Fitch Ratings

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

Fitch Ratings' Perspective

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Dubai, UAE
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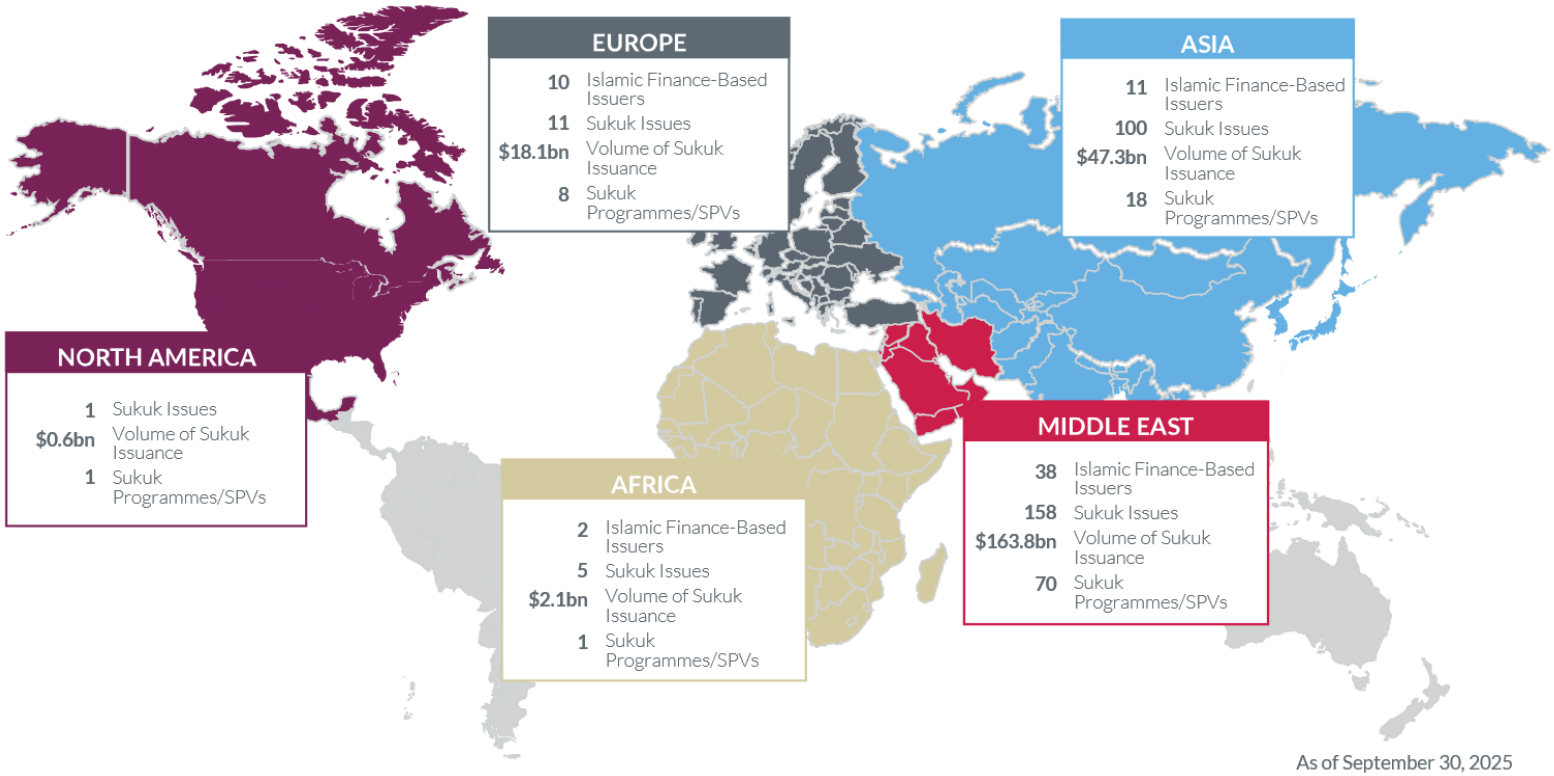
7TH GLOBAL TAKAFUL & RE-TAKAFUL FORUM 2025

Mapping the Islamic Finance Rating Landscape

FitchRatings

Mapping the Islamic Finance Rating Landscape

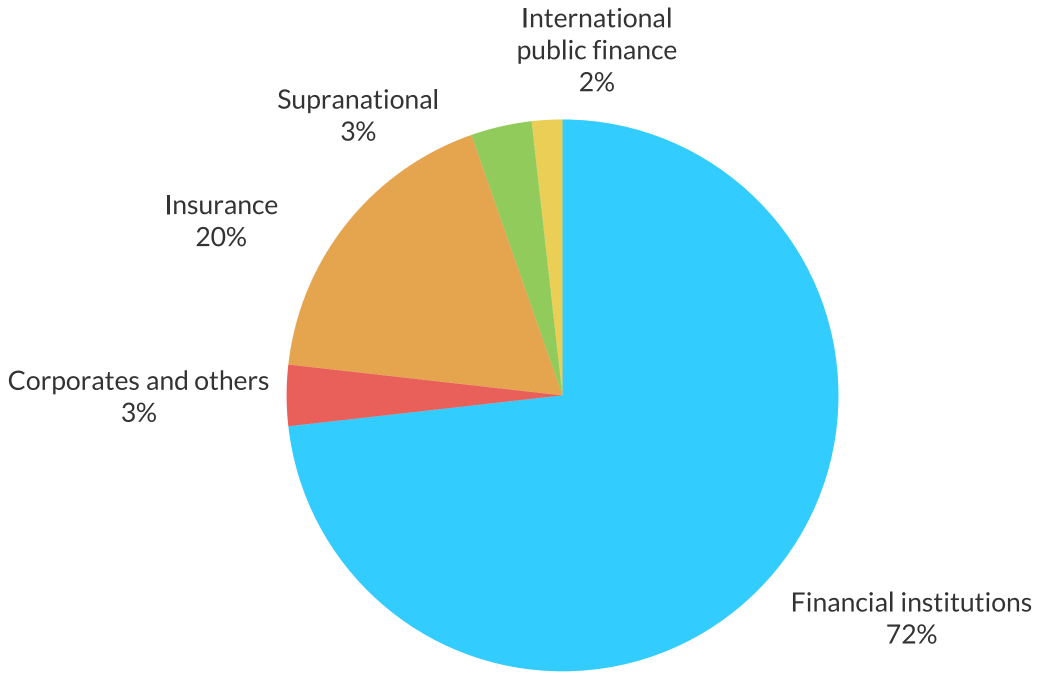
- Fitch Ratings has provided independent and objective credit ratings to the Islamic finance market for over a decade.
- As of 3Q25, we rated 275 outstanding Islamic finance instruments (sukuk), 98 sukuk programmes or special-purpose vehicles (SPVs) and over 61 Islamic finance issuers (Islamic banks,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



Source: Fitch Ratings

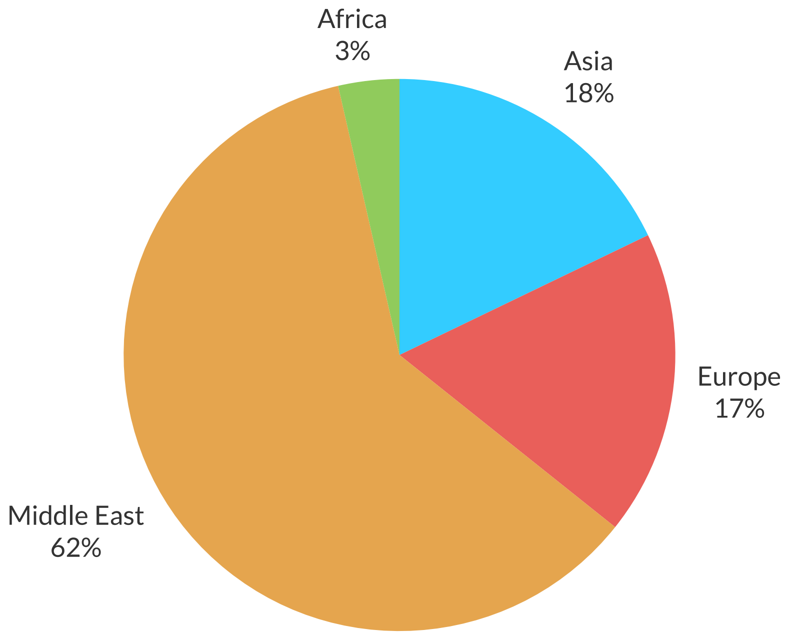
Mapping the Islamic Finance Rating Landscape

Fitch-Rated Islamic Finance Issuers by Sector
End-3Q25



Source: Fitch Ratings

Fitch-Rated Islamic Finance Issuers by Region
End-3Q25



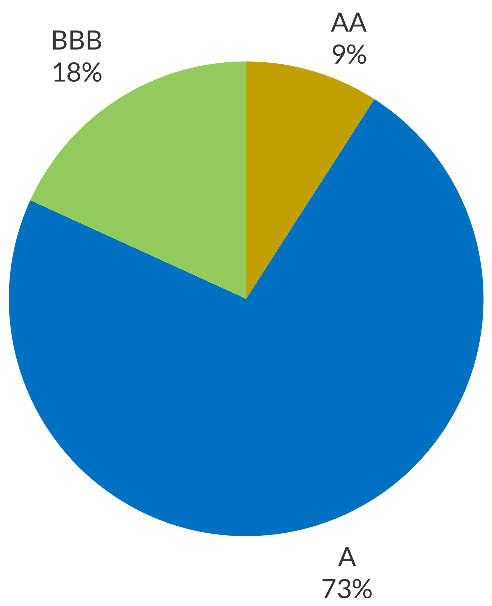
Source: Fitch Ratings

Global Islamic Finance Issuers' Ratings

Takaful Issuers only

Ratings Distribution: Fitch-Rated Takaful Issuers

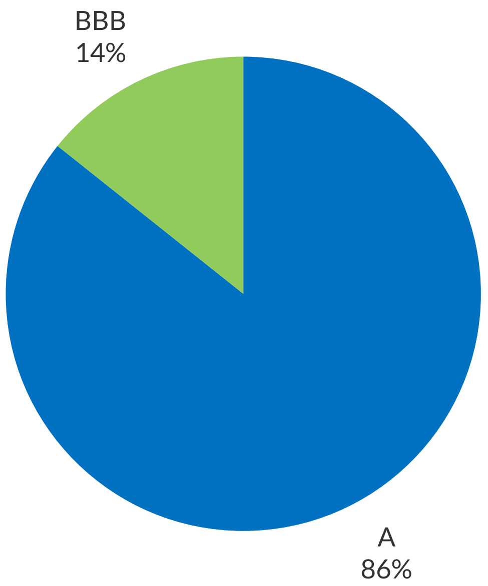
End-3Q25



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

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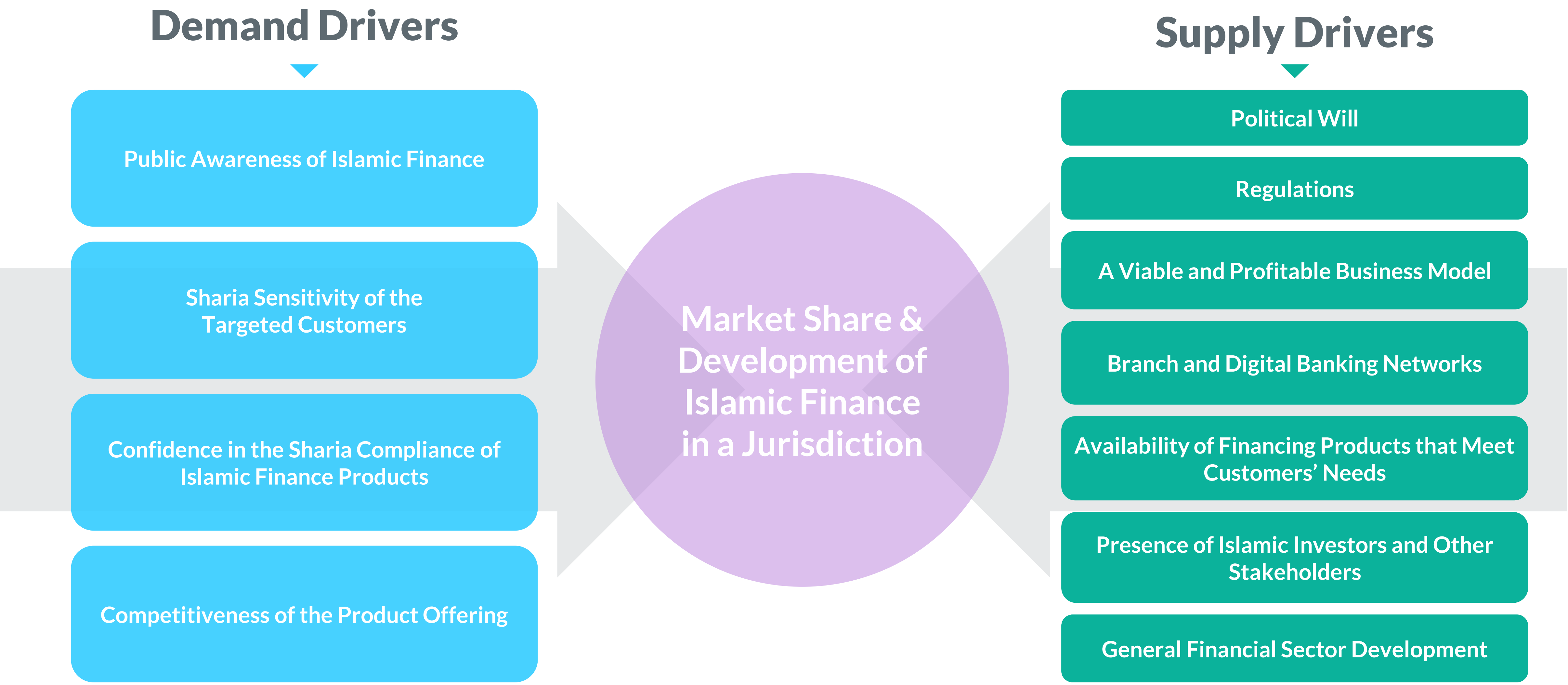
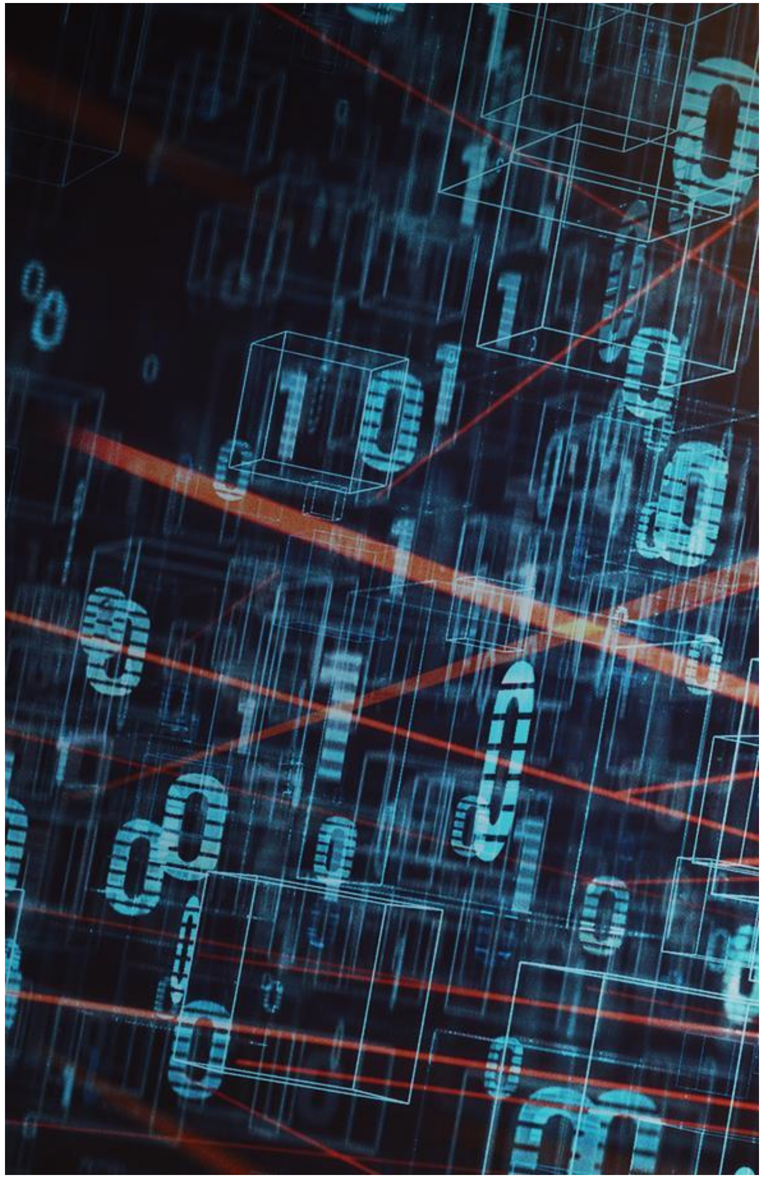

Demand Drivers
Public Awareness of Islamic Finance
Sharia Sensitivity of the Targeted Customers
Confidence in the Sharia Compliance of Islamic Finance Products
Competitiveness of the Product Offering
Market Share & Development of Islamic Finance in a Jurisdiction
Supply Drivers
Political Will
Regulations
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

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:

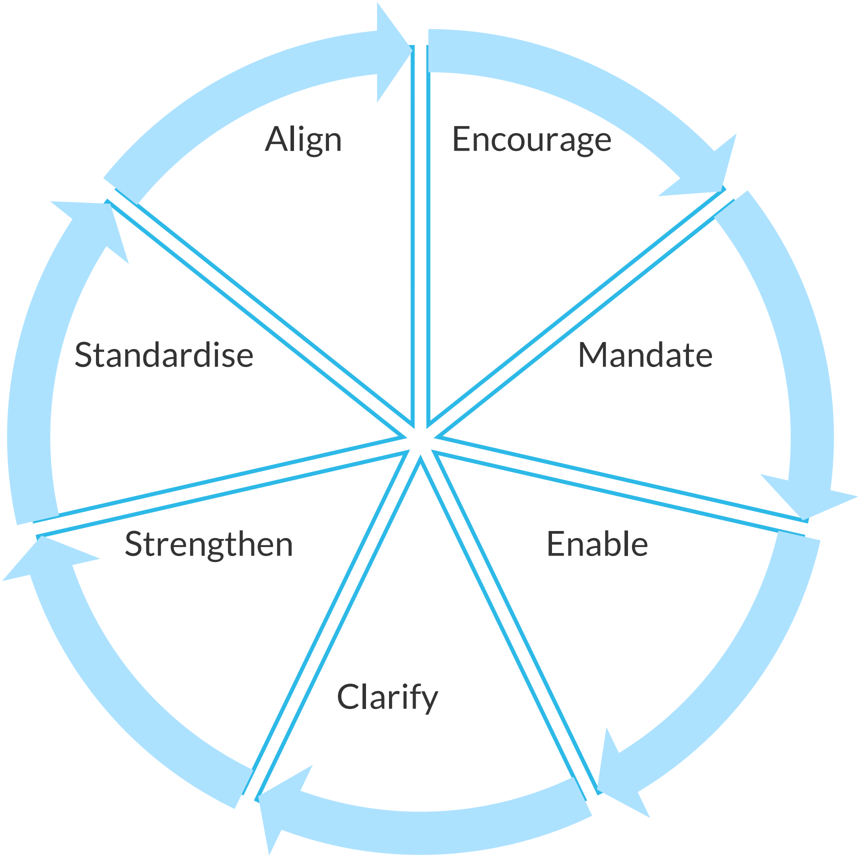
- Hajah/darurah policy clarifies use of conventional reinsurance when retakaful capacity is insufficient or risks threaten fund stability
- Co-payment medical/health products required since Sep 2024 to address medical inflation and affordability

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

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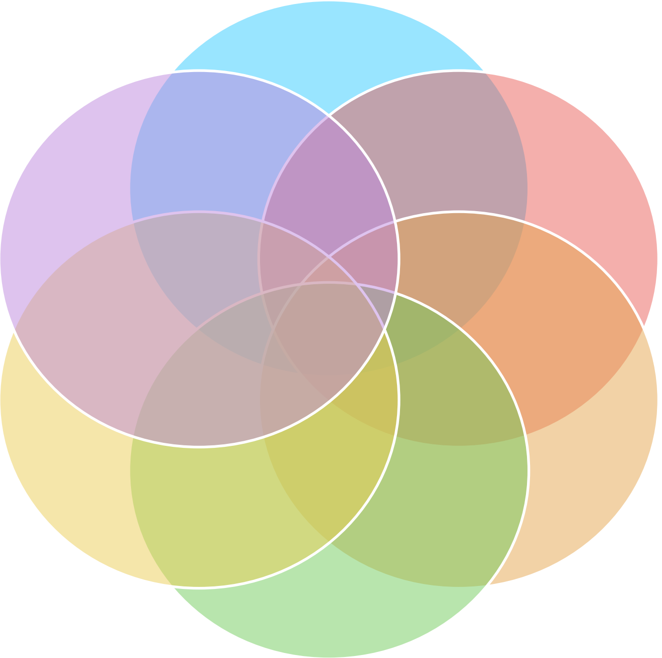
Takaful's Additional Key Credit Risks

Takaful institutions are rated under the *Insurance Rating Criteria*

- Regulatory risk derived from the evolving capital standards
- Entities that use low-rated retakaful providers to gain sharia compliance
- Increasingly manage takaful operators' underwriting capacity

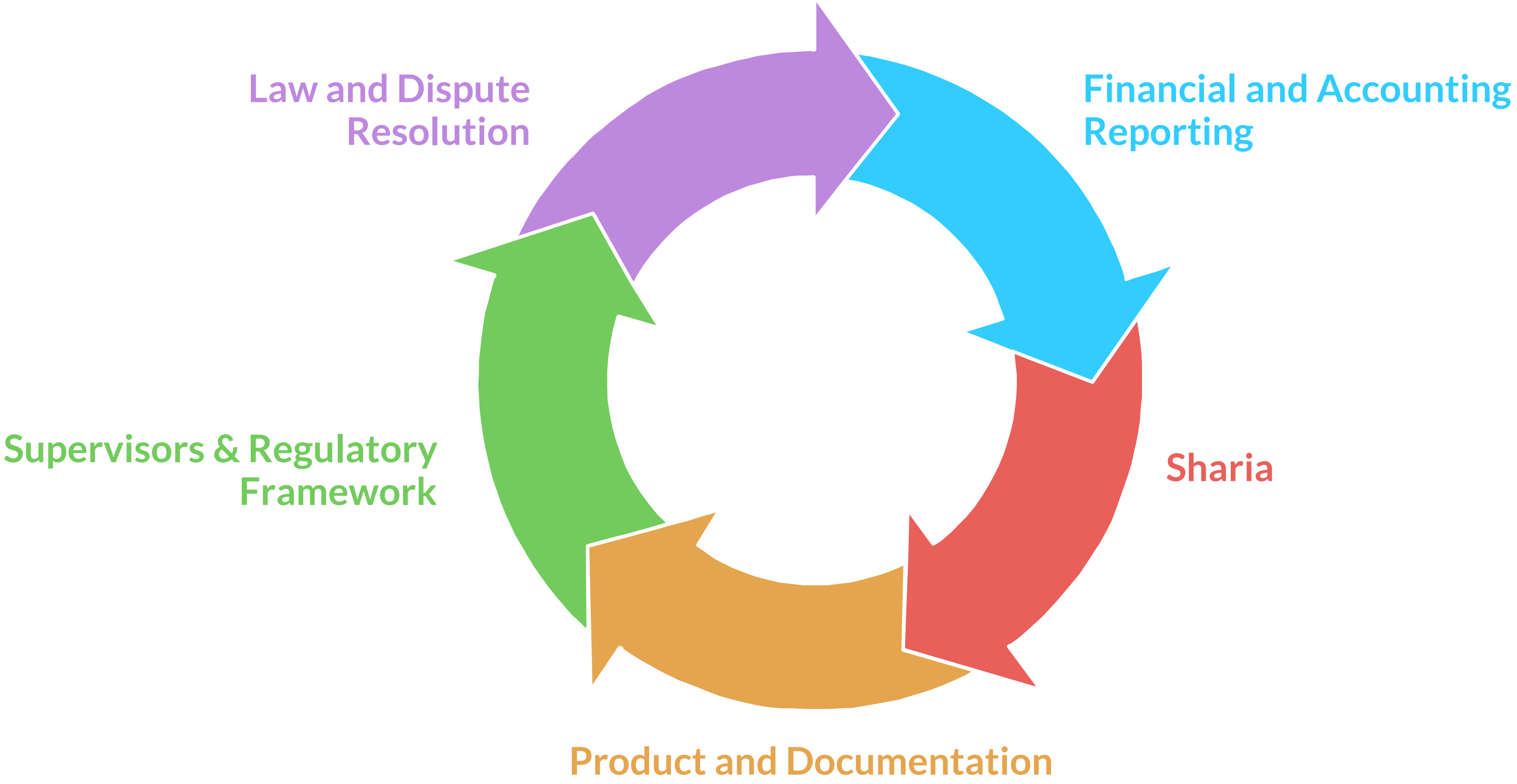


- Reinsurance risk where reinsurance counterparty risk/collectability could be a concern for those takaful
- Intense market competition among takaful entities and conventional counterparts
- Investment risk tied with lower-quality assets given the investment restrictions associated with sharia, especially in markets with limited availability of sukuk investments

Standardisation in Islamic Finance

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

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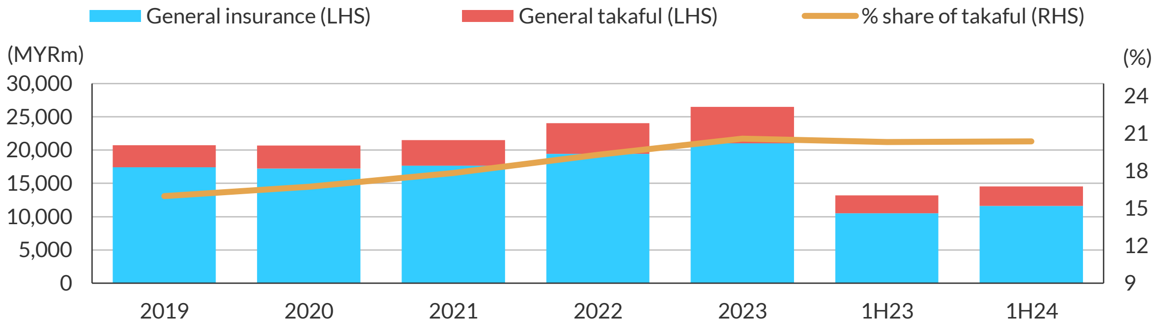
Malaysia Takaful Monitor: 2025
Growth Amid Regulatory Enhancement

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.

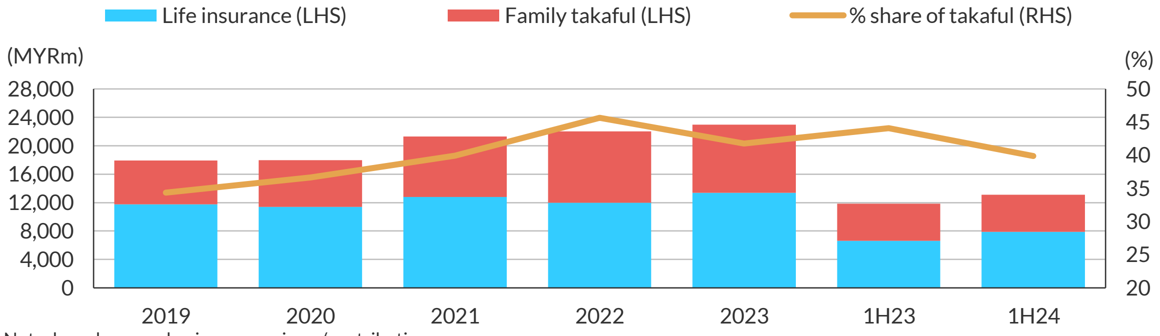
Even so, net income from family takaful surged by 60% yoy in 1H24 (2023: 89%). The increase was supported by sustained investment income. General takaful also showed improved profitability, with net income of MYR73.1 million (2023: negative MYR47.1 million). Driving the improvement in general takaful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

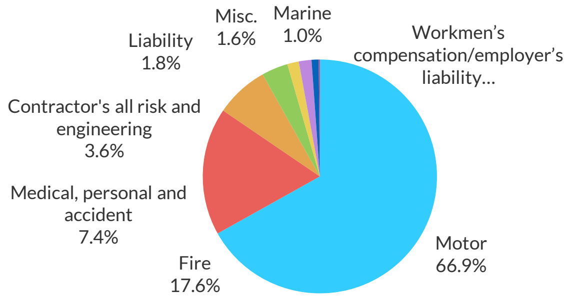
Growth Amid Regulatory Enhancement

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 darurah (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.

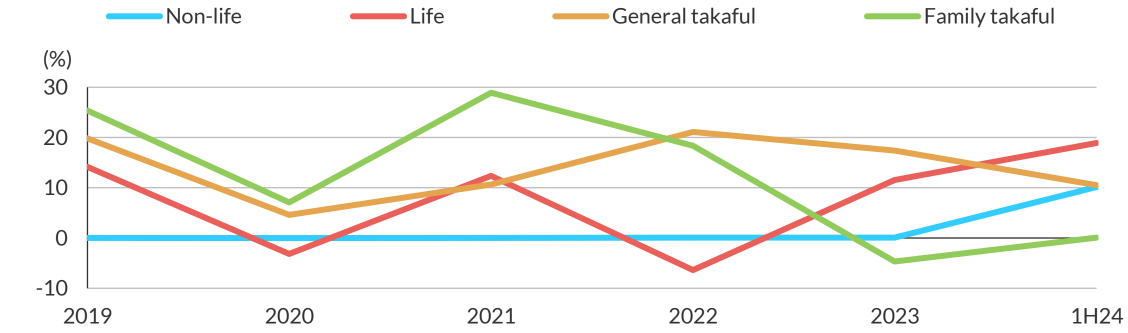
Strong Islamic Finance Ecosystem: Malaysia is the third-largest takaful market globally, according to the Islamic Financial Services Board. Fitch expects the industry to maintain steady growth in 2025, underpinned by macroeconomic stability, regulatory measures aimed at strengthening the takaful ecosystem, 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

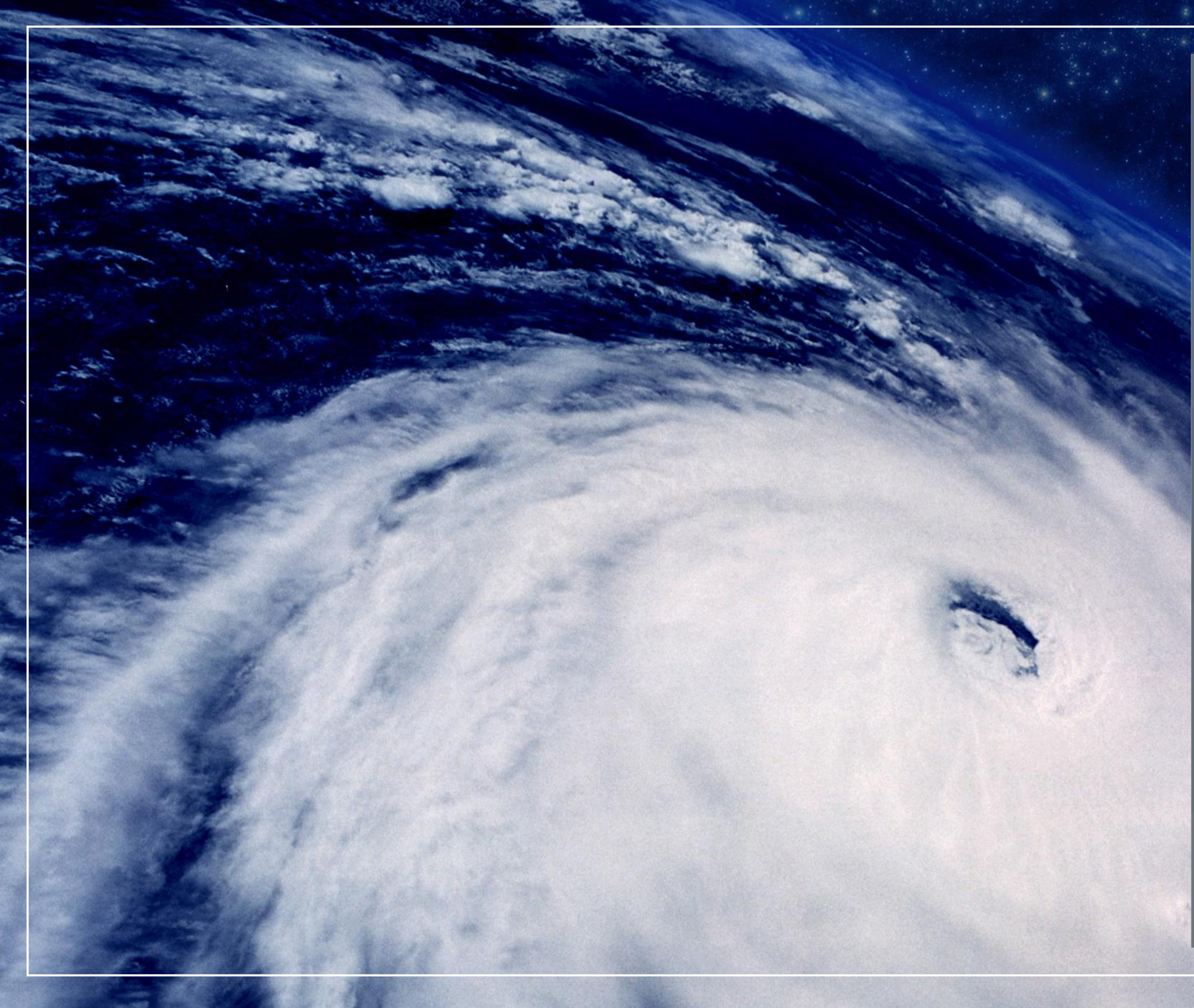


Source: Fitch Ratings, BNM

Malaysia Insurance and Takaful Sector Premium/Contribution Growth



Source: Fitch Ratings, BNM



Indonesia Takaful in Focus

Fitch Ratings

Indonesia Takaful Monitor 2025

Regulatory Requirements to Shape Competitive Landscape

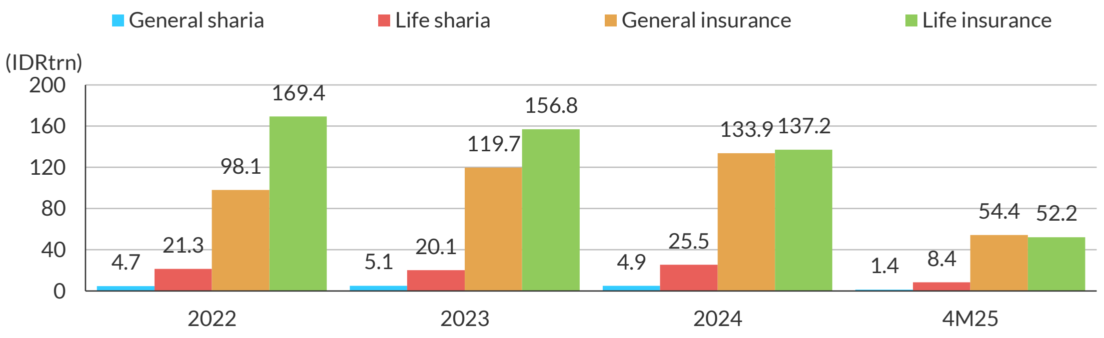
New Capital Requirements: Takaful companies are expected to focus on balancing earnings and meeting higher capital requirements that would come into effect in 2026 and be tightened further by 2028. Over 70% of Indonesian takaful companies must raise capital to meet the 2026 requirement based on their 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.

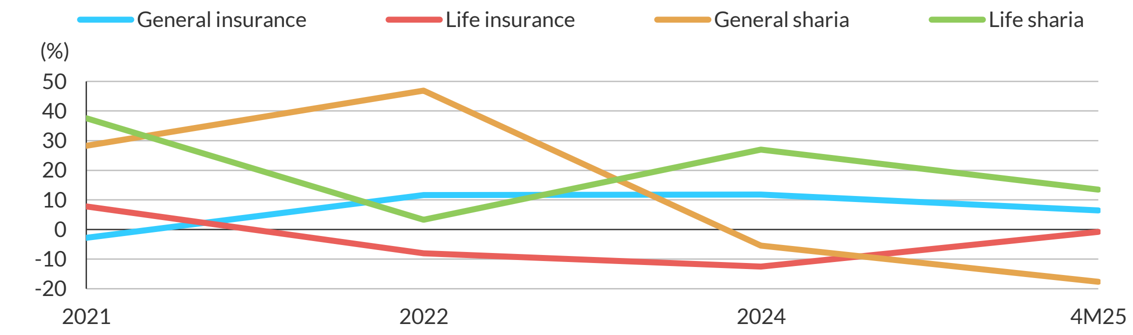
Pressure on Profitability: We expect life sharia sector earnings to remain under pressure due to continued market volatility and high medical claim inflation. We also expect tight competition to weigh on the general sharia sector profitability before all takaful windows complete the spin-off.

Indonesia Insurance Industry - Gross Premiums/Contributions



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

Gross Premiums/Contributions Growth



Source: Fitch Ratings, OJK

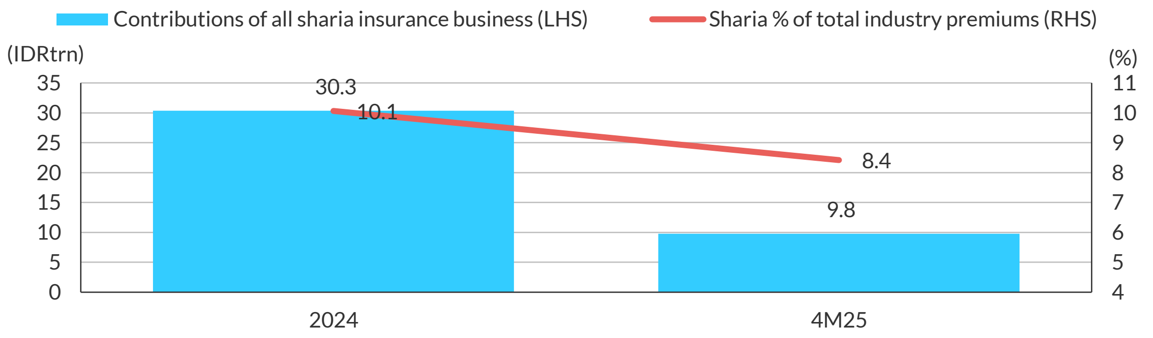
Indonesia Takaful Monitor 2025
Regulatory Requirements to Shape Competitive Landscape

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.

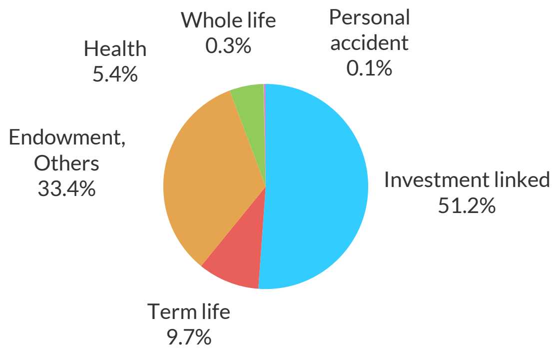
However, the sector still present opportunities over the near term. This is due to Indonesia's status as one of the biggest Muslim populations in the world, regulatory efforts on the capital requirement and takaful window spin-off, with a low insurance penetration rate and halal businesses indicating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

Sharia Insurance Market Share



Source: Fitch Ratings, OJK

Sharia Life Insurance Product Mix

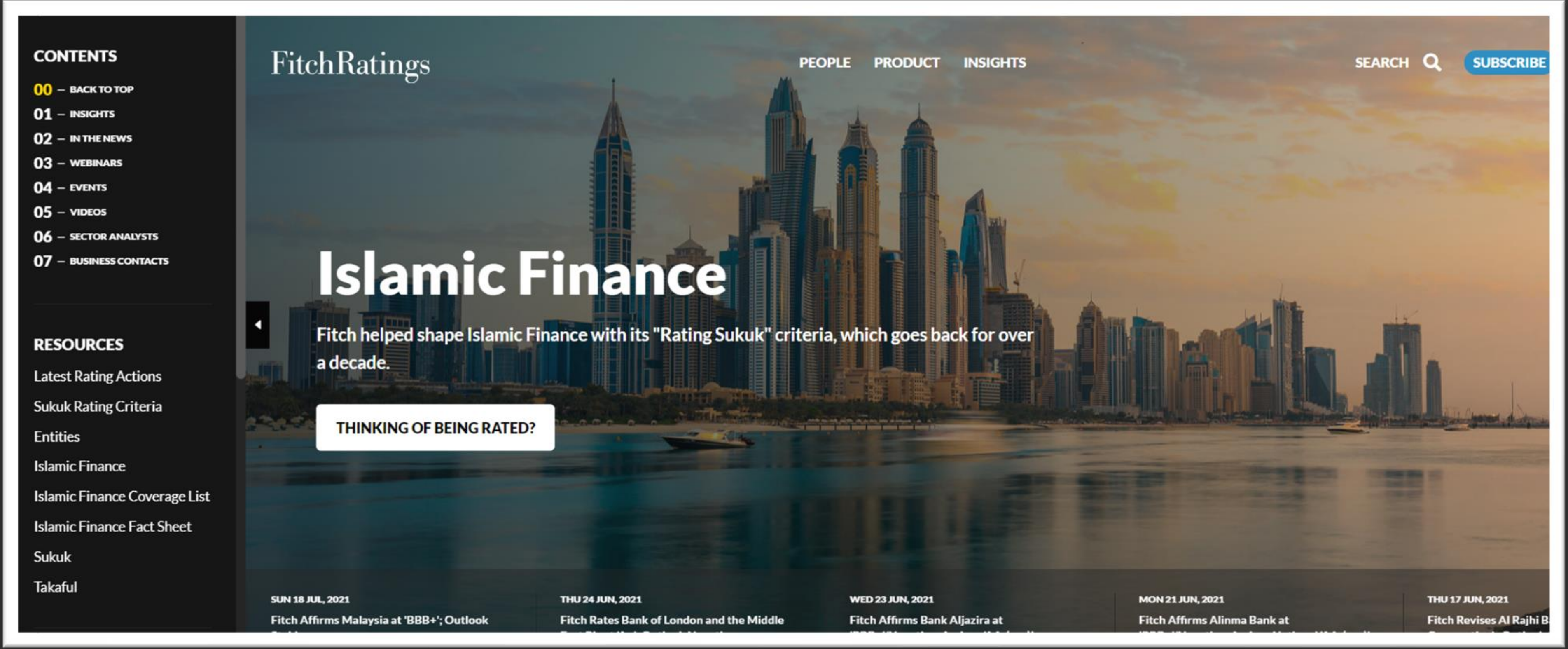


At end-2023
Source: Fitch Ratings, OJK

Research: Dedicated Islamic Finance Website

Available in English and Arabic

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



Thank you

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