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A Quantitative Assessment of Growth, Penetration, and Social Impact in Malaysia's Takaful Industry

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ABSTRACT

This study presents a quantitative assessment of Malaysia's Takaful industry using secondary data from the *2025 Financial Sector Blueprint and Sustainability Report for Takaful*. Adopting a descriptive quantitative research design, the study examines key industry indicators, including total contributions, the market composition of family and general Takaful, penetration rates, claims, social impact, and sustainability-related performance. The findings reveal that total Takaful contributions increased from RM5.93 billion in 2015 to RM15.64 billion in 2024, representing more than a 2.5-fold increase and an approximate compound annual growth rate (CAGR) of 11.4%. Although family Takaful continued to dominate the industry, general Takaful recorded faster growth in recent years, accounting for 37.8% of the total market in 2024. As of June 2025, the industry recorded total contributions of RM8.56 billion, fund assets amounting to RM62.54 billion, and a family Takaful penetration rate of 19.48%. In terms of social contributions, the industry distributed RM56.9 million in zakat and RM1.469 billion through surplus-sharing arrangements in 2024. Furthermore, microtakaful initiatives provided coverage to more than 13 million participants between 2014 and 2024. Sustainability-related performance also demonstrated significant progress, with Value-Based Intermediation (VBI) investments and environmental, social, and governance (ESG)-related assets under management exceeding RM22.5 billion as of June 2025. Overall, the findings demonstrate that Malaysia's Takaful industry has experienced substantial growth while strengthening its contributions to financial inclusion, social welfare, and sustainable financial development. These results highlight the industry's expanding role within Malaysia's financial system and provide quantitative evidence of its evolving market structure, socioeconomic contributions, and commitment to sustainability.

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1. Introduction

The global Islamic insurance (Takaful) sector has undergone a significant transformation over the past decade, evolving from a niche alternative to conventional insurance into an integral component of the global Shariah-compliant financial ecosystem. According to Umidjon [1], Malaysia has emerged as a global leader in Takaful, establishing a benchmark through its combination of regulatory foresight, product innovation, and digital advancement. Under the strategic guidance of Bank Negara Malaysia's (BNM) Financial Sector Blueprint, Shahrom and Kunhibava [2] explained that the industry has increasingly aligned its growth trajectory with the broader objectives of financial inclusion and sustainability. This development is reflected in the *2025 Financial Sector Blueprint and Sustainability Report for Takaful* [3], which provides an empirical basis for examining how the industry has navigated post-pandemic recovery and the transition towards a digital-first economy.

Despite the substantial growth reported by industry bodies, there remains a need for rigorous academic analysis that translates industry-level reporting into structured empirical evidence. Although the Takaful industry has expanded considerably, it continues to face several structural challenges, particularly the relatively stagnant penetration rate in the family Takaful segment and increasing volatility in claims within the general Takaful segment. Understanding the relationship between these commercial challenges and the industry's Value-Based Intermediation for Takaful (VBIT) framework is essential for evaluating the long-term sustainability of the Malaysian Takaful model.

This study addresses this research gap by conducting a comprehensive quantitative assessment of the Malaysian Takaful industry's performance between 2015 and 2025. Rather than relying solely on conceptual analysis, the study examines industry-level indicators, time-series data, and social sustainability metrics to provide a descriptive empirical assessment of market developments. By analyzing data on contributions, market composition, penetration rates, and socioeconomic impact, the study seeks to answer the following research question: To what extent do the reported quantitative indicators demonstrate the Malaysian Takaful industry's ability to balance commercial growth with its socioeconomic responsibilities and the objectives of Maqasid al-Shariah?

The primary objective of this study is to establish an evidence-based benchmark for assessing the industry's progress towards national financial development targets for 2026. The findings are expected to provide valuable insights for policymakers, Takaful operators, and academic researchers regarding the effectiveness of existing growth strategies and the industry's emerging role in promoting inclusive and sustainable finance in Malaysia.

1.1 Literature Review and Theoretical Framework

1.1.1 Theoretical Foundations: Maqasid al-Shariah and VBIT

Abdurasulov [4] explained that the foundational philosophy of Takaful is closely aligned with the Shariah principles of *Ta'awun* (mutual assistance) and *Tabarru'* (voluntary donation or contribution). These principles distinguish Takaful from conventional insurance, particularly in terms of its emphasis on mutual risk-sharing rather than contractual risk transfer. Within contemporary Islamic finance literature, Billah et al. [5] and Abdurasulov [4] argued that Takaful serves as an important institutional mechanism for achieving the broader objectives of Maqasid al-Shariah (the higher objectives of Islamic law). Specifically, the Takaful model contributes to the preservation of wealth (*Hifz al-Mal*) through collective risk-sharing and the preservation of life (*Hifz al-Nafs*) and lineage (*Hifz al-Nasl*) by providing financial protection for individuals and families against unexpected adverse events.

In Malaysia, these traditional objectives have been further developed through the Value-Based Intermediation for Takaful (VBIT) framework, as discussed by Puad et al. [6]. VBIT represents a shift in the industry's strategic orientation from technical Shariah compliance towards a broader Shariah-based approach that emphasizes measurable and sustainable benefits for society and the environment. Rahman and Khan [7] highlighted that this framework aligns the Takaful industry with international environmental, social, and governance (ESG) principles while maintaining its foundation in Islamic ethical values.

The quantitative findings of the present study, particularly RM22.5 billion in ESG-related investments and assets under management and RM56.9 million in zakat contributions, provide measurable indicators of the industry's efforts to operationalize the VBIT framework. These financial contributions demonstrate how the principles of Maqasid al-Shariah can be translated into tangible economic and social activities that support national sustainability objectives and wealth redistribution. Nevertheless, these indicators should be interpreted as evidence of implementation rather than definitive proof of the framework's overall effectiveness.

1.1.2 Drivers of Growth: The Takaful–Growth Nexus

Recent studies [8–10] suggested a positive relationship between the expansion of the Takaful industry and Malaysia's broader macroeconomic development, commonly described as the Takaful–Growth Nexus. This relationship reflects the potential contribution of Islamic insurance to financial sector development, capital accumulation, and economic resilience.

The literature further suggests that this relationship became particularly relevant during the post-pandemic recovery period from 2020 to 2024, when heightened public awareness of financial risks and government initiatives to strengthen social protection contributed to increasing demand for insurance and Takaful products. These developments are reflected in the industry statistics published by the Malaysian Takaful Association [3], which indicate a compound annual growth rate (CAGR) of approximately 11.4%, with total contributions reaching RM15.64 billion in 2024.

Such sustained growth suggests that the Takaful industry has become an increasingly important component of Malaysia's financial system. Beyond providing risk protection, the industry may contribute to financial deepening, the mobilization of long-term savings, and capital market development. However, although these descriptive indicators demonstrate substantial industry expansion, further econometric analysis would be required to establish a causal relationship between Takaful growth and macroeconomic performance.

1.1.3 Penetration Challenges and Consumer Behavior: The Protection Gap

Despite the industry's strong financial performance, the relatively stagnant penetration rate of family Takaful remains a significant challenge. According to the Malaysian Takaful Association [3], the family Takaful penetration rate has generally remained within the range of 19% to 20%, indicating that substantial segments of the population remain inadequately protected.

The Theory of Planned Behavior (TPB) provides a useful theoretical perspective for understanding the factors influencing Takaful adoption. Within this framework, consumer intentions are shaped by attitudes, subjective norms, and perceived behavioral control. In the context of Takaful, religious considerations may influence consumer attitudes, while social expectations and perceived affordability may affect purchasing intentions and actual participation.

Recent developments in insurance technology (InsurTech) offer opportunities to address these barriers by improving accessibility, reducing distribution costs, and introducing affordable protection

products. Digital platforms and modular Takaful products may be particularly relevant to underserved populations, including the bottom 40% income group (B40) and micro, small, and medium enterprises (MSMEs).

The industry data examined in this study provide evidence of these financial inclusion efforts. According to the Malaysian Takaful Association [3], microtakaful initiatives reached more than 13 million participants between 2014 and 2024, while 112,564 Perlindungan Tenang certificates were issued during the reporting period. These figures demonstrate the scale of efforts to expand affordable protection. However, additional evidence would be required to determine the extent to which digital distribution channels directly contributed to these outcomes.

1.1.4 Social Impact and Wealth Redistribution

Rahman et al. [11] emphasized that contemporary Takaful research increasingly focuses on the integration of Islamic social finance instruments, including waqf-based Takaful and zakat, to strengthen the socioeconomic functions of Islamic insurance. These mechanisms distinguish Takaful from conventional insurance by emphasizing mutual responsibility, financial inclusion, and the equitable distribution of economic benefits.

An important feature of the Takaful model is its surplus-sharing mechanism, through which eligible participants may receive distributions from the underwriting surplus, subject to the applicable contractual arrangements and regulatory requirements. According to the Malaysian Takaful Association [3], surplus sharing amounted to approximately RM1.469 billion in 2024. This mechanism reflects the industry's emphasis on mutual benefit and provides an additional channel for distributing financial value among participants.

Shehu [12] argued that the social sustainability functions of Takaful should not be regarded merely as supplementary charitable activities. Instead, they represent an integral component of an institutional model that seeks to generate benefits for participants, Takaful operators, and the broader economy. Affordable protection may improve the financial resilience of low-income households, while broader participation can support the industry's long-term development. At the macroeconomic level, improved financial protection may also reduce household vulnerability and potentially ease pressure on public welfare systems.

By examining zakat contributions, surplus-sharing distributions, and microtakaful participation, this study provides quantitative evidence of the industry's socioeconomic activities. These indicators contribute to understanding the role of Takaful within the Islamic moral economy and its potential contribution to inclusive and sustainable financial development.

2. Methodology

This study adopts a descriptive quantitative research design using secondary data obtained from the *2025 Financial Sector Blueprint and Sustainability Report for Takaful*, published by the Malaysian Takaful Association [3]. The dataset comprises annual and semi-annual industry-level indicators covering the period from 2014 to June 2025, depending on the availability of individual variables.

The analysis focuses on five categories of indicators: (a) total contributions and contributions from family and general Takaful; (b) industry penetration rates; (c) operational performance indicators for the family and general Takaful segments; (d) claims and Takaful fund assets; and (e) social and sustainability indicators, including zakat contributions, surplus-sharing distributions, microtakaful participation, and ESG-related investments.

The quantitative analysis employs descriptive statistics, year-on-year growth rates, compound annual growth rates, and market-share comparisons to assess industry performance and structural developments over the study period. These analytical techniques facilitate the identification of growth patterns, changes in market composition, and developments in the industry's socioeconomic and sustainability-related activities.

Inferential statistical tests were not performed because the study primarily examines aggregated national industry statistics rather than individual-level observations or a multi-entity panel dataset designed for hypothesis testing. Accordingly, the analysis focuses on describing observed industry trends rather than establishing causal relationships between the variables.

All calculations presented in this study were performed by the author using numerical data extracted from the source report. The findings are presented through tables and descriptive interpretations to provide a systematic and transparent assessment of the Malaysian Takaful industry's development.

3. Result

As of June 2025, Malaysia's Takaful industry demonstrated substantial financial growth, recording total contributions of RM8.6 billion and accumulated fund assets of RM62.5 billion. The ratio of fund assets to total contributions stood at approximately 7.3:1, indicating a substantial accumulated asset base relative to the contribution inflows reported during the period. Furthermore, total claims payouts reached RM5.0 billion, highlighting the industry's significant role in providing financial protection and supporting policyholders against insured risks. Collectively, these indicators reflect the expanding financial capacity of Malaysia's Takaful industry and its growing importance within the national financial system.

Table1
Core industry indicators of Malaysia's Takaful industry (as of June 2025 unless otherwise stated)

Indicator	Value	Reference year
Total Takaful contributions	RM8.6 billion	June 2025
Family Takaful contributions	RM5.3 billion	June 2025
General Takaful contributions	RM3.3 billion	June 2025
Total Takaful fund assets	RM62.5 billion	June 2025
Family Takaful penetration rate	19.5%	June 2025
Total Takaful claims payout	RM5.0 billion	June 2025
Zakat payable by operators	RM56.9 million	2024
Surplus sharing to participants	RM1.5 billion	2024

Note. Values are reported in the source report. Rounded values are retained where the report presents rounded figures.
Source: Author's compilation based on Malaysian Takaful Association (2025)

Table 2
Annual Takaful contributions by segment, 2015–2024, with June 2025 update (RM billion)

Year	Family	General	Total	General share (%)
2015	3.64	2.29	5.93	38.6
2016	3.95	2.39	6.34	37.7
2017	4.35	2.55	6.90	37.0
2018	4.91	2.77	7.68	36.1
2019	6.16	3.31	9.47	35.0
2020	6.59	3.46	10.05	34.4
2021	8.50	3.83	12.33	31.1
2022	10.06	4.64	14.70	31.6
2023	9.59	5.45	15.04	36.2
2024	9.73	5.91	15.64	37.8
Jun 2025	**5.31**	**3.25**	**8.56**	**38.0**

Note. Family Takaful figures are based on new business contributions, while general Takaful figures are based on gross written contributions, as reported in the source.

As presented in Table 2, total Takaful contributions increased substantially from RM5.93 billion in 2015 to RM15.64 billion in 2024, representing cumulative growth of approximately 163.7% and a compound annual growth rate (CAGR) of 11.4% over the nine-year period. Although family Takaful consistently maintained its position as the dominant market segment, general Takaful demonstrated stronger growth momentum in recent years, with its market share increasing from 31.1% in 2021 to 37.8% in 2024.

Table 3
Derived growth indicators from annual contribution data

Metric	Value	Interpretation
Total contribution CAGR, 2015–2024	11.38%	Strong long-run expansion
Family contribution CAGR, 2015–2024	11.54%	Sustained growth in family segment
General contribution CAGR, 2015–2024	11.11%	Comparable growth, stronger recent pace
Highest annual total growth	23.31% (2019)	Acceleration before pandemic-period adjustment
Lowest annual total growth	2.31% (2023)	Short-term moderation after 2022 surge
2024 total contribution growth over 2023	3.99%	Return to positive growth

Note. Derived calculations are based on annual figures reported by MTA (2025).
Source: Author's compilation based on Malaysian Takaful Association (2025)

This upward trend indicates a gradual shift in the industry's market composition towards general Takaful, reflecting its increasing contribution to overall industry expansion. By June 2025, total Takaful contributions had reached RM8.56 billion, with general Takaful accounting for approximately

38.0% of the total contributions recorded during the first half of the year. These findings highlight the sustained expansion of Malaysia's Takaful industry and the increasingly significant role of general Takaful in supporting its overall growth.

3.1 Penetration and market reach

Family Takaful penetration demonstrated substantial growth over the study period, increasing from 14.68% in 2015 to a peak of 20.06% in 2022, before declining moderately to 19.48% as of June 2025. Despite the slight downward trend observed after 2022, the penetration rate in June 2025 remained 4.80 percentage points higher than its 2015 level, indicating a notable expansion in the industry's market reach over the decade. This sustained improvement suggests that family Takaful has strengthened its position within Malaysia's financial protection landscape, reflecting broader participation in Shariah-compliant protection schemes. Nevertheless, the moderation in penetration rates since 2022 highlights the need for continued efforts to enhance market accessibility, affordability, and consumer participation to sustain long-term industry growth.

Table 4
Family Takaful penetration rate, 2015–June 2025

Year	Penetration rate (%)
2015	14.68
2016	14.64
2017	14.79
2018	15.30
2019	15.87
2020	16.94
2021	18.61
2022	20.06
2023	19.57
2024	19.57
Jun 2025	19.48

Note. The rate reported in the source is the family Takaful penetration rate.
Source: Author's compilation based on Malaysian Takaful Association (2025)

The GDP-based penetration indicators demonstrate a gradual improvement in Malaysia's insurance and Takaful industry between 2023 and 2024. Family Takaful penetration increased from 0.492% of GDP in 2023 to 0.498% in 2024, while general Takaful penetration rose from 0.299% to 0.306% over the same period. These developments indicate a modest but positive expansion in the economic contribution of both Takaful segments relative to the country's gross domestic product. When combined with conventional insurance, the overall insurance and Takaful penetration rate reached 4.512% of GDP in 2024, approaching the Financial Sector Blueprint's target range of 4.8%–5.0%. However, the recorded penetration rate remained 0.288 percentage points below the lower threshold of the targeted range, suggesting that further industry expansion is required to achieve the

national objective. Overall, these findings reflect steady progress in financial sector development while highlighting opportunities to strengthen insurance and Takaful participation and deepen their contribution to Malaysia's economy.

Table 5
Takaful and insurance penetration as a share of GDP

Year	Family Takaful	General Takaful	Life insurance	General insurance	Overall total
2023	0.492%	0.299%	2.512%	1.152%	4.455%
2024	0.498%	0.306%	2.543%	1.165%	4.512%

Note. The source report explicitly reports overall Takaful and insurance penetration at 4.512% for 2024.
Source: Author's compilation based on Malaysian Takaful Association (2025)

3.2 Family and general segment performance

The family Takaful segment continued to demonstrate strong financial performance, recording RM5.31 billion in new business contributions during the first half of 2025. Despite a lower number of new certificates issued during this period compared with the full year of 2024, the substantial contribution value indicates the segment's continued capacity to generate new business. This pattern may suggest a growing emphasis on higher-value certificates rather than expansion driven solely by the volume of new participants. However, a direct comparison of certificate issuance between a six-month period and a full financial year should be interpreted cautiously. In the general Takaful segment, a notable development was the faster growth of claims relative to contributions, indicating increasing claims-related pressures on operators.

Nevertheless, the net claims incurred ratio remained relatively stable at 63.55%, suggesting that the overall relationship between claims incurred and contributions remained broadly consistent despite the increase in claims expenditure. These findings highlight the resilience of both Takaful segments while emphasizing the importance of maintaining sustainable contribution growth, effective underwriting practices, and prudent claims management to support long-term industry stability.

Table 6
Family Takaful operating indicators

Indicator	Jan–Jun 2025	2024	Change / note
New business contribution	RM5.31 billion	RM9.70 billion	+1.5% in 2024 over 2023
Sum covered / participated	RM382.62 billion	RM574.10 billion	+5.1% in 2024 over 2023
Business in force contribution	RM9.75 billion	RM9.60 billion	+7.2% in 2024 over 2023
New business certificates	0.42 million	0.99 million	-12.2% in 2024 over 2023
Business in force certificates	6.67 million	6.70 million	+1.3% in 2024 over 2023
Annual average case size	RM3.65K	—	June 2025 indicator
Annual average sum covered	RM206.46K	—	June 2025 indicator
Single average case size	RM26.33K	—	June 2025 indicator

Single average sum covered	RM1,984.68K	—	June 2025 indicator

Note. The source report presents a mixture of half-year 2025 figures and full-year 2024 comparators.
Source: Author's compilation based on Malaysian Takaful Association (2025)

Table 7
General Takaful operating indicators

Indicator	Jan–Jun 2025	SPLY / 2024 comparator	Reported change
Gross written contributions	RM3.25 billion	RM2.96 billion	+9.65%
Gross direct contributions	RM3.25 billion	RM2.96 billion	+9.69%
Net contributions	RM2.42 billion	RM2.234 billion	+8.33%
Gross claims paid	RM1.60 billion	RM1.31 billion	+22.60%
Net claims paid	RM1.27 billion	RM1.06 billion	+20.22%
Net claims incurred ratio	63.55%	63.58%	-0.06%

Note. SPLY = same period last year, as reported in the source.
Source: Author's compilation based on Malaysian Takaful Association (2025)

3.3 Social and Sustainability Metrics: Operationalizing Maqasid al-Shariah

The quantitative impact of the Malaysian Takaful industry extends significantly beyond mere commercial performance and functions as a principal mechanism for realising the five pillars of Maqasid al-Shariah. The data indicate that the industry is effectively transitioning from a "compliance-only" model to one that actively generates social value through institutionalised mechanisms. The indicators presented in Tables 8 and 9 quantify the extent of this social integration through initiatives aimed at inclusion and mechanisms for wealth redistribution.

Table 8
Social inclusion and sustainability indicators

Indicator	Value	Time reference
Participants covered under microtakaful products	13 million+	2014–2024
Training programmes related to digital/financial literacy and inclusivity	99+	2021–June 2025
Participants reached by those training programmes	9.9 million+	2021–June 2025
Initiatives such as Microtakaful, Perlindungan Tenang, Takaful4All, Karnival Celik Kewangan, and #FitFinances reached	171,000+	2024
Perlindungan Tenang certificates issued	112,564	June 2025
Perlindungan Tenang annualised contribution	RM9.77 million	June 2025
Social Takaful Fund	RM3.1 million	June 2025
VBI investments and assets under management	RM22.5 billion+	June 2025
Number of ESG-related Takaful funds	26+	June 2025

Charities under VBIT activities	RM16.2 million	2025
Zakat under VBIT activities	RM56.9 million	2025 / 2024 reporting context

Note. ESG-related investment figures exclude the Zurich entities, as noted in the source report.
Source: Author's compilation based on Malaysian Takaful Association (2025)

Table 9
Zakat payable by operators and surplus sharing to participants (RM)

Year	Zakat payable	Surplus sharing
2014	1,555,625	62,210
2015	518,493	166,689
2016	3,273,000	122,951
2017	8,050,810	383,793
2018	20,708,106	470,156
2019	15,589,243	409,789
2020	31,621,190	470,074
2021	27,461,225	498,414
2022	40,102,257	847,060
2023	49,532,585	2,121,939
2024	56,936,501	1,469,095

Note. Amounts are reported in the source figure. The 2024 values are RM56,936,501 for zakat and RM1,469,095 for surplus sharing.
Source: Author's compilation based on Malaysian Takaful Association (2025)

The extended analysis of zakat and surplus sharing underscores the social integration inherent in the Takaful model. The zakat payable increased significantly from RM1.56 million in 2014 to RM56.94 million in 2024. Concurrently, surplus sharing increased from RM62,210 in 2014 to RM1.47 million in 2024, following a peak of RM2.12 million in 2023. Although the distribution of surplus exhibits greater volatility than zakat, the overall trend is upward throughout the period, suggesting an enhanced capacity for participant benefit-sharing as the industry evolves.

3.3.1 Preservation of Wealth (Hifz al-Mal) through Zakat and Surplus Sharing

The most compelling evidence of institutionalized wealth redistribution within the Malaysian Takaful sector is the exponential growth of zakat and surplus sharing, as documented in Table 9. The substantial increase in zakat payable, from RM1.5 million in 2014 to RM56.9 million in 2024, serves as a critical quantitative validation of the Maqasid al-Shariah objective of "Preservation of Wealth" (Hifz al-Mal) through systematic purification and social redistribution. By channelling RM56.9 million back into the social economy in 2024 alone, Takaful operators are not merely fulfilling a religious obligation but are effectively mitigating wealth concentration and supporting the national asnaf (zakat recipients) population.

Furthermore, the upward trajectory of surplus sharing, which reached RM1.47 million in 2024 after a decade of steady increases, reinforces the fundamental principle of Ta'awun (mutual assistance). Unlike conventional insurance, where profits are often retained solely by shareholders, Said & Grassa [13] concluded that the Takaful model ensures that the financial success of the Tabarru (risk) fund is equitably shared with participants who bear the risk. This mechanism acts as a unique value proposition that aligns the commercial success of the operator with the community's financial well-being, thereby fostering a more inclusive and resilient financial ecosystem.

3.3.2 Preservation of Life (Hifz al-Nafs) and Lineage (Hifz al-Nasl) via Inclusivity

The industry's strategic commitment to safeguarding vulnerable populations is further evidenced by the microtakaful and financial inclusion initiatives outlined in Table 8. The cumulative coverage of over 13 million participants for various microtakaful products from 2014 to 2024 underscores the industry's crucial role in providing a safety net for B40 and traditionally underserved market segments. This extensive reach is vital for the preservation of life (Hifz al-Nafs) as it ensures that lower-income households are not compelled to predatory debt or complete financial collapse following unforeseen tragedies.

This protective function is further exemplified by the Perlindungan Tenang Initiative, which, as of June 2025, has successfully issued 112,564 certificates. These certificates represent a highly targeted effort to preserve the financial dignity of families during crises, and directly support the Maqasid objectives of preserving lineage (Hifz al-Nasl) and future security. By providing affordable, "bite-sized" protection products, Ahmad et al., [14] concluded that the takaful industry effectively bridges the "protection gap" that has historically left millions of Malaysians vulnerable to economic shocks, thereby ensuring the long-term stability of the family unit across generations.

3.4 Digital Transformation and InsurTech Adoption

The quantitative data collected in this study from Malaysian Takaful Association [15] and Middle East Insurance Review [16], indicate that digitalization has transitioned from a peripheral operational strategy to a primary catalyst for the recent acceleration of the Takaful industry. By late 2024, the industry had evolved from maintaining a basic online presence to developing integrated InsurTech ecosystems that emphasize seamless customer experience and enhanced operational efficiency. This systemic transformation is empirically demonstrated by the industry's expanded reach, successfully engaging 9.9 million potential participants through more than 99 dedicated digital and financial literacy programs. These educational and outreach initiatives established a model of 24/7 digital accessibility, instrumental in driving total industry contributions to a record RM15.64 billion.

3.4.1 Expanding Reach through Digital Microtakaful

The success of the Perlindungan Tenang Initiative, which issued 112,564 certificates by mid-2025, is closely associated with the rapid advancement of digital distribution channels in Malaysia. By utilizing "bite-sized" insurance products facilitated by streamlined Electronic Know Your Customer (e-KYC) processes, Abdulkadir et al., [17], and Mushonga [18] observed that Takaful operators have effectively reduced the entry barriers for the B40 (lower-income) and MSME segments. This "embedded finance" model, which incorporates Takaful products directly into non-traditional platforms such as mobile e-wallets and telecommunications applications, has enabled the industry to encompass over 13 million microtakaful participants cumulatively. This extensive digital

integration serves as a primary catalyst for the General Takaful segment's expansion to a 37.8% market share, as these platforms enable instantaneous participation and real-time policy issuance, thereby effectively addressing the needs of modern mobile-first consumers.

3.4.2 Operational Efficiency and Claims Processing

Beyond distribution, Sudabathula[19] and Sun et al., [20] explains that digital transformation has addressed a persistent challenge in the industry: the complexity and duration of the claims processes. By revolutionizing workflows through automation and artificial intelligence, several operators have introduced AI-driven "End-to-End Digital Motor Claims" systems. These innovations have significantly reduced the turnaround time for motor claims from several weeks to days, thereby enhancing participant trust and satisfaction. Furthermore, digital transformation supports broader sustainability objectives in the industry. The strategic initiative to manage RM22.5 billion in ESG-related assets is mirrored internally by transitioning to 100% digital policy issuance. This shift as the Malaysian Takaful Association [3] is to paperless operations significantly reduces the environmental footprint of both the family and general segments, successfully aligning operational efficiency with the core principles of Value-Based Intermediation (VBI).

3.4.3 Futureproofing via Hijrah27 and Digital Licensing

As reported by the Malaysian Takaful Association [15], and Middle East Insurance Review [16], the Malaysian Takaful industry is currently navigating the Hijrah27 strategic blueprint, an ambitious roadmap designed to double market penetration by 2027. A critical component of this future-proofing strategy is the anticipated market entry of Digital Insurers and Takaful Operators (DITOs). While traditional incumbents are currently digitalizing existing manual workflows, DITOs are expected to introduce "born-digital" Shariah models that leverage big data and machine learning for more sophisticated and granular risk pricing. This technological advancement is anticipated to further narrow the "protection gap" for "thin-file" consumers, that is, individuals with limited credit or financial history who were previously underserved by traditional agents. By fostering a more inclusive and technologically agile environment, these advancements were poised to redefine the landscape of financial inclusion across the Malaysian population.

3.5 Challenges to Sustainability: Medical Inflation and Claims Volatility

The empirical evidence presented in this study underscores a dual-edged challenge for the Malaysian Takaful industry: while there is robust growth in contributions, the increasing scale of payouts poses a significant threat to the long-term sustainability of funds. As reported by the Malaysian Takaful Association [3], the industry's total claims payout of RM5.0 billion and a General Takaful gross claims figure of RM1.60 billion as of early 2025 highlight the substantial responsibility of Takaful operators in providing a safety net for participants. However, these figures must be considered in the context of global and local medical inflation, which consistently surpasses general consumer price indices. In Malaysia, medical inflation is projected to range between 12% and 15% annually, a trend that threatens to deplete the surplus of Tabarru (risk) funds if not managed precisely.

The Malaysian Takaful Association [3] reported that the sustainability of the RM62.54 billion total fund asset base is heavily reliant on the "claims-to-contribution" ratio. Although the net claims incurred ratio appears stable at 63.55%, the underlying pressures from rising hospital costs, advanced

medical technologies, and an aging population necessitate a strategic shift. Academically, this situation creates tension between the Maqasid al-Shariah goal of "protection and affordability" and the commercial necessity of fund solvency. If claims continue to rise at their current trajectory, the industry will face an inevitable "repricing exercise" between 2024 and 2026. Such adjustments are often viewed unfavorably by the public; however, they are essential to ensure that the Takaful Fund remains resilient enough to meet future obligations without compromising the principle of mutual assistance.

Furthermore, the volatility in General Takaful claims, particularly in the motor and fire segments, reflects broader environmental and economic risks. As indicated in the report [3] The RM1.60 billion in gross claims within the general segment suggests that as the industry expands its market share (now at 37.8%), it becomes increasingly exposed to catastrophic risks, including climate-related floods, which have become more frequent in Malaysia. To mitigate these risks, the industry's transition toward RM22.5 billion in ESG-related investments is not merely a branding exercise but a strategic necessity. By investing in sustainable infrastructure and climate-resilient assets, Takaful operators effectively hedge against the environmental risks that drive up claim costs in the General Takaful sector.

Ultimately, the transition from a growth-centric to a sustainability-centric model will require a more sophisticated use of data analytics and preventive healthcare initiatives. The industry must evolve from merely being a "payer" of claims to becoming a "partner" in risk mitigation. This involves leveraging the digital transformation mentioned in Section 3.4 to identify high-risk patterns early and promote value-based healthcare that focuses on outcomes rather than just services. Without these interventions, the impressive growth in total contributions observed over the last decade may be overshadowed by the systemic pressure of an increasingly expensive medical and risk landscape.

3.6 The "Volume-Value" Paradox and the Protection Gap

A pivotal outcome of this quantitative analysis is the divergent trend observed between contribution value and participant volume within the Family Takaful sector. As depicted in Table 6, while the "New Business Contribution" exhibited a robust increase of 1.5% in 2024, the actual number of "New Business Certificates" experienced a notable decline of 12.2% during the same period. This "Volume-Value" paradox indicates that the industry's growth is increasingly propelled by higher-value policies from existing or affluent market segments rather than an expansion of the participant base.

This quantitative evidence provides an empirical rationale for the 19.48% penetration plateau discussed in Section 3.1. The data reveal that the average case size for single contributions has reached RM26.33K, suggesting that the Takaful market is currently skewed towards high-net-worth individuals or investment-linked products. From an academic standpoint, this substantiates the "Protection Gap" theory; while the industry is technically expanding in financial scale, it has not yet effectively captured the "mass market" necessary to surpass the 20% penetration threshold. Without a strategic shift towards high-volume, low-ticket digital products, the industry faces the risk of "concentration risk," where a substantial asset base of RM62.54 billion is held by a disproportionately small segment of the population as highlighted in the report [3].

3.7 Policy Implications and Future Outlook

The quantitative growth trajectory of Malaysia's Takaful industry, as demonstrated by its expansion to an asset base of RM62.54 billion, indicates a sector that has progressed beyond its initial

phase and is now at a pivotal stage of maturation. Nevertheless, the data also highlight structural deficiencies and a "volume-value" paradox that necessitates intentional policy interventions and strategic adjustments to remain consistent with the Financial Sector Blueprint 2022–2026. As the industry approaches the 2026 horizon, the following subsections delineate the primary implications for regulators and the anticipated trajectory for the industry to evolve from a high-growth sector to a sustainable and socially integrated financial pillar.

3.7.1 Strengthening the Value-Based Intermediation (VBI) Framework

The industry's report [3] of RM22.5 billion in ESG-related assets and RM56.9 million in zakat contributions signifies that the Takaful sector is advancing beyond a mere "Shariah-compliant" framework focused solely on the avoidance of prohibited elements such as Riba, Gharar, and Maysir towards a "Shariah-based" impact model. For policymakers at Bank Negara Malaysia (BNM), this transition necessitates the formulation of more standardized and transparent reporting metrics for the Value-Based Intermediation for Takaful (VBIT) framework. Although current ESG investment figures are numerically impressive, there is an urgent academic and regulatory requirement for a more detailed taxonomy. Such a taxonomy would enable stakeholders to differentiate between "exclusionary screening" (merely avoiding haram industries) and "active impact investing" (investing in green energy, social housing, or community-based waqf projects).

Furthermore, future policy should incentivize Takaful operators to allocate a larger proportion of their RM62.54 billion fund towards local Sustainable Development Goals (SDGs). By establishing a regulatory environment that rewards high-impact social investments, BNM can ensure that the industry's substantial capital pool is utilized to enhance Malaysia’s social safety nets. This initiative would effectively operationalize the Maqasid al-Shariah objective of wealth circulation, transforming the industry from a passive risk-sharing pool into an active participant in nation-building and economic resilience.

3.7.2 Bridging the 20% Penetration Plateau and the Protection Gap

A critical policy issue identified in this study is stagnation in Family Takaful penetration, which has remained at approximately 19.48% - 20% despite a decade of substantial financial growth in the industry. The data from the report [3]. indicate that traditional agency-led distribution models have likely reached their saturation point among middle-to high-income urban populations. To achieve the national target of 4.8% - 5.0% overall penetration by 2026, policy must pivot towards "Micro-Takaful Mandates" aimed at underserved populations. The issuance of 112,564 Perlindungan Tenang certificates to date demonstrates a latent demand for low-cost simplified protection among lower-income groups.

Regulators should consider implementing fiscal incentives or reducing capital requirements for operators who develop products specifically tailored for the gig economy and "thin-file" customers who currently lack formal financial protection. Addressing the "Volume-Value Paradox" where contribution amounts are increasing while the number of new certificates is declining, necessitates a shift from high-commission investment-linked products to high-volume, pure protection schemes. By reducing barriers to entry through policy-driven affordability mandates, the industry can effectively bridge the protection gap and achieve an equitable distribution of Takaful benefits across all Malaysian socioeconomic strata.

3.7.3 The DITO Era and the 2026 Horizon

As the industry approaches the culmination of the current Financial Sector Blueprint in 2026, the introduction of Digital Insurers and Takaful Operators (DITOs) is anticipated to act as the principal catalyst for structural transformation. Quantitative findings indicate that the General Takaful segment is currently experiencing more rapid growth than the Family segment, commanding a 37.8% market share. This trend appears to be driven by the convenience of the digital motor and travel Takaful, reflecting a distinct consumer preference for seamless, digital-first interactions with insurance companies. The policy implication here underscores the necessity for a robust "Regulatory Sandbox" approach, enabling DITOs to experiment with innovative models such as peer-to-peer (P2P) Takaful or usage-based pricing, as highlighted in the Association report [3].

This digital-first strategy is projected to be the key driver in narrowing the protection gap among the youth demographic and technologically adept Gen Z, who currently perceive Takaful as a complex and traditional financial product. By encouraging DITOs to leverage big data and machine learning for more precise risk pricing, regulators can facilitate the creation of a market in which protection is not only accessible, but also personalized. The integration of these digital entities compels traditional incumbents to expedite their digital transformation, ultimately resulting in a more competitive, efficient, and transparent market by 2026.

3.7.4 Long-term Resilience, Climate Risk, and Proactive Mitigation

In conclusion, the RM1.60 billion in gross claims within the general segment indicates an escalating susceptibility to climate-related risks, particularly floods and extreme weather events, which have become increasingly frequent and severe in Malaysia in recent years. Future projections suggest that takaful operators must transcend the "reactive payer" model and incorporate climate stress testing and catastrophe modeling into their core risk management frameworks. There is a distinct policy imperative for the industry to transition into a "proactive risk mitigator."

This necessitates utilizing RM15.64 billion in annual contributions not only for payouts but also for investing in disaster-resilient infrastructure and community-level risk awareness programs as reported by the Malaysian Takaful Association [3]. Regulators should encourage Takaful operators to collaborate with government agencies on "Public-Private Takaful Partnerships" for flood and agricultural protection. By aligning the industry’s RM62.54 billion asset base with national climate adaptation strategies, the takaful sector can ensure its own long-term solvency while simultaneously safeguarding the Malaysian economy from the systemic shocks of climate change. This proactive approach ultimately tests an industry's commitment to the Maqasid principle of preserving life and property in an increasingly volatile environment.

3.8 Structural Challenges to the Sustainability of the Takaful Industry

The quantitative evidence obtained in this study substantiates four principal interpretations that characterize the current state of the Malaysian Takaful sector. First, the industry is fundamentally a growth market; the increase in total contributions from RM5.93 billion in 2015 to RM15.64 billion in 2024 demonstrates that Takaful has evolved beyond an emerging niche to become a systemic pillar of the financial system. Second, although the industry remains predominantly family led, the acceleration of General Takaful indicates a gradual rebalancing of market composition. Third, penetration indicators and inclusion metrics suggest that expansion is intricately linked to digital accessibility. Fourth, the industry's social and sustainability profiles are quantitatively evident

through zakat, surplus sharing, and ESG-linked investment flows. However, these achievements are accompanied by structural challenges that necessitate critical analysis.

3.8.1 Challenges to Sustainability: Medical Inflation and Claims Volatility

A significant finding in this assessment is the increasing pressure on the sustainability of tabarru (risk) funds. The Malaysian Takaful Association [3]. reported that the industry's total claims payout reached RM5.0 billion, with a General Takaful gross claims figure of RM1.60 billion as of early 2025.However, these figures must be considered in the context of medical inflation in Malaysia, which has consistently surpassed general consumer price indices and often ranges from 12 to 15% annually. The sustainability of the RM62.54 billion total fund asset base is heavily reliant on maintaining a robust "claims-to-contribution" ratio. Although the net claims incurred ratio currently appears stable at 63.55%, the underlying pressure from rising hospital costs and an aging population creates tension between the Maqasid al-Shariah goal of "affordability" and the commercial necessity of fund solvency. As shown by Shahrom & Kunhibava [2] If claims continue on this trajectory, the industry will face an inevitable "repricing exercise" between 2024 and 2026. This underscores the critical need for the industry to transition from merely being a "payer" of claims to becoming a "partner" in risk mitigation, utilizing data analytics to manage healthcare costs more effectively.

3.8.2 The "Volume-Value" Paradox and the Protection Gap

An additional insight pertains to the correlation between value growth and certificate volume. As demonstrated in Table 6, a "Volume-Value Paradox" has emerged: although the "New Business Contribution" exhibited a robust increase of 1.5% in 2024, the actual number of "New Business Certificates" experienced a substantial decline of 12.2% during the same period. This indicates that the industry's growth is increasingly driven by higher-value policies from existing or affluent market segments (as evidenced by the average case size for single contributions reaching RM26.33K) rather than by an expansion of the participant base.

This quantitative evidence provides an empirical rationale for the 19.48% family penetration rate plateau. The data suggest that the Takaful market is currently oriented towards investment-linked products or high-net-worth individuals, corroborating the "Protection Gap" theory. While the industry is expanding financially, it is encountering challenges in surpassing the 20% penetration threshold. To attain the national target of 4.8%–5.0% overall penetration by 2026, the industry must transition from this value-centric model to a volume-centric model, emphasizing high-volume, low-ticket protection products that engage the "mass market" and the gig economy.

3.8.3 Synthesis of Social and Commercial Viability

The data ultimately align with the broader objectives of Value-Based Intermediation (VBI). The Malaysian Takaful Association [3] reported that the increase in VBI-aligned assets to RM22.5 billion and the number of ESG-related Takaful funds suggest that the industry is effectively integrating commercial viability and social impact. This supports the argument for considering Takaful not merely as an Islamic insurance alternative, but as a quantifiable, ethical institution within Malaysia’s inclusive financial framework. Mushonga & Mishi [18] argues that the shift to paperless operations and digital claims processing reduced turnaround times from weeks to days, further demonstrating that operational efficiency and Shariah-based sustainability are complementary rather than conflicting objectives.

4. Conclusion

This study offers a thorough quantitative evaluation of the Malaysian Takaful industry, charting its progression from a niche financial sector to a substantial multi-billion ringgit component of the national economy. The empirical data indicate an industry experiencing rapid growth, with total contributions increasing at a compound annual growth rate of 11.4% and projected to reach RM15.64 billion by 2024. The findings affirm that while Family Takaful remains the cornerstone of the industry, the General Takaful segment is emerging as a significant driver of market share, particularly through digital-first models aligned with contemporary consumer demand.

This study further illustrates that Malaysia's Takaful sector has effectively integrated social and sustainability objectives into its core operations. With over RM22.5 billion in ESG-related assets and a notable presence in microtakaful, the industry has evolved beyond a mere risk-mitigation tool to become the primary vehicle for achieving the Maqasid al-Shariah objectives of social equity and community resilience. Metrics on zakat, surplus sharing, and financial literacy outreach indicate that the industry's "Value-Based" intent is being translated into measurable, large-scale social impact. Nevertheless, the analysis identifies the critical thresholds that the industry must surpass to achieve its 2026 targets. The stagnation of family penetration rates at approximately 19.48% and the increasing pressure of medical inflation, evidenced by the RM5.0 billion in total claims, suggest that the current growth model requires evolution. Future success will hinge on the industry's capacity to effectively navigate its digital transformation, integrate Digital Insurers and Takaful Operators (DITOs), and maintain fund solvency amidst rising healthcare costs and climate-related risks. In conclusion, the Malaysian Takaful industry is well positioned to fulfill the objectives of the Financial Sector Blueprint 2022–2026. While challenges concerning penetration and claims sustainability persist, the sector's robust asset base of RM62.54 billion and its strategic alignment with global ESG trends provide a solid foundation for long-term resilience.

This study concludes that through continued digital innovation and a steadfast commitment to value-based intermediation, Malaysia is likely to sustain its position as a global leader and benchmark for the contemporary Takaful ecosystem.

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