



Activation of Islamic Insurance in Uzbekistan

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Abstract: *Islamic insurance, also known as Takaful, is a type of insurance that complies with Shariah law principles. It operates on the basis of mutual cooperation and shared responsibility among policyholders, with the aim of providing protection against unforeseen events such as accidents, illnesses, or natural disasters. Islamic insurance has been growing in popularity in recent years, with many countries around the world introducing regulations to support the industry. Uzbekistan is one such country that has recently made moves towards the activation of Islamic insurance.*

Keywords: *islamic insurance, takafful, wakalah, Ministry of Finance, mutual cooperation, accident, illnesses, natural disasters.*

INTRODUCTION

Takaful insurance, also known as Islamic insurance, is an alternative form of insurance that operates on the principles of mutual cooperation and risk-sharing among policyholders. It is gaining popularity in many developing countries due to its compatibility with Islamic principles and the potential for it to provide economic benefits to these countries. This literature review aims to explore the improving role of Takaful insurance in developing countries and the potential benefits it offers.

The introduction of Islamic insurance in Uzbekistan has been a long time coming. The country is home to a large Muslim population, and many have been calling for the introduction of Takaful for some time. In 2019, the Uzbek government passed a law allowing the establishment of Islamic insurance companies, signaling its commitment to the development of the industry[1]. This move was followed by the creation of a special department within the Central Bank of Uzbekistan to regulate the sector.

Literature review. Takaful insurance has been recognized as a potential contributor to the economic development of many developing countries. A study by Ahmad and Haron (2013) found that Takaful insurance has the potential to increase the level of savings in developing countries, as it encourages a culture of saving among policyholders [2,3]. It also provides an alternative investment opportunity for individuals who may not have access to conventional investment instruments.

Takaful insurance has also been found to play an important role in poverty reduction in developing countries. According to El-Hawary et al. (2007), Takaful insurance can help to alleviate poverty by providing micro-insurance to individuals who are financially vulnerable[4,5]. Micro-Takaful insurance, which is specifically designed for low-income individuals, can provide them with protection against unexpected events such as illness, accidents, or natural disasters.

Another potential benefit of Takaful insurance in developing countries is its potential to enhance financial inclusion. Many developing countries have large populations that are underserved by formal financial institutions, and Takaful insurance can provide an alternative means of financial protection. According to a study by Mohamad and Ramly (2015), Takaful insurance can help to

expand financial services to those who are currently excluded from formal financial systems, which can lead to increased financial stability and economic growth.

Analysis. Takaful insurance has the potential to promote ethical and socially responsible behavior in developing countries. As Takaful insurance operates on the principles of cooperation and mutual assistance, it encourages policyholders to act in a socially responsible manner. This can lead to the development of a more socially responsible and ethical business culture, which can have a positive impact on economic development.

We recommend ensuring wakalah model of takaful in Uzbekistan. The term wakala in Arabic means freedom of action. Thus, according to the structure, an agency relationship is agreed between the two parties to conduct a certain business enterprise. Based on this premise, the model describes an agency agreement between operators acting as an agent or wakil to the participant as a principal to manage the participation of the latter in the various takaful products provided by the operator. In exchange for the provision of agency services, the operator may charge a fee under the contract. The remuneration is paid from the takaful fee paid by the participant. In this sense, in accordance with the above model, management costs can be charged to the Takaful Fund account as upfront payments. (Look at the figure 1).

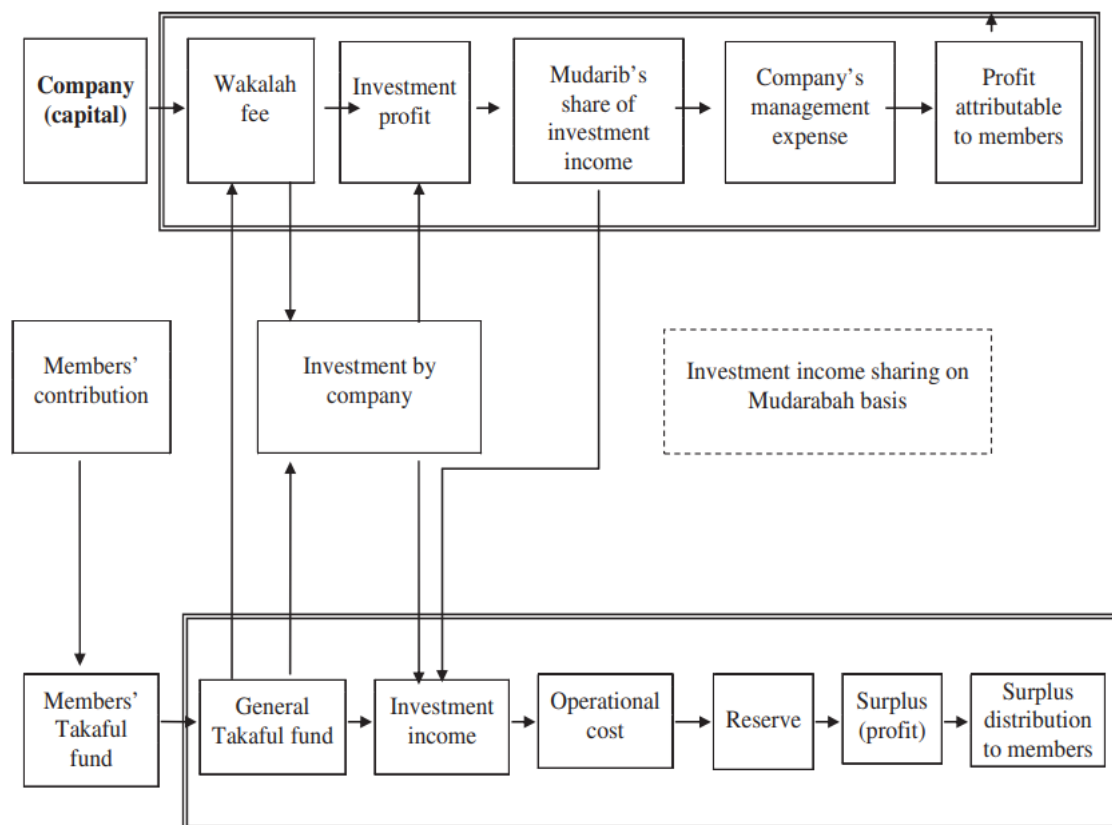


Figure 1. Recommended wakalah model of takaful in Uzbekistan¹

Under this model, the operator earns income from the agency fee described above, as well as income from investments in its shareholders' fund.

Results and discussion.

However, there are also operators practicing the above model who charge fees for their roles and services in managing takaful fund investments. In case of cancellation or refusal, the participant will be refunded the net balance of his contribution, if any, after deducting all upfront fees such as wakala fees and other management costs from the takaful fund.

Takaful insurance has the potential to play an important role in the economic development of many

¹ Developed by author.

developing countries. It can provide an alternative form of financial protection to those who are underserved by formal financial institutions, promote ethical and socially responsible behavior, and contribute to poverty reduction and financial inclusion. As such, there is a need for policymakers in developing countries to recognize the potential benefits of Takaful insurance and to develop appropriate regulatory frameworks to support its growth.

One of the main drivers behind the activation of Islamic insurance in Uzbekistan is the desire to provide more options for those who wish to adhere to Shariah law principles. Traditional insurance, which operates on the basis of interest, is not considered permissible under Islamic law. As a result, many Uzbek Muslims have been hesitant to take out insurance policies, as they do not want to violate their religious beliefs. Islamic insurance offers a viable alternative, allowing individuals to protect themselves and their assets without compromising their faith.

Another factor driving the activation of Islamic insurance in Uzbekistan is the potential economic benefits it could bring to the country. The Takaful industry is rapidly growing around the world, with many countries seeing it as a source of economic growth and job creation. By establishing a strong Islamic insurance sector, Uzbekistan could attract foreign investment and create new job opportunities in the financial sector.

The activation of Islamic insurance in Uzbekistan is still in its early stages, but there are already some positive signs. In 2020, the Central Bank of Uzbekistan issued a license to the first Islamic insurance company in the country, Uzbekinvest Hayot Takaful. The company offers a range of products, including motor insurance, property insurance, and personal accident insurance[6,7]. The establishment of this company is seen as a significant milestone in the development of the Islamic insurance sector in Uzbekistan.

Conclusion

In conclusion, the activation of Islamic insurance in Uzbekistan represents an important step towards providing more options for those who wish to adhere to Shariah law principles and ensuring that they can protect themselves and their assets without violating their religious beliefs. It also has the potential to bring significant economic benefits to the country. While the industry is still in its early stages, the establishment of the first Islamic insurance company in Uzbekistan is a positive sign, and it will be interesting to see how the sector develops in the coming years.

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