

**THE THEORETICAL-LEGAL FOUNDATIONS AND
DEVELOPMENT PROSPECTS OF INTRODUCING THE
ISLAMIC INSURANCE (TAKAFUL) MODEL IN
UZBEKISTAN**

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Abstract: This study is dedicated to a comprehensive analysis of the conceptual, economic, and regulatory-legal aspects of implementing the takaful system—an alternative insurance model based on the norms of Islamic law—into the economy of Uzbekistan. The aspects of traditional commercial insurance that contradict Sharia principles, particularly the elements of riba (interest), gharar (uncertainty), and maysir (gambling), are disclosed. Most importantly, the current legal status of the takaful system is analyzed within the framework of the Civil Code of the Republic of Uzbekistan, the Law “On Insurance Activity” (LRU-730), and the Law “On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan Aimed at Introducing Islamic Banking Activity in Uzbekistan” (LRU-1126), adopted in March 2026.

Keywords: takaful, Islamic finance, riba, gharar, maysir, tabarru pool, tax neutrality, Sharia board, cooperative insurance.

1. Introduction

In the context of a modern market economy, the financial-banking system and its component, the insurance market, play a strategic role in ensuring macroeconomic stability, accelerating investment flows, and protecting individuals and legal entities from losses resulting from unexpected economic and natural disasters. However, under the conditions of economic globalization and service diversification, traditional financial institutions are unable to fully cover all segments of the population. One of the primary reasons for this involves spiritual, cultural, and religious-ethical factors. This conceptual need has laid the foundation for the emergence and rapid development of the Islamic financial infrastructure globally, particularly the *takaful* (Islamic insurance) system as an alternative to traditional insurance.

Takaful is derived from the Arabic word “*kafala*”, which means mutual guarantee, protecting one another, and assuming collective responsibility. This system relies on the idea of distributing risks based on social justice, mutual brotherhood, and collective solidarity, rather than pursuing commercial profit. With its demographic indicators and economic growth dynamics, the Republic of Uzbekistan is considered one of the largest potential markets for Islamic finance and insurance in the Central Asian region. By the beginning of 2026, the permanent population exceeded 38.2 million people, with an average age of 28.5 years. In terms of religious and ethnic composition, according to local and international analytical sources, more than 94 percent of the country’s population professes Islam.

At the same time, as a result of economic reforms, the national insurance market demonstrates stable growth rates: total insurance revenues rose from 8.06 trillion UZS in 2023 to 9.77 trillion UZS by the end of 2024, recording a 21.2

percent growth. Nevertheless, the share of the country's insurance market in the Gross Domestic Product (GDP) is only around 0.6–0.8 percent, whereas this indicator averages 7 percent in developed countries and globally. This systemic gap indicates that a large segment of the population consciously abstains from traditional insurance contracts due to religious reasons, highlighting a massive demand and gap in the market.

The purpose of this research is to reveal the legal mechanisms of the takaful system and to scientifically analyze its integration into the legislative environment of Uzbekistan. The issue of regulating insurance relations within Islamic jurisprudence and Islamic economics has been the subject of extensive scientific debates since the mid-20th century. Classical Islamic law sources do not feature commercial insurance contracts in their modern form; however, specific institutions that substituted them and provided social security existed. Specifically, the institution of “*aqila*” in ancient Islamic law serves as an example. According to it, when a member of a group or tribe accidentally caused material or physical harm to someone (for instance, manslaughter due to negligence), a collective formed by their fellow tribesmen was obliged to jointly pay “*diya*” (blood money/compensation) to the victim's side. This mechanism is considered the earliest legal basis of the modern cooperative and mutual insurance system.

2. Main Body: Elements of Traditional Insurance Contradicting Islamic Law

In Islamic jurisprudence, for contractual relations to be valid and fair, the rights of third parties must not be violated, and the agreement must be free from elements of oppression, deception, or injustice. Traditional commercial insurance, by its essence, is considered an exchange-based contract (*muawadha*)

between the client and the company. There are three fundamental contradictions in this contract that are strictly prohibited in Islamic finance, which are as follows:

2.1. The Element of Riba (Interest)

Riba refers to lending capital or increasing it based on a predetermined interest rate in exchange for an obligation without any labor or risk-bearing. In the Holy Qur'an, it is commanded: "*Allah has permitted trade and has forbidden interest*" (Surah Al-Baqarah, Verse 275). Traditional insurance companies manage their operations through financial investments. The insurance premiums paid by clients are collected into an investment fund and, in accordance with legislative requirements, are primarily placed into government bonds, interest-bearing bank deposits, and other usury-based instruments to ensure liquidity. The interest income generated is reflected on the company's balance sheet and distributed among shareholders as dividends. From the perspective of Islamic law, this is a direct and clear example of riba. In the takaful model, however, these funds are invested exclusively in halal (Sharia-compliant) projects, avoiding sectors like alcohol, gambling, tobacco, or traditional banking, and focusing instead on real sector projects.

2.2. The Element of Gharar (Uncertainty)

Gharar is the ambiguity of the contract, meaning that at the time the agreement is concluded, its outcome, subject matter, or price is unknown. In traditional insurance, gharar forms the basis of the contract. A client signs an agreement with the insurance company and pays a specific amount of money (for example, 3,000,000 UZS annually). However, they do not know in advance whether they will receive any material value from the company in return for this payment. The payout depends entirely on an event occurring randomly in the future (an

insurance event). If no accident or misfortune occurs over a period of 10 years, the total of 30,000,000 UZS paid by the client becomes entirely the property of the company, and not a single penny is returned to the client. Conversely, if a client suffers a major disaster after paying a small premium in the first month, the company is obliged to pay them millions. Because who gives how much and who receives how much is uncertain, this transaction is deemed *batil* (void) in Sharia.

2.3. The Element of Maysir (Gambling)

Maysir is a direct consequence of gharar, representing a form of game where one party gains wealth at the expense of another through chance—meaning one's win results in another's loss. A traditional insurance contract operates very similarly to a gambling scenario: the client stakes their money, hoping that "*if a misfortune occurs, I will receive a large compensation, and if not, my money stays with the company*". The insurance company, relying on actuarial calculations and probability theory, knows in advance that the majority of clients will not suffer disasters, thereby generating profit through a statistical advantage. In other words, the interests of the client and the company conflict, where one gains profit at the cost of the other's loss.

In Islamic finance, however, the goal of the financial system must be mutual benefit (win-win). The takaful system completely eliminates gharar and maysir through a *tabarru* (donation) contract, because a donation contract involves no commercial exchange; participants contribute not with the condition of recovering the funds, but with the intention of assisting a fellow brother who has faced misfortune.

3. Operational Models and Working Mechanism of the Takaful System

For the takaful system to operate in practice, the economic relations between the insurance company (takaful operator) and the participants (clients) must be structured based on precise Sharia contracts. In global Islamic practice, three main operational models are widely used: Mudharabah (profit-sharing), Wakalah (agency/brokerage), and hybrid (mixed) models.

In the Mudharabah model, a capital and labor partnership contract is concluded between the takaful operator and the participants. The participants act as capital providers (*rabb al-mal*), while the takaful operator serves as the manager (*mudarib*). The collected capital is invested in Sharia-compliant assets, and the generated investment profit is distributed according to a predetermined ratio (e.g., 70% to participants, 30% to the company). If a loss occurs in the investment and it is not due to the operator's fault, the loss is borne from the participants' capital, while the operator loses their spent labor and time.

The most popular model in the modern takaful market is the Wakalah model. In this case, the operator is appointed as an agent (*wakil*) to manage the fund on behalf of the participants. The operator deducts a predetermined specific amount of fee (Wakalah fee) for its services at the time contributions are received into the fund. This fee typically ranges from 10 to 30 percent of the contribution amount. All remaining funds stay entirely within the *tabarru* fund, and all profits derived from investment belong fully to the participants. The company can only receive an incentive fee for effective management.

4. Analysis of Legal Barriers to Introducing Takaful in the Legislation of Uzbekistan

The legal basis for developing the takaful system in Uzbekistan bears a dual character. On one hand, the principle of "freedom of contract" established in the Civil Code grants citizens the right to sign any agreements not prohibited by

law. Theoretically, this opens the door to concluding takaful contracts. On the other hand, insurance activity is a specially licensed field and strictly adheres to the requirements of the current Law “On Insurance Activity” No. LRU-730. During a deep legal analysis of these legislative acts, the following fundamental legal gaps hindering the takaful system were identified:

1. Organizational-Legal Restriction: According to the current provisions of Law No. LRU-730, to operate as an insurer on the territory of Uzbekistan, an organization must mandatorily be established in the form of a Joint-Stock Company (JSC). A joint-stock company, by its nature, is a commercial entity aimed at maximizing shareholder profits. The takaful model, conversely, requires an organizational-legal structure in the form of a cooperative, mutual insurance society, or charitable fund. The operational mechanism for mutual insurance societies does not exist in the current legislation.

2. Terminological and License Type Gap: Legal terms such as “takaful”, “Islamic insurance”, “tabarru fund”, or “Sharia Supervisory Board” are not mentioned at all in the full text of the Law. The licensing requirements approved by the National Agency for Perspective Projects (NAPP) do not provide a separate type of license or a special authorization procedure for takaful operators. This legal uncertainty prevents international investors from entering the market.

3. Limited Scope of Law No. LRU-1126: Law No. LRU-1126, adopted on March 27, 2026, was a revolutionary step in introducing Islamic banking activity in our country. With this law, the concept of “income of Islamic insurance and Islamic reinsurance organizations under contracts” was introduced into the Tax Code, and principles for their taxation were established. This is a highly significant achievement. However, this law is primarily directed

at the banking sector, and the powers of the Islamic Finance Council under the Central Bank are restricted only to banks. The operational mechanisms for the insurance regulator (NAPP) to supervise takaful are not elaborated in detail in the law.

5. Conclusion

Takaful is not merely a mechanism satisfying religious needs, but one of the most advanced modern insurance models based on economic justice, social responsibility, and transparency. The elements of riba, gharar, and maysir in the traditional insurance system completely contradict the norms of Islamic law and serve as factors alienating a large segment of the population from the financial market. Uzbekistan, with its massive Muslim population (over 94%) and rapidly growing economy, possesses unparalleled potential for implementing the takaful system. The adoption of Law No. LRU-1126 was an important legal turning point in creating an Islamic finance ecosystem in the country; however, specific regulatory reforms to fully encompass the insurance sector remain an urgent task that cannot be delayed.

Implementing the proposed “Roadmap” and the necessary legislative amendments outlined in the article will serve to attract billions of dollars in domestic and foreign investments (especially from the Middle East and Southeast Asian countries) to the financial market, significantly increase the insurance sector's share in GDP, and ensure the economic well-being and financial security of our people.

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