



Islamic Finance: A Journey Through Time and the Evolving Role of Takaful

Fitch Ratings' Perspective

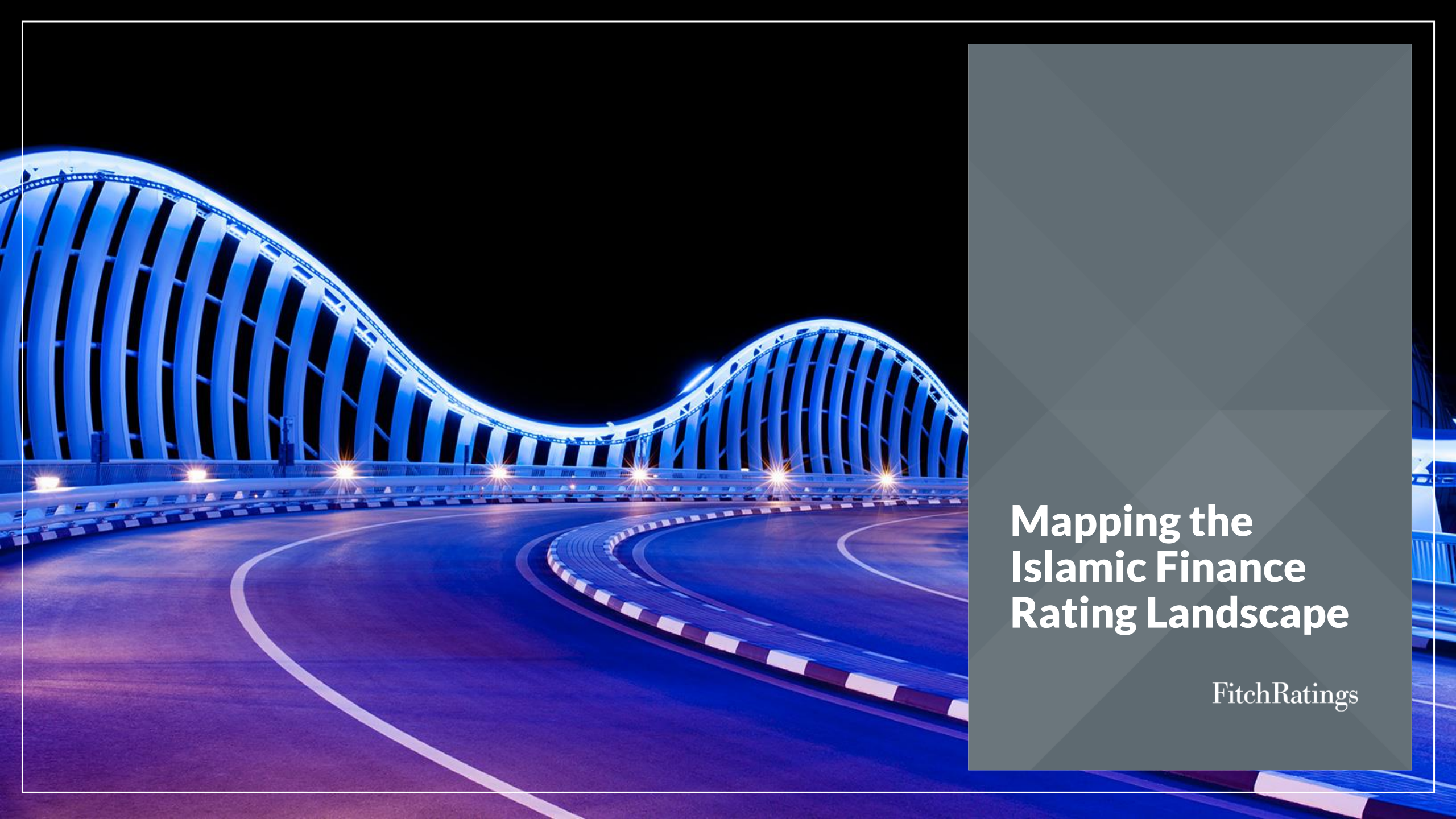
Bashar Al-Natoor

Managing Director, Global Head of Islamic Finance

Dubai, UAE
October 2025

**7TH GLOBAL TAKAFUL & RE-
TAKAFUL FORUM 2025**



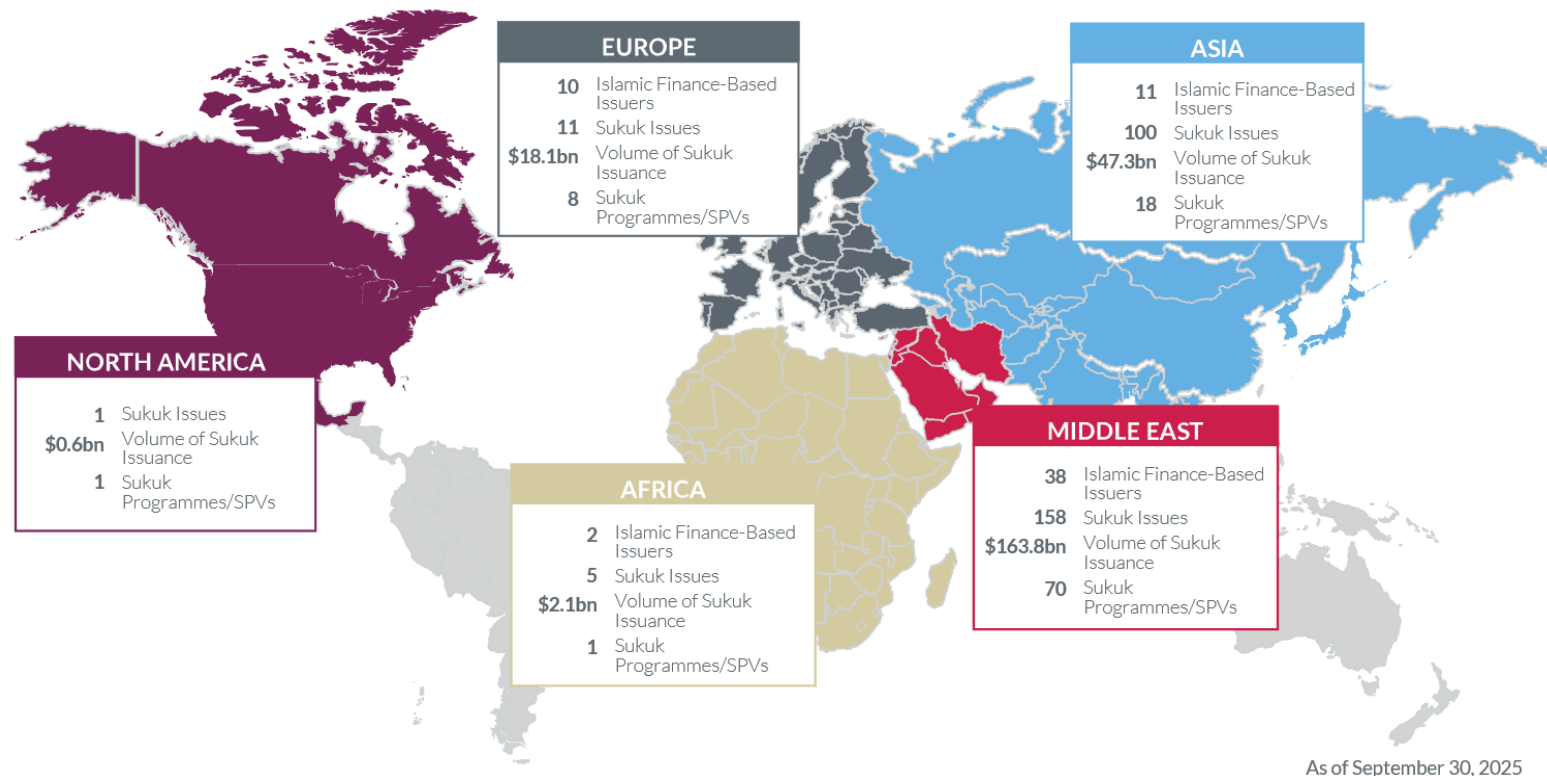


Mapping the Islamic Finance Rating Landscape

FitchRatings

Mapping the Islamic Finance Rating Landscape

- Fitch Ratings has provided independent and objective credit ratings to the Islamic finance market for over a decade.
- As of 3Q25, we rated 275 outstanding Islamic finance instruments (sukuk), 98 sukuk programmes or special-purpose vehicles (SPVs) and over 61 Islamic finance issuers (Islamic banks, takaful companies and Islamic corporates).

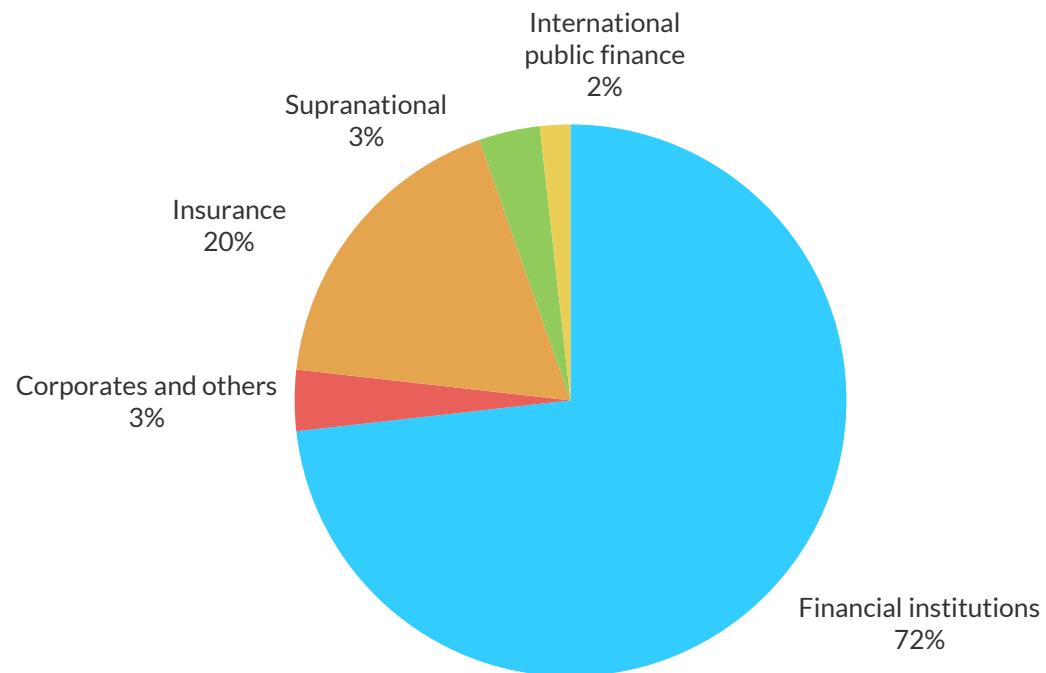


Source: Fitch Ratings

Mapping the Islamic Finance Rating Landscape

Fitch-Rated Islamic Finance Issuers by Sector

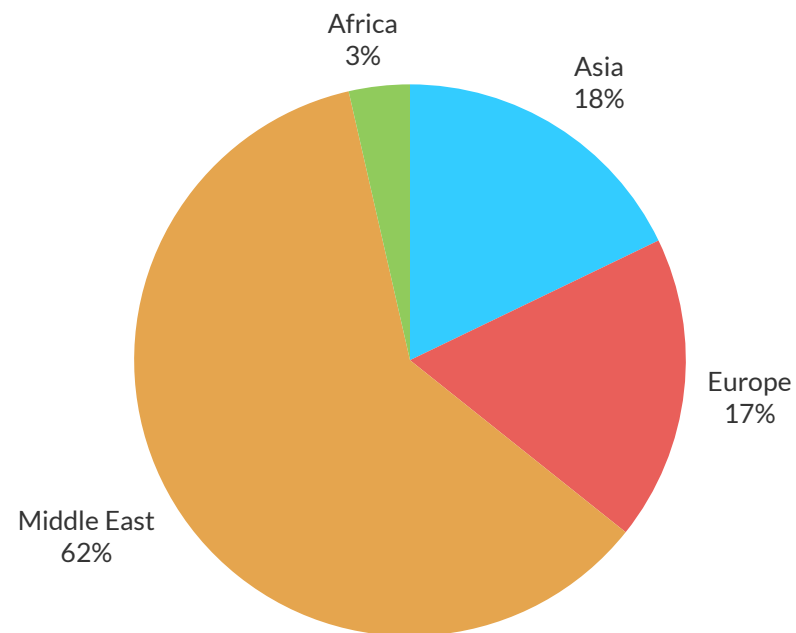
End-3Q25



Source: Fitch Ratings

Fitch-Rated Islamic Finance Issuers by Region

End-3Q25



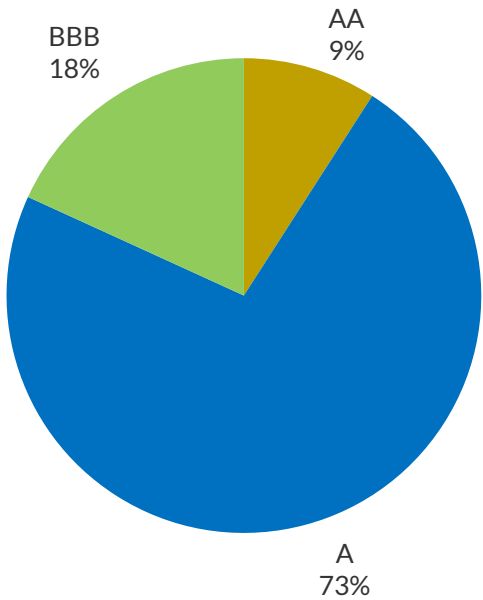
Source: Fitch Ratings

Global Islamic Finance Issuers' Ratings

Takaful Issuers only

Ratings Distribution: Fitch-Rated
Takaful Issuers

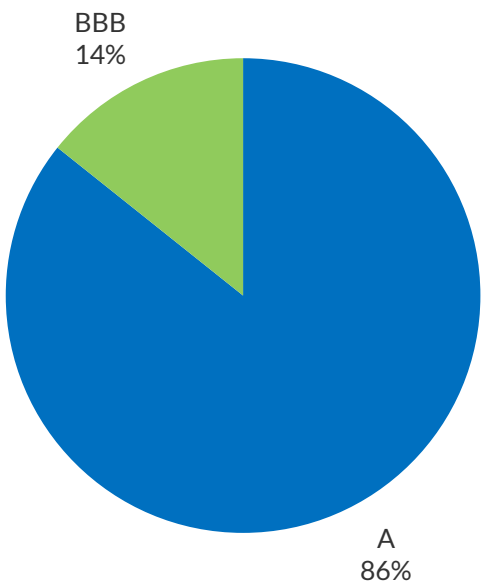
End-3Q25



Source: Fitch
Ratings, IFS

Ratings Distribution: Fitch-Rated
Takaful Issuers

End-3Q24



Source: Fitch
Ratings, IFS

All 100% of Takaful issuers had above BBB- IFS at end-3Q25 (end-3Q24: 100%).

Issuers in the 'A' rating category made up 73% of issuers at end-3Q25, followed by issuers in the 'BBB', 'AA' categories. Local ratings were not included.



Supply & Demand Factors Affecting Islamic Finance Penetration

FitchRatings

Demand Drivers

Public Awareness of Islamic Finance

Sharia Sensitivity of the
Targeted Customers

Confidence in the Sharia Compliance of
Islamic Finance Products

Competitiveness of the Product Offering

Market Share &
Development of
Islamic Finance
in a Jurisdiction

Supply Drivers

Political Will

Regulations

A Viable and Profitable Business Model

Branch and Digital Banking Networks

Availability of Financing Products that Meet
Customers' Needs

Presence of Islamic Investors and Other
Stakeholders

General Financial Sector Development

Customer Groups that Engage with Islamic Finance

Group 1

This customer group prioritises sharia-compliant products, with a secondary importance on pricing, service-quality and other factors.

Group 2

This customer group has some sharia sensitivities and are likely to choose Islamic finance if returns and service are the same as conventional finance.

Group 3

This customer group is not sharia-sensitive and choose products based purely on pricing, availability, service quality and other factors.





Takaful Sector at a Glance

Why Now? The Case for Digital Takaful

FitchRatings

Global Outlook and Scale



Global Islamic insurance assets expected to surpass USD150 billion in the medium term, supported by evolving regulation, rising awareness, and enhanced digitalization



Conventional insurance remains dominant in most OIC markets; awareness gaps persist in developing markets



Most rated Islamic insurance operators are rated BBB IFS or higher, reflecting generally sound fundamentals, including capital adequacy and governance practices

Market Profile—Size and Momentum

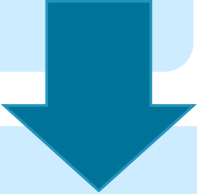
Scale remains modest versus Islamic finance overall — implying room for catch-up if structural constraints (investment universe depth, concentration risks, capacity) ease.

Islamic insurance >10% domestic market share in 9 countries; yet less than 3% of global Islamic finance assets—significant headroom for expansion

Growth supported by consolidation, digitalization, product/distribution sophistication, and adequate solvency/liquidity

Regional Highlights—GCC and UAE

Saudi Arabia: Largest sharia-compliant insurance market (cooperative model); Vision 2030 aims to deepen the Islamic finance ecosystem and sector capacity



UAE gross written premiums of AED 64.8bn in 2024 (+21.4% YoY). Takaful GWC estimated at around AED 5.2–5.8bn in 2024, reflecting >10% YoY growth, and an estimated ~8–9% share of total market GWP.



UAE “Islamic Finance and Halal Strategy” expected to further stimulate Takaful growth

Malaysia and Indonesia

Malaysia: Robust ecosystem (Islamic banks, corporates, funds, halal industries) supports Takaful demand; regulatory momentum to sustain growth into 2025

BNM updates:

- Hajah/darurah policy clarifies use of conventional reinsurance when retakaful capacity is insufficient or risks threaten fund stability
- Co-payment medical/health products required since Sep 2024 to address medical inflation and affordability

Indonesia: Supportive regulation and rising awareness underpin expansion

Why Now? The Case for Digital Takaful



Financial inclusion gap and resilience needs across OIC markets



Rising digital adoption



ESG momentum



Shariah value (ethical risk-sharing, transparency, social solidarity)

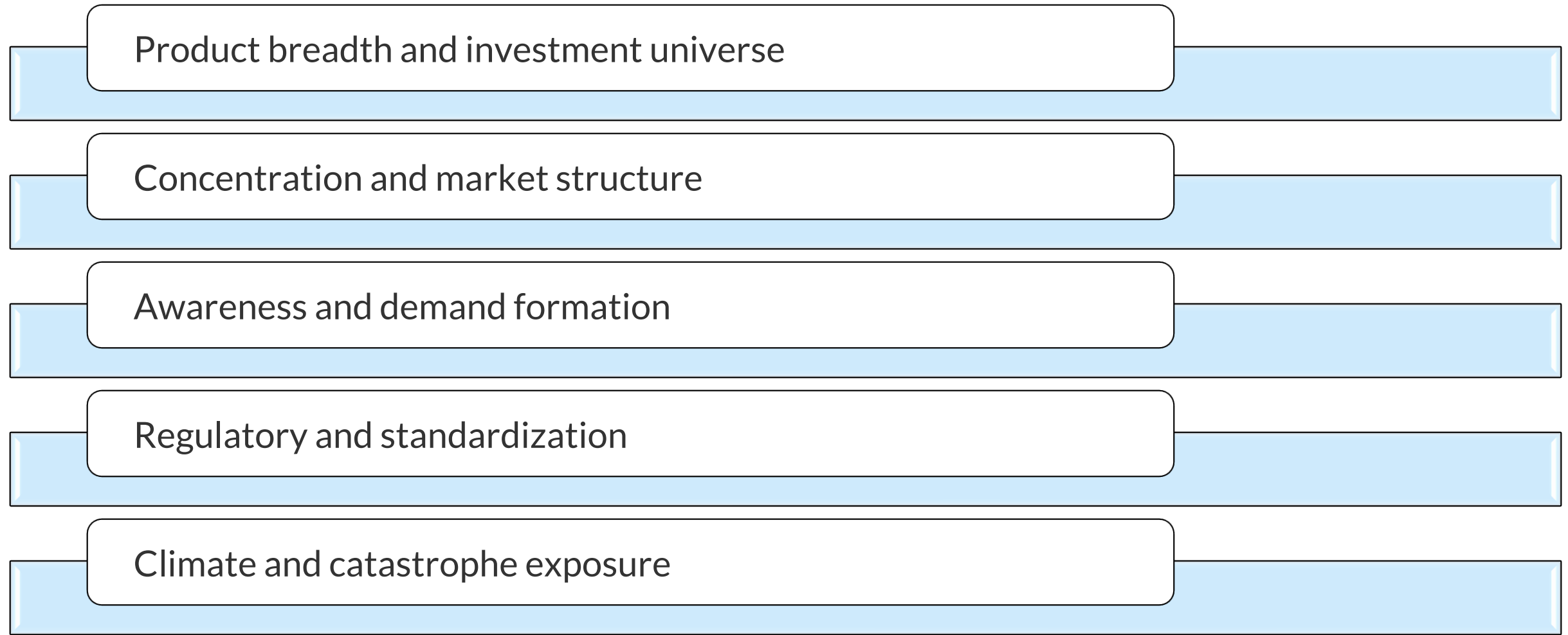


Technology tailwinds

Regulatory and Market Development That could Support Growth



Structural Challenges (Market and Regulatory)



Product breadth and investment universe

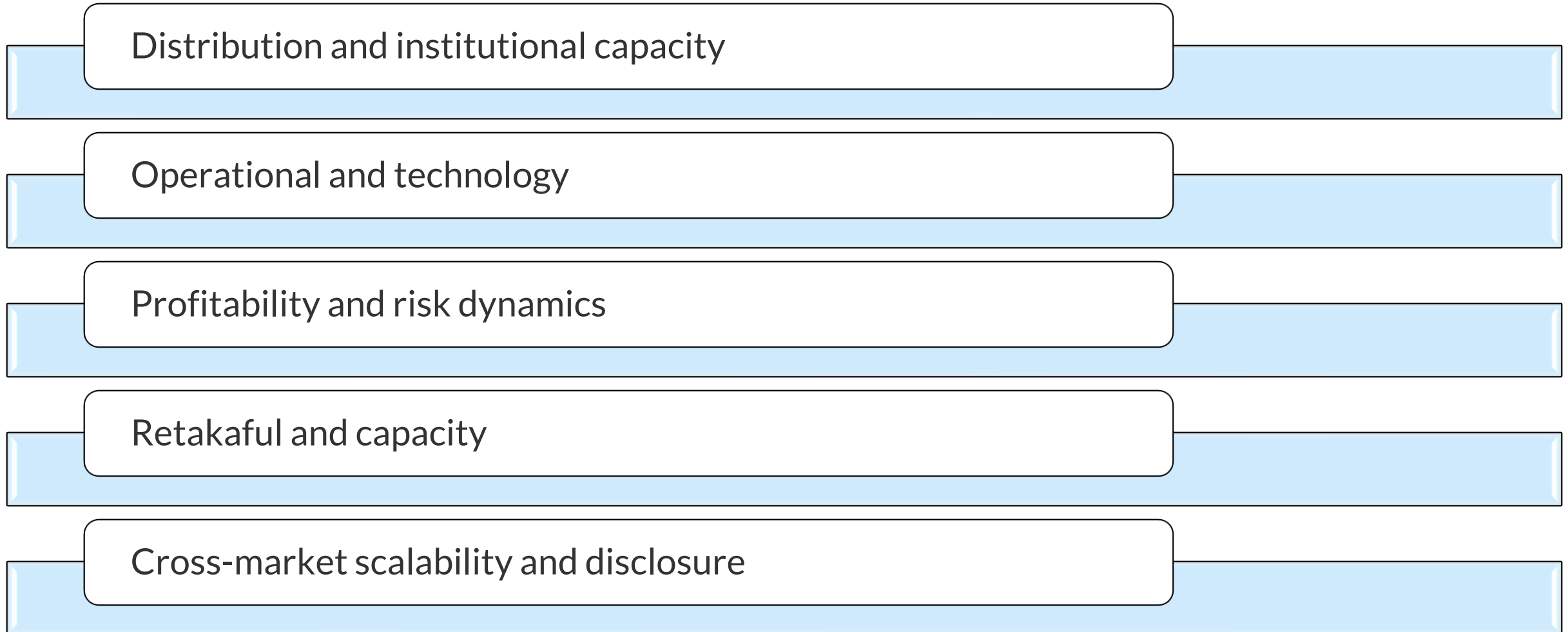
Concentration and market structure

Awareness and demand formation

Regulatory and standardization

Climate and catastrophe exposure

Structural Challenges (Operational, Technology, and Profitability)



Distribution and institutional capacity

Operational and technology

Profitability and risk dynamics

Retakaful and capacity

Cross-market scalability and disclosure

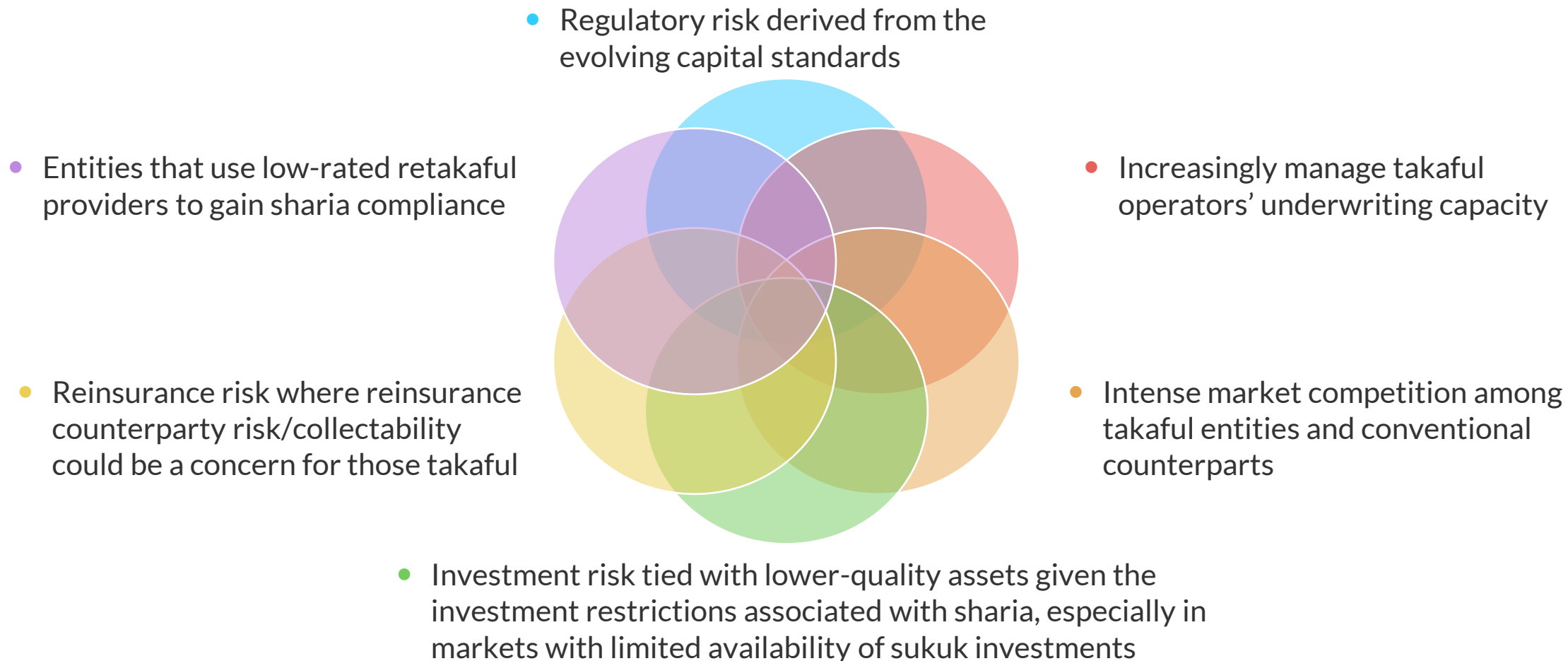


Fitch's Islamic Finance Rating Approach

FitchRatings

Takaful's Additional Key Credit Risks

Takaful institutions are rated under the *Insurance Rating Criteria*



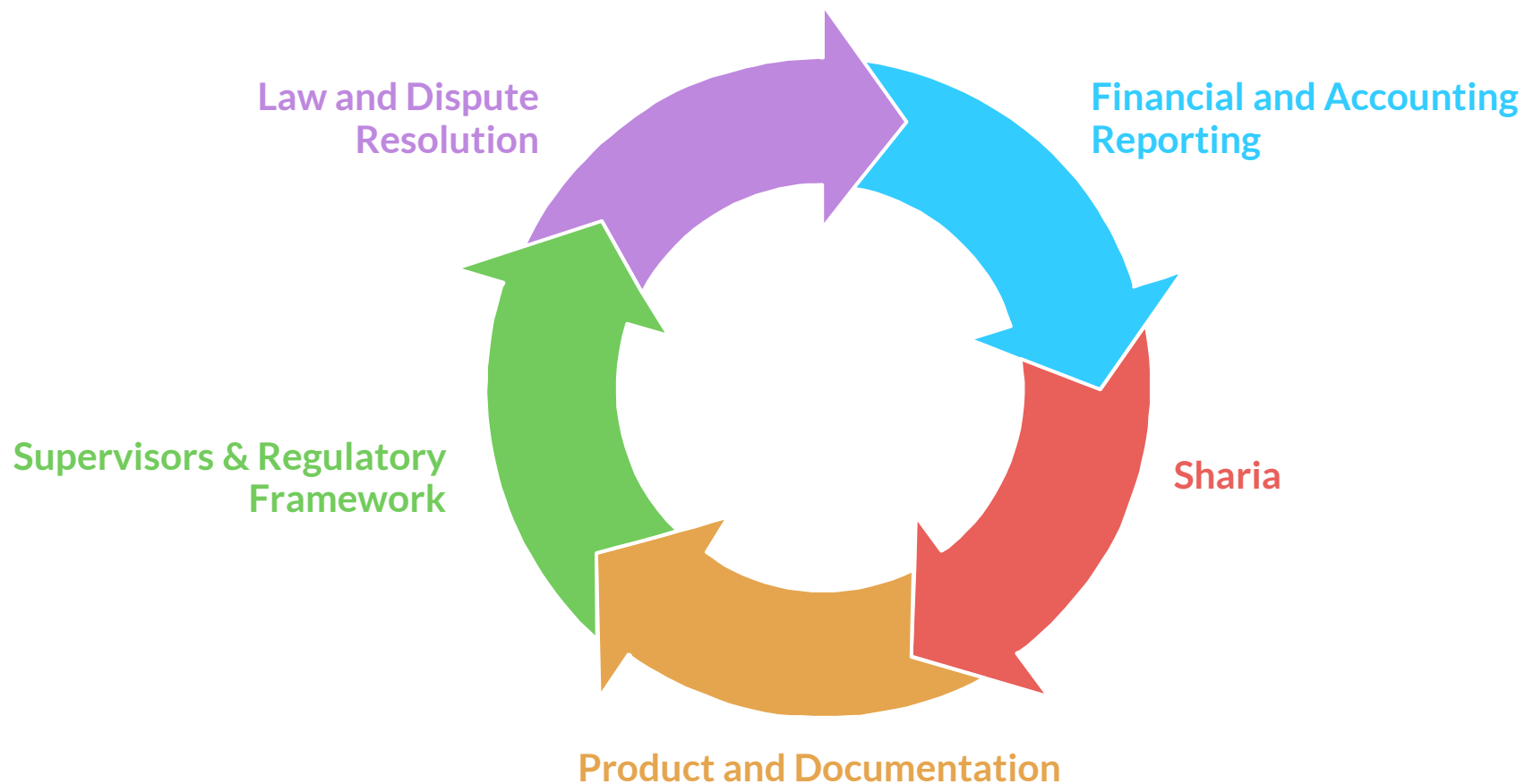
A photograph of a mosque at night, illuminated with blue and green lights. The mosque features a large central dome and two minarets. The sky is dark with the Milky Way galaxy visible. The mosque is reflected in a body of water in the foreground. A large tree trunk is visible on the left side of the frame.

Standardisation in Islamic Finance

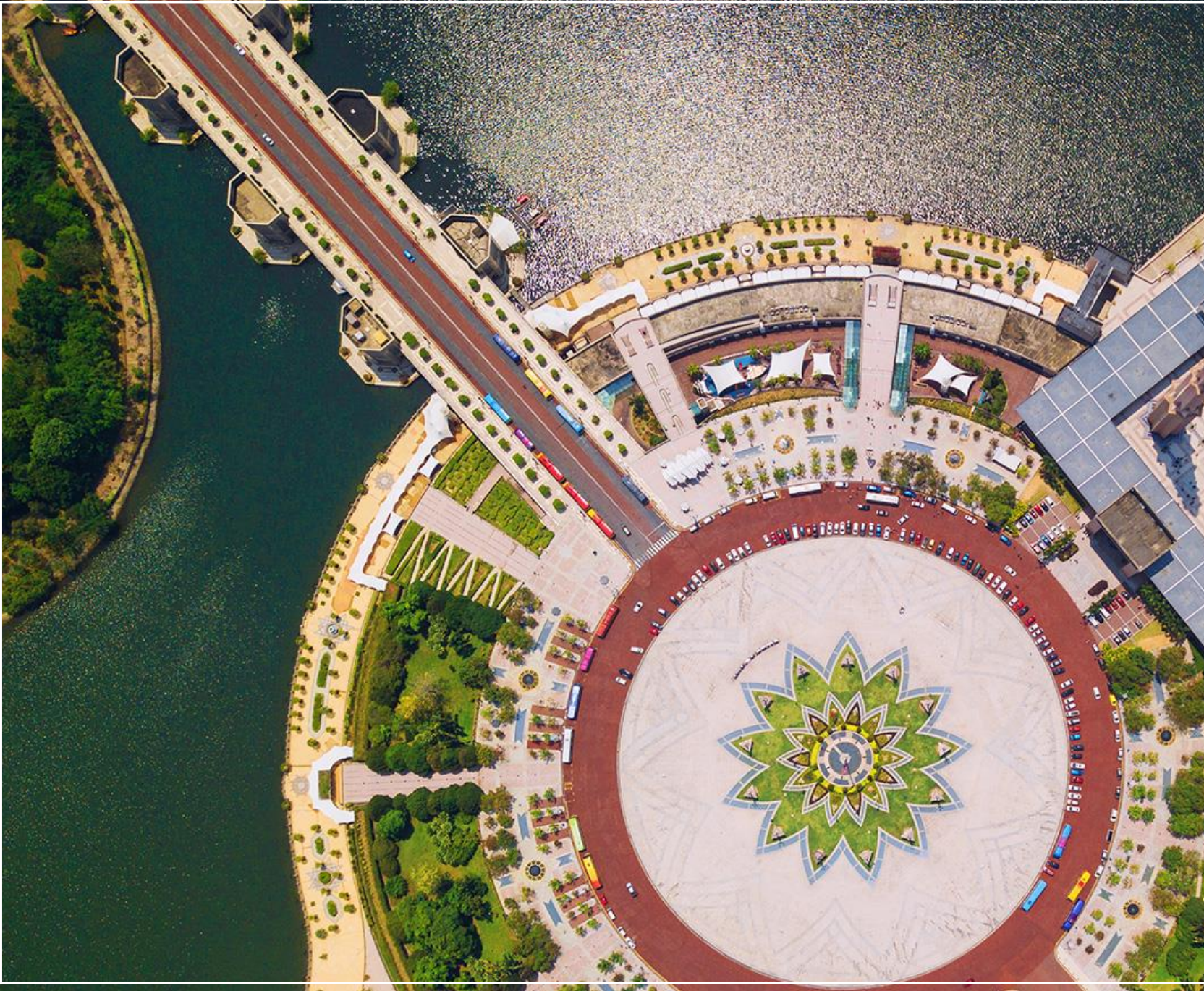
FitchRatings

Islamic Finance Standardisation Framework

Standardisation and Harmonisation Needed for a Common Framework



Note: This framework applies locally, regionally, and internationally
Source: Fitch Ratings



Malaysia Takaful in Focus

FitchRatings

Malaysia Takaful Monitor: 2025

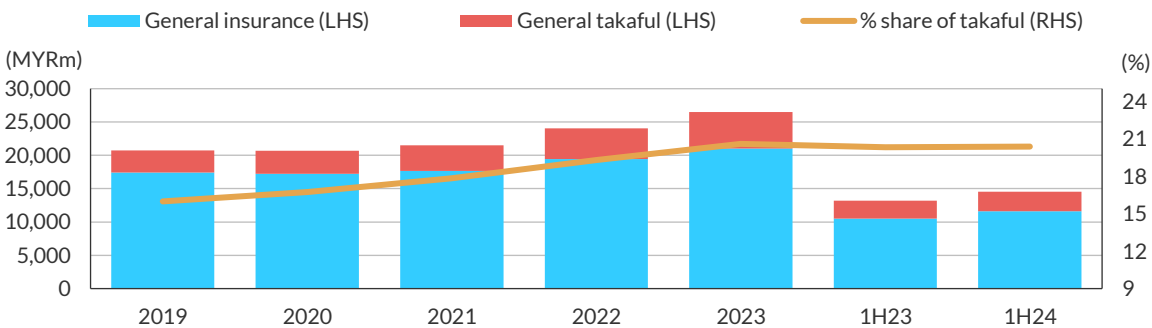
Growth Amid Regulatory Enhancement

Positive Contribution Trend: Malaysia’s general takaful contribution growth of 10.5% yoy in 1H24 (2023: 17.4%) paralleled the non-life insurance of 10.2% yoy, while its market share remained stable at 20%. The growth was driven mainly by the motor contribution supported by rising motor sales, albeit at a slower pace (2024: 2%, 2023: 11%). Family takaful contributions recovered in 2024, rising by 0.1% (2023: -4.7%). However, its share of the overall life market dropped to 40% (2023: 44%), on slower growth compared to the conventional life insurance sector, which rose by 18%.

Repricing amid Medical Inflation: Fitch believes rising medical expenses will increase the cost of claims for health takaful providers. The takaful sector is implementing repricing strategies to address these expenses, but the effect is likely to be gradual. Bank Negara Malaysia (BNM) has required insurance and takaful operators to offer co-payment medical and health products as a flexible option since September 2024 to mitigate medical inflation and ensure affordable takaful.

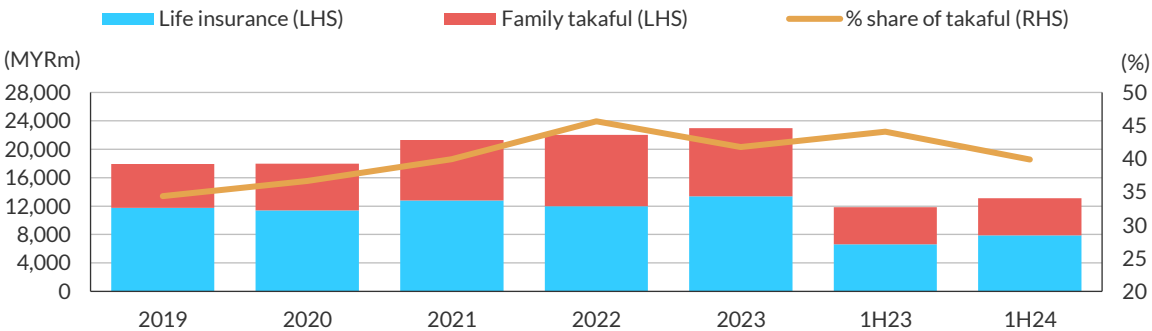
Even so, net income from family takaful surged by 60% yoy in 1H24 (2023: 89%). The increase was supported by sustained investment income. General takaful also showed improved profitability, with net income of MYR73.1 million (2023: negative MYR47.1 million). Driving the improvement in general takaful profitability were lower claims from flood events and stable investment income.

General Takaful vs. Conventional Market Share



Note: based on gross direct premiums/contributions
Source: Fitch Ratings, Bank Negara Malaysia (BNM)

Family Takaful vs. Conventional Market Share



Note: based on new business premiums/contributions
Source: Fitch Ratings, BNM

Malaysia Takaful Monitor: 2025

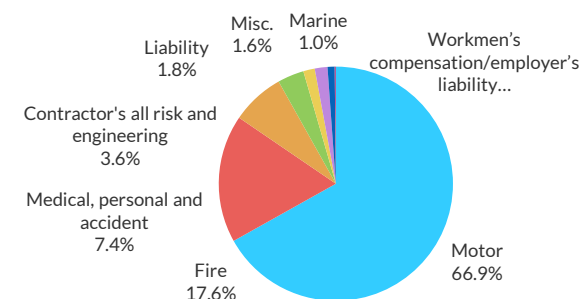
Growth Amid Regulatory Enhancement

New Capital Framework: We expect the upcoming changes to capital standards to bolster the resilience of Malaysia's insurance industry, including the takaful sector. In June 2024, BNM proposed changes to the Risk-Based Capital Framework, known as RBC2, to align with global standards, with implementation planned for 1 January 2027. Key changes include adjustments to the Malaysian ringgit risk-free yield curve, changes to reserve requirements and the minimum supervisory solvency intervention level, and new capital risk charges including catastrophe risk.

Retakaful Exception Policy: Fitch believes that the limited capacity of retakaful remains a challenge, further aggravated by the evolving risk appetites of overseas retakaful entities. BNM issued a policy document on hajah (need) and darurat (dire necessity) for Islamic financial institutions, including takaful, effective from January 2025. The policy clarifies parameters for takaful operators to use conventional reinsurance on the basis of difficulty, such as when retakaful capacity or expertise is insufficient, or when risks could undermine takaful fund stability.

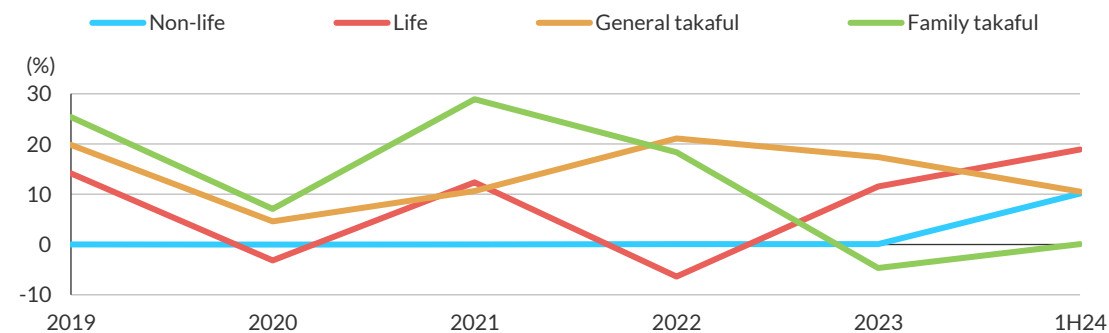
Strong Islamic Finance Ecosystem: Malaysia is the third-largest takaful market globally, according to the Islamic Financial Services Board. Fitch expects the industry to maintain steady growth in 2025, underpinned by macroeconomic stability, regulatory measures aimed at strengthening the takaful ecosystem, digitalisation and increased awareness of takaful products. In March 2025, BNM refined entry requirements for digital insurers and Takaful operators to support their initial viability and foster innovation.

General Takaful Product Mix in 1H24

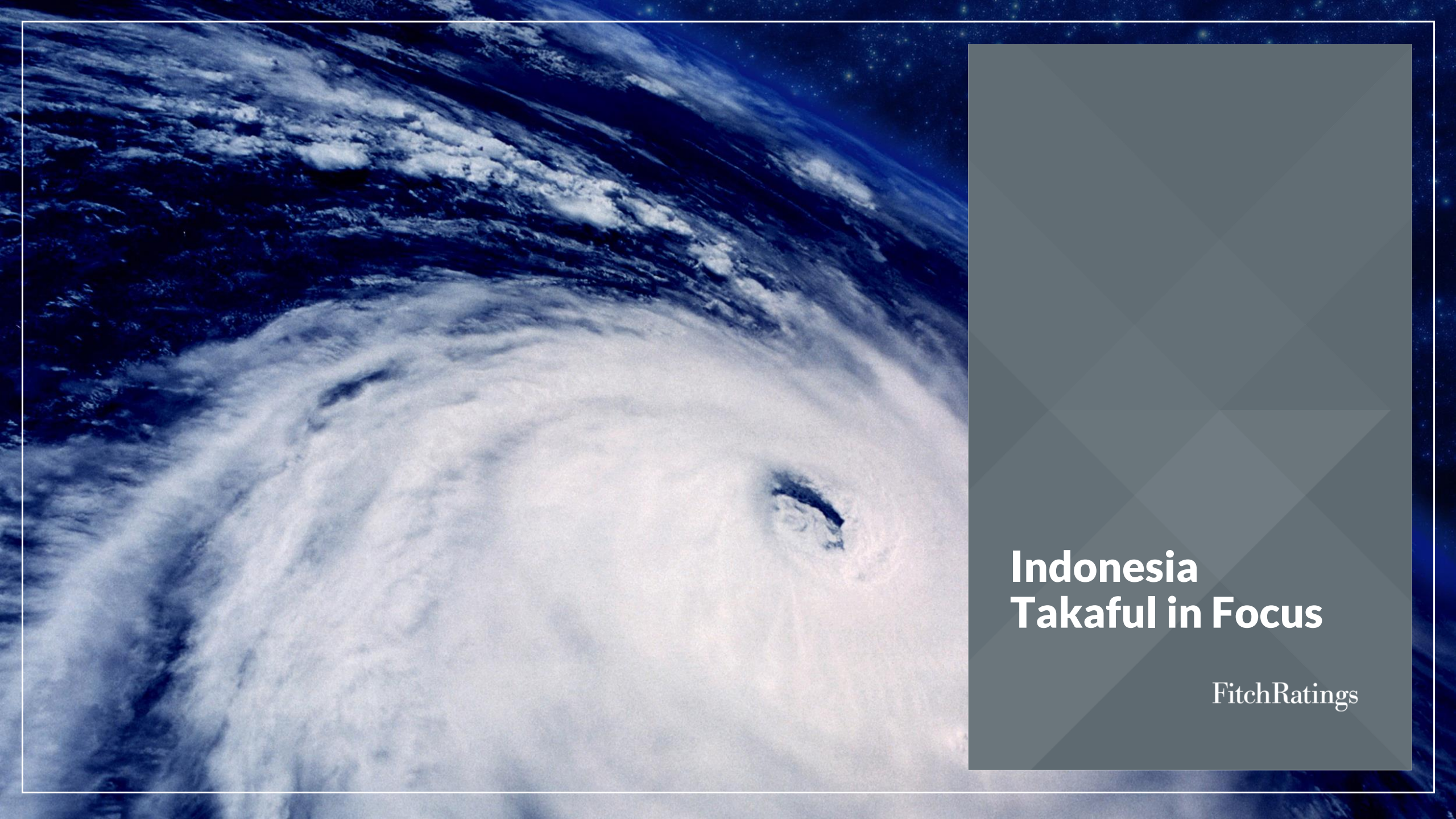


Source: Fitch Ratings, BNM

Malaysia Insurance and Takaful Sector Premium/Contribution Growth



Source: Fitch Ratings, BNM

A satellite image of a tropical cyclone, showing a well-defined eye and spiral cloud bands over a dark blue ocean. The image is framed by a thin white border.

Indonesia Takaful in Focus

FitchRatings

Indonesia Takaful Monitor 2025

Regulatory Requirements to Shape Competitive Landscape

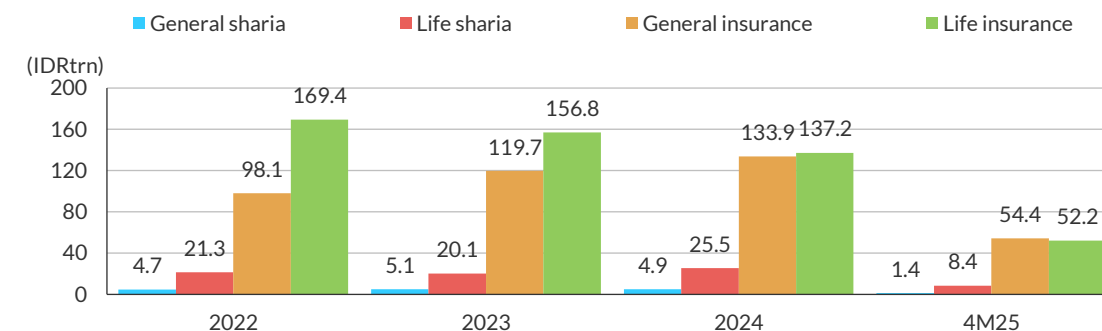
New Capital Requirements: Takaful companies are expected to focus on balancing earnings and meeting higher capital requirements that would come into effect in 2026 and be tightened further by 2028. Over 70% of Indonesian takaful companies must raise capital to meet the 2026 requirement based on their latest fiscal equity levels, while just 40% would meet the 2028 requirement. We expect capital-raising and M&A activity within the sector, although more than half should be able to meet the requirements via organic capital generation.

The capital requirements for a takaful operator is 2.5x below the conventional insurers by end-2026 and 2x-2.5x by end-2028, depending on their classification. The capital gap between takaful companies and conventional insurers poses additional challenge for takaful operators, which must compete against better-capitalised conventional insurers. Moreover, we expect pressure on the market share of takaful firms due to this competition.

Spin-off of Takaful Windows: Over 70% of takaful windows are required to be spun off by end-2026, while the remaining 30% will transfer their sharia portfolios to fully fledged takaful. So far, eight takaful windows have been spun off. There are currently 35 takaful and three retakaful windows, compared with 16 fully fledged takaful companies and one retakaful operator.

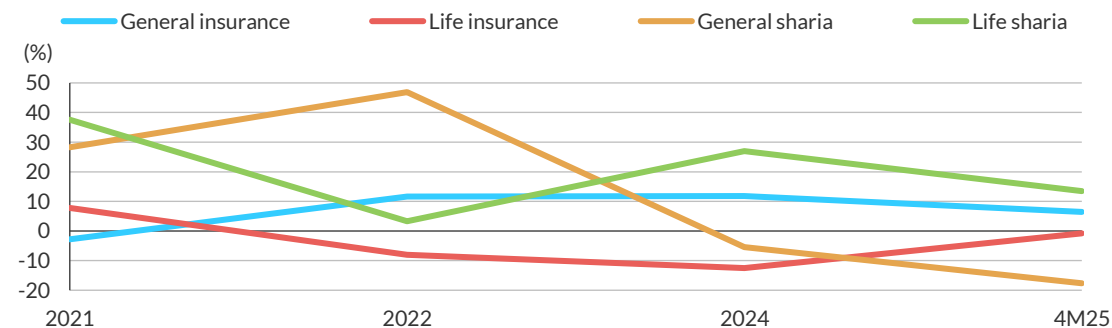
Pressure on Profitability: We expect life sharia sector earnings to remain under pressure due to continued market volatility and high medical claim inflation. We also expect tight competition to weigh on the general sharia sector profitability before all takaful windows complete the spin-off.

Indonesia Insurance Industry - Gross Premiums/Contributions



Source: Fitch Ratings, Indonesia Financial Services Authority (OJK)

Gross Premiums/Contributions Growth



Source: Fitch Ratings, OJK

Indonesia Takaful Monitor 2025

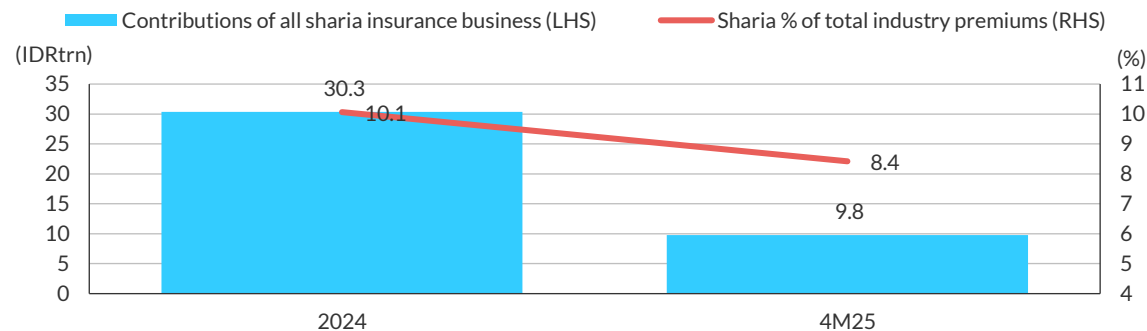
Regulatory Requirements to Shape Competitive Landscape

Lower Market Share: The takaful market share of the total insurance industry’s premiums rose to 10.1% in 2024 (2023: 8.4%), as total contributions bounced back, up by 20% from a 3% decline in 2023. However, the share dropped back to 8.4% in 4M25, reflecting deepening contraction in general sharia contributions. General sharia’s gross contributions fell by 5.4% in 2024 and 17.6% yoy in 4M25, mainly due to weaker vehicle sales. In contrast, life sharia gross contributions rose by 27% in 2024 and 13.5% in 4M25, driven by increased awareness of life sharia products.

Weak Growth, Near-Term Prospects: Fitch anticipates a lower literacy rate on takaful products than for conventional insurance; narrow product diversification; and limited retakaful capacity to continue to weigh on sector growth in the near term. Fitch expects life sharia’s contribution to slow to the mid-single digits, as the companies balance growth against tighter capital requirements. General sharia growth will remain sluggish on declining vehicle sales.

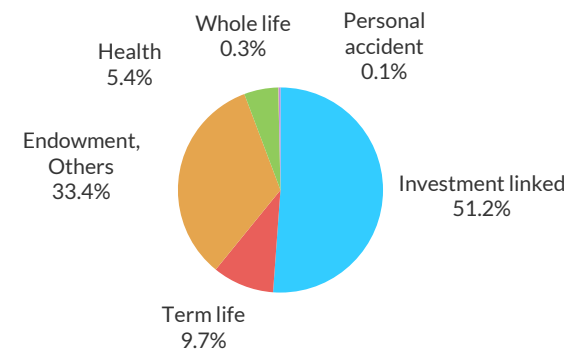
However, the sector still present opportunities over the near term. This is due to Indonesia’s status as one of the biggest Muslim populations in the world, regulatory efforts on the capital requirement and takaful window spin-off, with a low insurance penetration rate and halal businesses indicating high potential growth.

Sharia Insurance Market Share



Source: Fitch Ratings, OJK

Sharia Life Insurance Product Mix

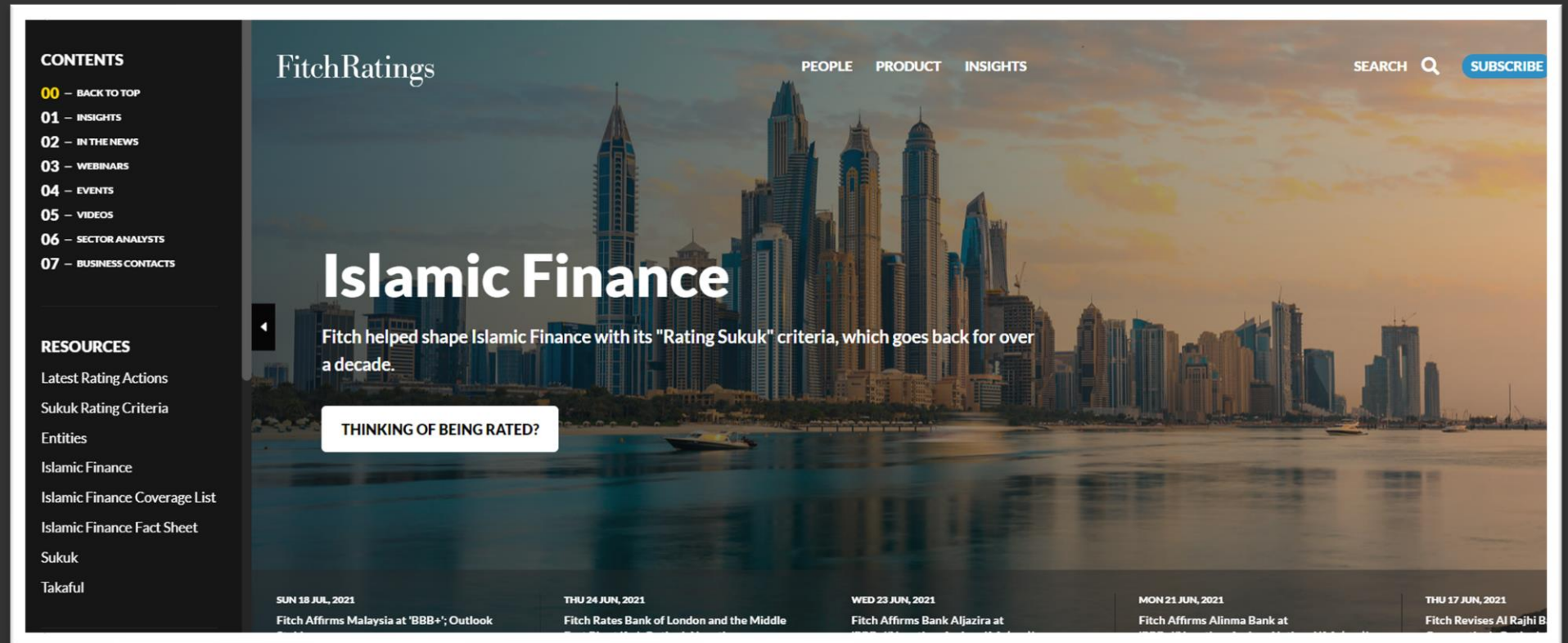


At end-2023
Source: Fitch Ratings, OJK

Research: Dedicated Islamic Finance Website

Available in English
and Arabic

<https://www.fitchratings.com/site/islamicfinance>



An aerial photograph of a city skyline, featuring several prominent skyscrapers. The image is overlaid with a semi-transparent geometric pattern consisting of large, overlapping triangles in shades of blue and grey. The text "Thank you" is centered in a large, white, sans-serif font.

Thank you

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: <https://www.fitchratings.com/understandingcreditratings>. IN ADDITION, THE FOLLOWING <https://www.fitchratings.com/rating-definitions-document> DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT, PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT <https://www.fitchratings.com/site/regulatory>. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S) FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004.

Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts.

As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.