مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.

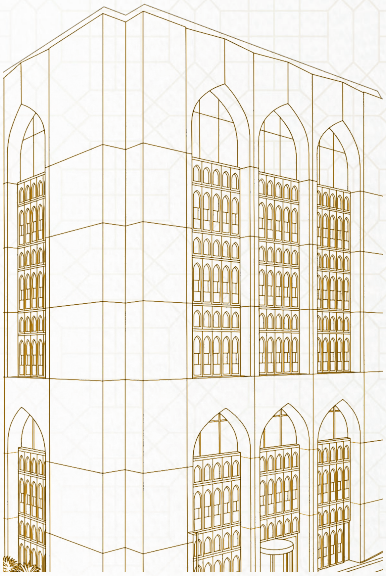
TAKAFUL INSURANCE
in the United Arab Emirates



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Takaful insurance in the UAE is an insurance and investment ecosystem, that complies with the provisions of Islamic Shari'ah, based on the concept of donation (Tabaru) and mutual solidarity (Takaful), within an advanced legislative and regulatory framework that aims to protect customers and enhance trust in the Islamic finance sector.



Basic Concepts & Operational Mechanisms

The UAE is witnessing a rapid development in the financial services sector, underpinned by a national vision aimed at establishing an advanced financial system that serves the needs of all segments of the society, while upholding the values and principles cherished by individuals and institutions. As part of this approach, the UAE has developed an integrated system for Islamic finance, including the Takaful insurance sector, in order to provide financial and insurance solutions that enable stakeholders to access innovative and effective services that comply with Shariah principles.

The legislative and supervisory authorities in the UAE have developed advanced legal, supervisory, and governance-based frameworks that aim to enhance transparency, protect customer rights, and support trust in Islamic financial services, contributing to enhancing the UAE's position as a leading global hub in Islamic finance.

Takaful insurance, based on principles of mutual solidarity (Takaful), cooperation, and shared responsibility, provides the desired protection from risks and potential losses, while aligning with the needs and aspirations of customers. This is achieved through mechanisms and contracts that comply with the provisions of Islamic Shari'ah and consistent with the various purposes and objectives of insurance. Furthermore, the regulations and standards issued by the Central Bank aim to continuously ensure that the entities that practice the business of Takaful insurance are abiding by the provisions of Islamic Shari'ah.

In line with the Central Bank's efforts to enhance customer awareness and simplify Islamic finance concepts, this awareness booklet highlights the Takaful insurance system in the UAE, and explains its foundations and operational mechanisms.

This publication seeks to enhance public understanding of Takaful insurance as a cooperation and risk-sharing model, fostering greater trust and transparency within the Islamic finance sector.

This booklet aims to raise general awareness of the concept of Takaful insurance and does not supersede the product documents or disclosures. Coverage, benefits, rights and obligations are determined in accordance with the contractual documents, applicable legislation and regulatory requirements.

What is Takaful Insurance?

Takaful insurance is a scheme intended to achieve solidarity and cooperation among a group of participants to address certain risks, whereas each participant makes a contribution to the Takaful Insurance Fund ("the Fund"), based on the concept of "Tabaru". The fund, which has a legal personality and independent financially, is responsible for paying compensation to the beneficiaries in the event of specified risks occurring.

In essence, Takaful insurance is an organized mechanism that provides individuals and institutions with protection against potential risks or losses. Each participant donates an amount called contribution to the Fund that collects all these donations. Compensations are then paid to eligible individuals and institutions from the amounts collected by the Fund. The Takaful insurance company, licensed by the Central Bank, manages this process, invests the amounts available in the Fund, and disburses compensation to the eligible beneficiaries in accordance with the Fund's Charter, as well as laws, regulations, and standards issued by the Central Bank.

The Takaful insurance company is the entity responsible from a legal and regulatory perspective, for the payment of compensations to beneficiaries, being the agent of the Fund and is exclusively responsible for all of the Fund's obligations to customers and third parties.

What does Contribution in Takaful Insurance Mean?

When a customer participates and pays the donation amount (the contribution) in the Takaful insurance, the Fund considers such customer entitled to request for compensation or claim for losses incurred or the risks that have materialized, and which are covered by the Takaful insurance policy, subject to the terms and conditions of each policy. At the same time, the Fund considers that the participant has also donated the amount to compensate other participants for the incurred losses or risks, and which are covered by their Takaful insurance policy, in accordance with the terms and conditions of each of their policies.

Therefore, contributing to the Takaful insurance means that participants donate to the Fund where these donated amounts are pooled, not only to cover the potential risks and losses of each individual participant, but to cover the risks and losses of all participants in a solidarity-based and cooperative manner. This is where the essence of cooperation lies, and why the term "Takaful" (mutual guarantee/cooperation) is used for this type of insurance.

The Takaful insurance sector in the UAE has witnessed remarkable development, driven by the vision to provide Shariah-compliant insurance solutions, and achieve the objectives of financial inclusion and economic stability.

Compliance with the Provisions of Islamic Shari'ah

The Central Bank has established clear frameworks for Shari'ah governance to ensure that the products and services provided by licensed Takaful insurance companies comply with the provisions of Islamic Shari'ah. The Higher Shari'ah Authority (HSA) has set forth clear Shari'ah standards to be adhered to by such companies. Moreover, each Takaful insurance company has a specialized Internal Shari'ah Supervision Committee ("ISSC") that monitors the company's business, with the assistance of specialized departments, including the internal Shari'ah control department and the internal Shari'ah audit department. In addition, there is the possibility of conducting an external Shari'ah audit by specialized companies. The ISSC issues an annual Shari'ah report that states the extent of the company's compliance with the provisions of Islamic Shari'ah, which is published to the public (for further details, please refer to the Shari'ah Governance Framework Booklet by visiting the Central Bank's website or through this link

(https://www.centralbank.ae/en/our-operations/islamic-finance/shariah/)

to learn more about this topic.

Types of Takaful Insurance

It is important to understand the types of Takaful insurance products, as they differ in nature, objectives, risk-bearing mechanisms, and impact. Generally, Takaful insurance products are classified into two types:

Takaful Insurance for Properties & Liabilities **(General Takaful Insurance)**

This is the type of insurance that usually comes to mind when the term is used. It includes properties insurance, covering buildings, factories, warehouses, vehicles, equipment, goods, and more. It focuses on the protection of assets and properties as well as liabilities arising from the actions of individuals or institutions towards third parties. Agreed-upon risks such as fire, theft, transport accidents, and accidental damages are covered according to the agreed terms and conditions. On the other hand, liability insurance covers the civil liability of the participant towards third parties, such as: an employer's liability towards employees, a vehicle owner's liability for damages caused to others, and the professional liability of professionals (doctors, engineers, accountants) for professional errors.

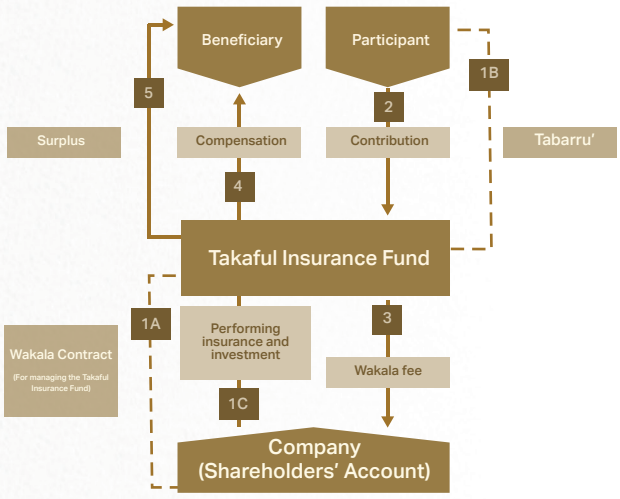
The policies of such type of insurance are usually short-term (one renewable year), dominated by the nature of compensation, exclusively to the long-term saving/investment element.

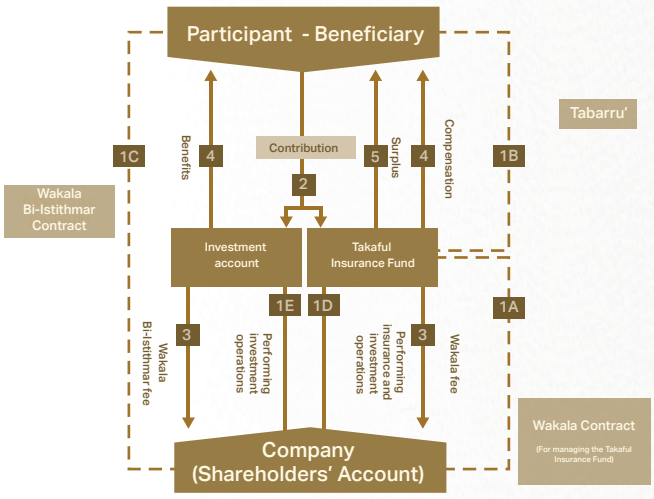
Takaful Insurance for Persons & Funds Accumulation Operations **(Family Takaful Insurance)**

This type of insurance focuses on the protection of individuals' life, health, and physical safety, while also contributing to making savings or future funds in favor for their benefit or that of their family. The funds accumulation products include several schemes and plans regarding saving, retirement, and education. The policies often extend over long periods, combining the coverage of the risks to which a person might be exposed (such as death, disability, or illness) with a saving/investment element aimed at achieving financial stability for an individual and his/her family in the future.

In this type of insurance, the contribution amounts are not considered entirely as donations. Rather, a portion of the contribution amount is donated to the Takaful Insurance Fund while the other part is invested in investment instruments in favor of the participant, as specified in the participation membership policy. Therefore, the insurance component constitutes only one part of the process, while the remainder represents an investment by the participating member, who thereby bears the investment risks.

The Operation Model of This Type of Insurance





Customer's Journey in Takaful Insurance:

1 Introduction & Selection Stage:

- The customer chooses the Takaful insurance company licensed by the Central Bank (please visit the Central Bank's website for a list of licensed Takaful insurance companies).
- The customer inspects the available types of Takaful insurance (property & liability insurance, health insurance, accident insurance, family / protection & saving insurance), and chooses therefrom whatever suits his/her needs.

2 Participation in Takaful Insurance Stage

- The customer applies for participation in the appropriate product.
- The customer consents to the terms and conditions stated in the participation membership policy, the Takaful insurance policy, and the Takaful Insurance Fund charter.
- The customer pays the contribution amount, which is, in fact, a donation to the Takaful Insurance Fund.

3 Joining the Takaful Insurance Fund Stage

- After signing the required documents, the customer becomes a participant in the Takaful Insurance Fund commencing from the agreed effective date.
- The customer (the beneficiary) earns the right to claim compensation upon the occurrence of the risks covered by his/her policy.

4 Funds Management & Compensation Payment Stage

- The Takaful insurance company manages the Takaful Insurance Fund and invests its funds in compliance with the provisions of Islamic Shari'ah and regulatory requirements.
- The company is liable, from a legal and regulatory perspective, to pay compensations to those who are entitled to the same, and to represent the Fund before customers and third parties.

5 Compensation Claiming (Risk Occurrence) Stage

- Upon the occurrence of a loss or a risk that is covered in the policy, the customer files a claim to the Takaful insurance company. The company reviews the claim in the light of the terms and conditions and the scope of the policy.
- In case entitlement is evidenced, the company pays compensation from the Fund in favor of the customer or the beneficiaries designated in the policy.

6 Relationship Continuation and Termination

- A customer may continue the participation by renewing the policy or the payment of the contributions according to the nature of the product (especially in protection and saving products).
- The relationship terminates upon the expiration or cancellation of the policy in accordance with its terms, while the company's obligations regarding any claims due during the coverage period remain in effect.

7 Handling Insurance Surplus

- In case there is an insurance surplus in the Takaful Insurance Fund (which is the remaining amounts in the Fund after the deduction of compensations, expenses, and other liabilities and necessary reserves), such surplus is handled according to the regulations and standards specified by the Central Bank and the controls stipulated in the Takaful insurance policies.
- This might include – as stipulated by the policy and the regulations – the redistribution of a part of the surplus to eligible customers in a fair and transparent manner, or the retention of a part of the same to enhance the Fund's financial capability and the continuity of its protection of its beneficiaries.

The Most Important Documents that Must be Reviewed:



Participation Membership Policy

This policy includes the duration of membership and the bases and rules that govern the contractual relationship between the Takaful insurance company and the Takaful Insurance Fund and the contractual relationship between a participant and the Takaful Insurance Fund, and the role and responsibility of the company in performing the insurance and investment operations of the Takaful Insurance Fund. It also includes that the compensations and claims that are paid to beneficiaries shall be made by the Takaful Insurance Fund, not the company. The policy includes the participant's obligations towards the Fund, the beneficiary's rights from the Fund, and the Wakala fee received by the company from the Takaful Insurance Fund, and the distribution policy of insurance surplus in the Takaful Insurance Fund.



Takaful Insurance Policy

This policy includes several basic elements, including the scope of insurance coverage by the statement of the risks or cases that are covered by the policy. The scope of coverage differs according to the nature of the product. The policy shall clearly state the exceptions that are not covered by the policy, as well as insurance conditions, and the rights and obligations of both contract parties or the beneficiaries of Takaful insurance.



Takaful Insurance Fund Charter

The Takaful Insurance Fund's charter ("charter") is the constitution of the Fund. The charter includes the responsibilities and contractual relationship of the Fund, and the terms and conditions regulating insurance operations and investment operations. Furthermore, the charter states that the Fund owns the assets available in the Fund and is liable for the payables thereof. To demonstrate the concept of donation (Tabaru), the charter stipulates that the participants, during the period of their participation, are the beneficiaries of the Fund as per the rights and obligations stipulated in the charter and the Takaful insurance policy, unless the participant or the related laws designate a beneficiary other than the participant.

Furthermore, the charter states the company's responsibility, role, and authorities to manage the fund and invest the assets thereof, as well as the legal liability towards third parties.

General Tips to Customers:

- First understand the Takaful insurance model.
- Know the insurance company and verify that it is licensed by the Central Bank to undertake the business of Takaful insurance.
- Review the terms of the Takaful insurance policy, especially exclusions, coverage ratios, and claims procedure.
- Verify the investment risks of persons and funds accumulation insurance products.

List of Related Legislations to Takaful Insurance Regulations & Standards:

Laws:

- Federal Decree by Law No. (25) of 2025 Promulgating the Civil Transactions Law
- Federal Decree by Law No. (50) of 2022, Promulgating the Commercial Transactions Law
- Federal Decree by Law No. (6) of 2025 Regarding the Central Bank, Regulation of Financial Institutions and Activities, and Insurance Business

Regulations & Standards:

- Regulation regarding Takaful Insurance.
- Standard Re Shariah Governance for Takaful Insurance Companies.
- Standard Re Charter of Internal Shari'ah Supervision Committee for Takaful Insurance Companies.
- Standard Re Annual Shari'ah Report of Internal Shari'ah Supervision Committee for Takaful Insurance Companies.
- Standard Re External Shari'ah Audit for Takaful Insurance Companies
- Standard Re Controls and Procedures Establishing Takaful Insurance Fund
- Standard Re the Operational Model of Takaful Insurance
- Standard Re Shari'ah and Procedural Requirements for Agency (Wakala) in Takaful Insurance

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