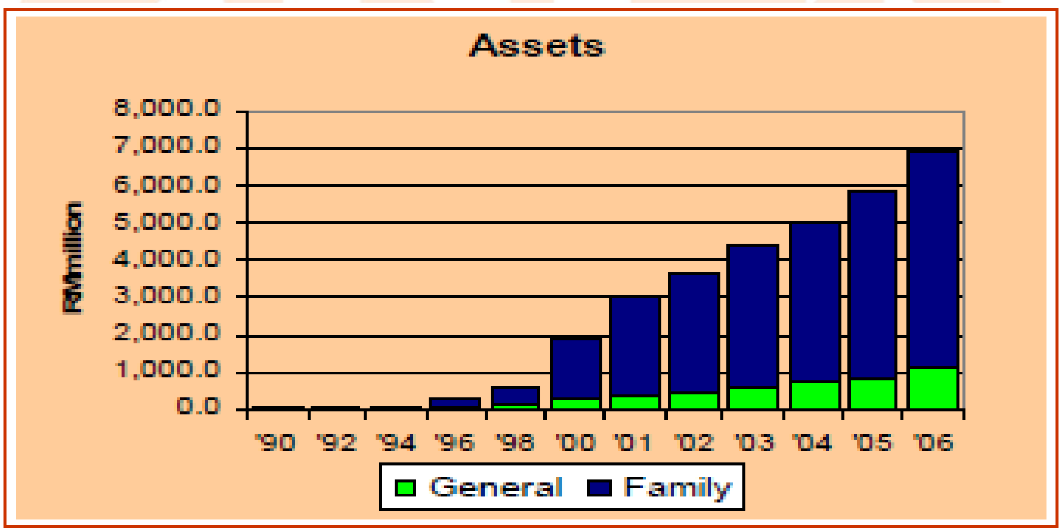
flourish in that country (Taylor, 2005). Indonesia, Brunei, Singapore have all followed with the development of takaful operations.

Focusing on the development of takaful in Malaysia, there has been a significant growth during the past few years. Based on the profit sharing or mudaraba contract combined with tabarru arrangement, the industry has seen an annual growth rate by 25 per cent. The combination of family and general takaful sector is estimated to have recorded 15 per cent growth or RM3.0 billion in premiums last year from RM2.7 billion recorded in 2008. The industry is in a strong position to increase further in an environment of stronger economic performance projected for 2010, (Datuk Syed Moheeb Syed Kamarulzaman, 2010).

The table bellow shows the total asset and net contribution of general and family takaful since 1990 to 2006.



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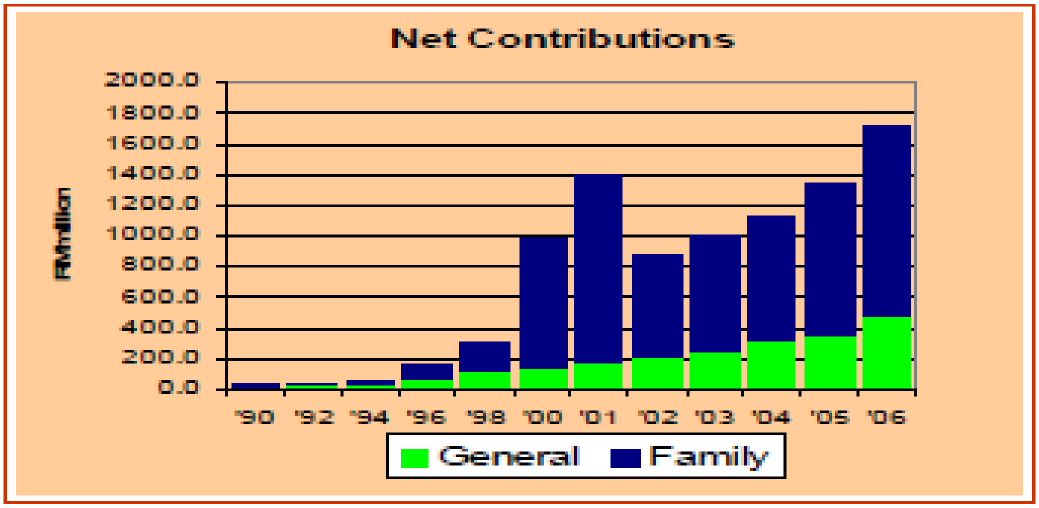
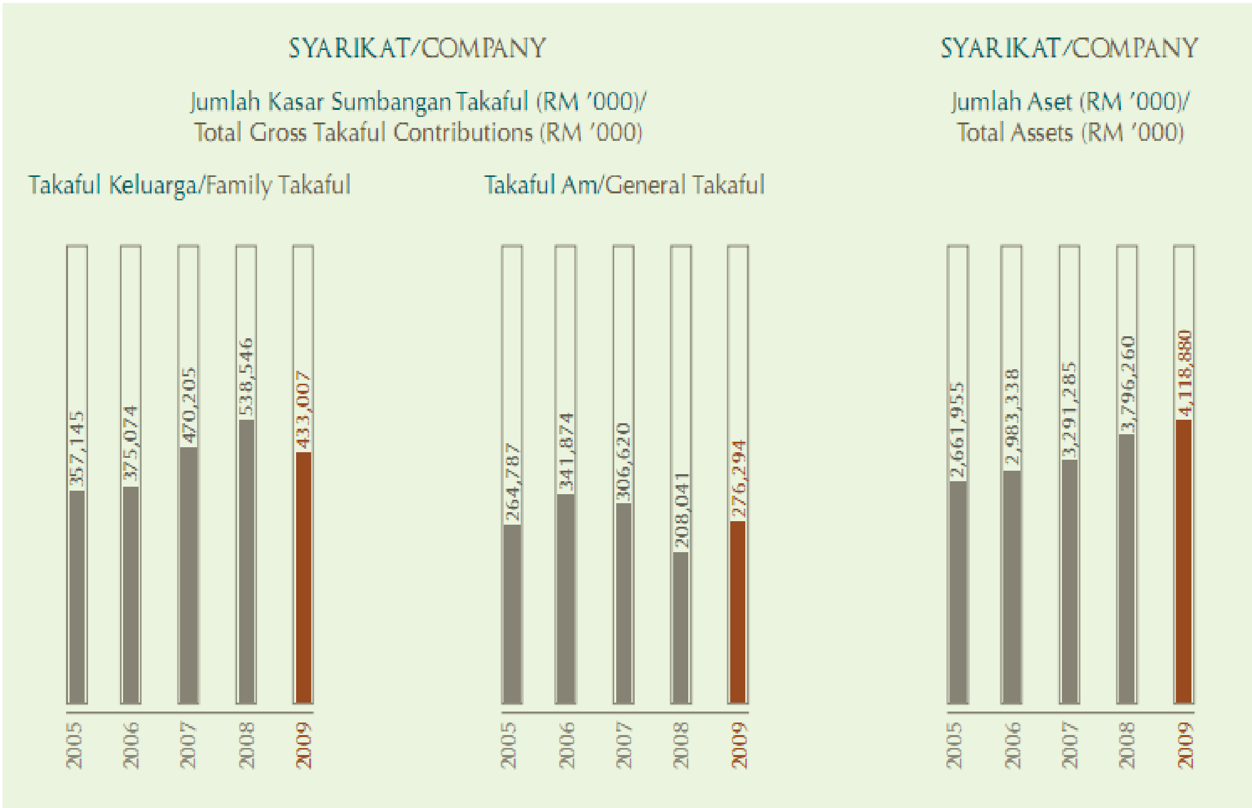
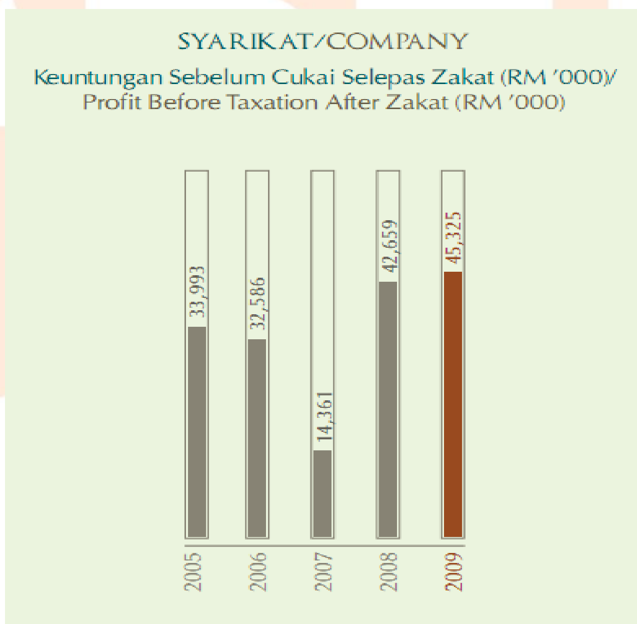


Source: (Ishak, Bakarudin, 2007)

The graph indicates that Family takaful had grown attractively from time to time, which in the past 20 years; the takaful industry grows at 17.9 per cent in terms of total asset. This shows us that Malaysia has a huge potential to build an industry in terms of Takaful, and makes Malaysia as the leader of Takaful industry in the Southeast Asia region.

To make depth discussion regarding the growth of takaful in Malaysia, the performance of those two pioneering companies which are Takaful Malaysia and Takaful Nasional (Etiqa now) will be elaborated.





Source: (Annual report 2009, Takaful Malaysia Sdn. Berhad.)

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Above graphs are respectively show the company's Total Gross Takaful Contributions, Total Assets and Profit Before Taxation After Zakat, in the last five years. Analyzing following data can gives us picture about the company's financial performance.

It has been 25 years since the company is using Mudharaba or profit-sharing between the policyholders and the takaful operator, as their management model. In this model, the Takaful operator will receive the Takaful contributions from their investors, which specify in the written contract. The agreement also include in how the operator will share the future profit they will gain, which usually expressed in certain ratio. As there may vagueness in the contract, the institution try to eliminate those threats by implementing donation or Tabarru. The contribution proportion is taken from the agreeable participant's installments. The use of this contribution is generally to help and guarantee the participants who suffer from loss. In 2008, while the economy crisis started to looming, the company was able contribute in total of RM' 746,587 ($ +/-215017) which is the highest in the past five years. Able to contribute such amount to help the other participants, proved that the company has high capabilities in dealing with it spontaneity internal problems caused by the crisis. Therefore, the company is still confidently managing their stability of performance.

Come across to another graphs of company's Total Assets and Profit Before Tax After Zakat. Other strength point of company's stability management can be seen in both graphs. As the other institutions face difficulties during the last economic crisis of 2008 to 2009, the company is still capable in stirring their stable performances. It assets value has been increasing for RM' 364,231 annually.

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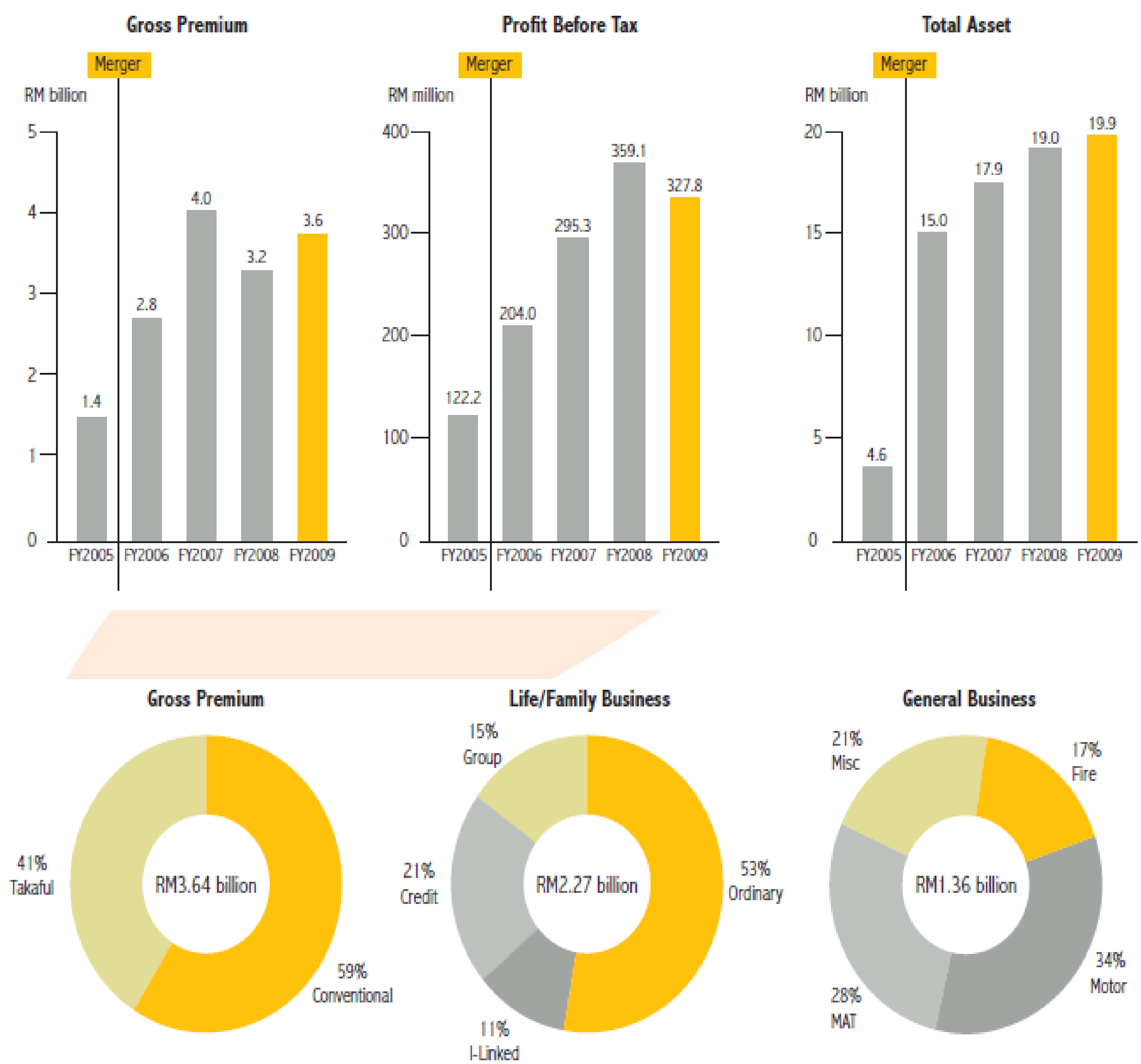
The carefully planned Islamic financial management also allowed it to gain more profits during the recession. From here we can conclude that the company which implement Mudharaba Islamic financial management, had higher change of survive and growth during the recession.



The above graphs are the financial highlight of Etiqa. during the year under review, the insurance and Takaful segments registered a combined gross premium/contribution of RM 3.6

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billion, a 13% increase compared with the previous year. The takaful business under Etiqa,continued its positive momentum, increasing 41% over last year, with gross contribution of more than RM 1 billion. as we refered to the graphs, together, the insurance and takaful segments registered a profit before tax of RM 328 million, with the Takaful segment contributing 28% to the Group's profit and growing by 9% despite the challenging econmic environment.(Maybank's annual report, 2009)

Mayban Fortis Holdings Berhad was formed in 2001 as a collaboration between Malaysia's largest local bank, Malayan Banking Berhad (Maybank) and Fortis International NV,one of the largest providers of integrated financial services in Europe.In 2005, Mayban Fortis grew significantly with the acquisition of Malaysia National Insurance Berhad, Malaysia's largest national insurer and its subsidiary, Takaful Nasional Sdn Bhd. The three-year merger programme between mayban Fortis Holdings Berhad, Malaysia National insurance Berhad (MNI) and Takaful Nasional Sdn Bhd ended on 30 June 2009. Overall, the merger aspirations have been met and re-branded under Etiqa. The legal-merger of the insurance entities has been completed, except for Mayban Life Assurance Bhd which we were expecting to complete by June 2010. (Maybank's annual report 2009).

3.3 Future Challenges

Despite the significant growth in the takaful industry in Malaysia, there still many challenges faced by takaful company, as Malaysia Takaful Association (MTA) chairman Syed Moheeb Syed Kamarulzaman explains to Islamic Finance news the takaful market's current and future outlooks, along with some of the challenges in the unique segment faces in Malaysia.

The family takaful business in Malaysia is coming from the urban market and middle income group, but looking at the Muslim demography, the main market segment is the rural areas. Therefore, one challenge for MTA is to develop and enhance microtakaful to provide for the needs of the rural market.

Another challenge faced by the industry of takaful is the lack of knowledgeable and qualified people in the industry. Even though the educational structure in Malaysia has supported the development of Islamic finance, the challenge now is to persuade those who has the capability to join the takaful industry.

The re-takaful industry needs a number of takaful operators to operate efectively. In Malaysia case, several operators do not include the re-takaful members although there some major operators have joined to become member. Here is the challenges for the industry to be overcome; convincing these few Malaysian operators which are still using the conventional capacity.

At last, product features innovations are also seen to be the future challenges for the takaful industry. To attract more customers, especially non-Muslim customers, the takaful industry has to come up with innovative product features which based on shariah principle.

4. CONCLUSION AND SUGGESTION

Finally, Introducing takaful system is as an alternative to the conventional insurance. As conventional insurance contradict the shariah due to elements of *Gharar* (excessive uncertainty), *Riba* (interest), and *Maysir* (gambling). Clearly, the application sof the takaful system has avoided those elements and provide a transparency as well as fair contract.

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As an industry, Malaysia has more experience in developing the takaful. One advantage that make takaful industry Malaysia to grow successfully is the involvement of the Bank Negara Malaysia (the central bank of Malaysia) to provide a separate regulatory body, exclusively responsible for the regulation and monitoring the takaful industry. It remarkable grow has reach a 30 per cent growth during the past few years.

However, there still many challenges in the future for the takaful industry to grow nationally and internationally. And future research focused on those challenges would help for the best performance of Islamic insurance.

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