

Development of Takaful Industry in Turkey: Challenges and Prospects

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Abstract

The takaful/Islamic Insurance industry is rapidly growing across the globe. However, still, the volume of this sector is very small worldwide as well as in Turkey. This study focuses on discussing the size of growth and investment of Islamic Insurance in Turkey. Therefore, the study's central point focus on exploring and examining the development of the Islamic Insurance/Participation sector in the Turkey financial markets at large. Takaful/Islamic insurance in Turkey is known by other names called *Participation insurance*. In Turkey, both Islamic banking and the insurance industry operating based on shari'ah-complaint is known as participation, not Islamic. The Word participation comes from the Turkish language called "Katılm", which means participate. Thus, nowadays, in 2020, the market share of the participation/Takaful insurance in production reached 5.2% with approximately 4.3 billion TL. On the other hand, at the end of the same year, 2020, the market share of conventional insurance of life & non-life insurance gross written premium in Turkey is growing too, 82.5 billion TL. Even though the market share of the participation insurance sector seems insignificant when it is compared to the counterpart of conventional insurance, the market share of Islamic insurance begins growing from period to period as well.

Keywords: Takaful, Islamic Insurance, Participation Insurance, Islamic Finance, Takaful Development, Turkey

JEL Codes: F63, G20, G22, G33

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Introduction

The development and growth of the takaful industry (participation insurance) worldwide are still very small or in infancy when it is contrasted with the counterpart of classical insurance. The fortune of the participation insurance sectors in Turkey is also similar too. The participation insurance sector in Turkey is emerging to grow in recent years. There is a promise of participation insurance and an endeavor from period to period in line with the public sector or private sector as well.

In recent times many scholars argue that participation insurance sector is the topic of different conferences and meetings as well as heated debate agenda worldwide, and it is associated with an alternative to counterpart|conventional insurance not only for Muslims but also for others as well. The concept of insurance is old enough and very crucial for human well-being, particularly during financial misfortune (peril), to provide financial assistance to place an individual or a firm in a position before perils happen (Ayub, 2003). In this context, rational people always prefer to be a part of the insurance policyholder or to take insurance companies' services and support to minimize unwanted risks.

The central point of this article or work is going to set out and explore the development of the participating insurance or Takaful (Islamic Insurance) sectors in Turkey. This is done to examine the magnitude of Turkey's participation in insurance sectors' market size as well as the conventional insurance practice for economic empowerment in the financial industry. In this circumstance, the Islamic Insurance sector market size was briefly examined in terms of regulation as well as practical operations to date. This study then goes on to evaluate the overall adequacy of the reforms executed in Turkey associated with participation insurance to date from a socio-economical and financial development perspective.

This study aims to explore the development of the participation insurance sector in Turkey. In addition, it aims to analyze and examine the size of participation (takaful) and the insurance industry in the country, as well as to highlight the challenges and prospects regards to this sector at large.

This study identifies the development of the participation sector in Turkey by using resources gathered through qualitative methods, document analysis, annual reports, secondary data available via internet sites, and semi-structured interviews conducted with the workforce in the fields as well as the responsible authorities individuals with sampling involves random selection.

This study or paper is organized into four sections: The first section presents an overview of the Takaful industry (participation insurance sector), including its concept of takaful, historical development, its size, socio-economic impact, and essential components of the takaful. The second section focus on the development of takaful sectors in Turkey, particularly the size and role of takaful funds and investment in Turkey's economic development. The third section explores the analysis of the participation sector in Turkey, such as its models, financial

inclusion, its challenges, and prospects as well. Finally, the fourth section describes conclusions and recommendations.

1. An overview of The Takaful Industry

In this section, the overall Islamic insurance or takaful concept, the history of takaful sectors development, and the market size of takaful in terms of its socio-economic impact are summarized. The brief subtitles are discussed and presented as follows:

1.1. The Concept of Takaful (Islamic Insurance)

In contemporary periods, takaful (participation insurance) is an agenda or topic of various conferences and meetings across the globe, and it is considered an alternative to conventional insurance not only for Muslims but also for others as well (Ayub, 2003; Salman, 2014).

The concept of insurance is old enough and very crucial for human well-being, particularly during financial misfortune (peril), to provide financial assistance to place an individual or a firm in a position before perils happen (Ayub, 2003). In this context, rational people always prefer to be a part of the insurance policyholder or insurers to take insurance companies' services to minimize unwanted risks. So, in the contemporary period, insurance service is well known and spread over the globe at the local as well as at the global level for daily life activities to decrease unnecessary risk cases as a whole (Ayub, 2003; Salman, 2014). In addition, the risk is one of the parts of human lives due to human life experience where is life there is a risk, and it is a cause of worry and stress. So, worrying is always sustained in human lives for the reason of varieties fear of loss, whether physical, moral, or mental (Alshammari et al., 2018, p. 356).

Mainly to cope with the risk of losing conventional insurance use risk transfer techniques while Islamic finance utilizes risk-sharing methods. This system provides peace of mind for insurance contracts or policyholders. The benefits of insurance are not only to give the policyholder peace of mind but also, to help to control or minimize the loss and enhance economic benefits as well (Malik & Ullah, 2019, pp. 10-13). So, it is crucial for policyholders to provide financial support during misfortune in order to put back the person in a position of (place) before the accidents happen (Salman, 2014).

1.2. Historical Development of The Takaful industry

In most Muslim countries, including the Middle East and North Africa (MENA) region, the development of insurance began emerging in early 1970, relying on the demand of Muslim society by replacing conventional insurance (Sherif & Hussnain, 2017, pp. 374-375). In contemporary times view, the first Takaful firm was operated in Sudan in 1979. The Saudi Arabia company of Islamic Insurance, in 1979, followed Sudan. In addition, many countries, particularly in the Middle East like UEA (1980), Bahrain (1985), Qatar (1995), and Dubai (1997) stepped forward and followed Sudan to operate Islamic insurance. After they were established and operated based on the rules and principles of Islamic law (*Shari'ah*) they are also following relevant shari'ah-complaint products and services that meet the Islamic Insurance (Takaful)

companies (Sherif & Hussnain, 2017, p. 375). Takaful, even though it is growing rapidly across the world due to different opinions of jurists and variations of the school of thought related to shari'ah ruling, it is very difficult to operate Islamic insurance in standardized ways across the globe (Salman, 2014).

1.3. Size of Takaful, Its Social and Economic Impact

According to the research executed by Alshammari et al. (2018, p. 357), in the GCC regions, the size of takaful is estimated at The United States of America \$25 billion. The amount aforementioned is provided by 305 takaful firms as well as re-takaful companies. The growth of takaful in the GCC region in 2014 and 2015 was 18 % and 21%, respectively, when the region is the highest contributor regards to this industry. Sherif and Hussnain's (2017) study illustrates that the Insurance Premium in the MENA region grows by 1.3% of GDP, which is almost one-fifth of the worldwide average. Thus, nowadays, participation insurance is the most emerging sector, particularly in most Middle East and some African countries as well with a growth rate of 20% annual, whereas the Takaful operator has increased by 54% across the globe since 2006 (Sherif & Hussnain, 2017, p. 375).

1.4. Essential Components of The Takaful

Islamic insurance or participation insurance is presented as creating a common pool of accounts by policyholders or participants in order to contribute some amount of fund to provide financial assistance for mutual benefit in the principle of indemnity if any events or risks occur. Takaful is operated following Islamic law (Shariah ruling and principles). Its main objective is to protect the participants from any future loss or peril via jointly guaranteeing one another or themselves (Malik & Ullah, 2019, p. 34). Basically, Takaful or Islamic insurance operates based on Ta'awun (cooperation) as well as tabarru (donation) principles to fulfil the purpose of providing financial support to policyholders based on mutual benefit against accident or misfortune (Ayub, 2003; Hassan et al., 2018; Malik & Ullah, 2019). Takaful operated or undertaken rely on the technical issues of mortality table as well as actuarial requirements arrangement process both on a mortality liability or for investment account as well (Ayub, 2003).

Another important part of takaful is its key parties participating in the takaful during insurance contract arrangements, such as the participants, the Insurance firm, and the insurance (takaful) operator as well. The other crucial benefits of takaful are providing peace of mind, minimizing or controlling loss, and ensuring economic benefits for policyholders. The insurance contract underlying between two parties is known as a client (policyholder and the insurance companies (the insurer). The major essential element of insurance is its principles. They are the principles of utmost good faith, indemnity, subrogation, insurable principles, and the principles of proximate cause (Malik & Ullah, 2019, pp. 10-13). The principles of utmost good faith are working based on providing all necessary and valuable information honestly before the contract underlying from both sides to take accurate decisions.

The indemnity principle means putting back the clients in the same position before the peril occurs. Overall the principles of insurance are very vital for both system of the convention as well as the participation insurance.

2. Development of Takaful Industry in Turkey

This section describes the development of Islamic insurance (takaful) sectors in Turkey. And also, it is mainly focused on the profit-loss sharing system of Islamic financing and participation insurance, Islamic investment through the participation insurance sector, the role of insurance sectors in economic development, and its volume at large.

2.1. Islamic Finance and Takaful Industry in Turkey

The concept of Islamic finance was first commenced in contemporary understanding following the Islamic banking operation, particularly after the Mit Ghamr Saving bank in Egypt in 1963 operated (Aslan & Özdemir, 2015; Shibu & Chachi, 2021). In this context, the first Islamic financing in Turkey began in 1984 with the operation of the Special Finance House institution, but the first takaful came late around 2009 (Aslan & Özdemir, 2015). Therefore, nowadays, the conventional banking industry operating around the globe is also opening the window method based on Shari'ah rules and principles of Islamic insurance to attract clients to get a market share from Islamic finance as well (ASLAN & AVCI, 2021; Aslan & Özdemir, 2015).

Nowadays, out of 52 banks (banking and financing) sectors operated in Turkey, six of them are full-fledged, meaning that they operate based on shari'ah-complaint rules and principles. Out of six, three banks are state-owned (Ziraat participation, Vakif participation, and Emlak participation), while the remaining three (Albaraka Participation, Turkiye Finance Participation, Kuveyt Turk Participation) are privately owned. According to a country report in December 2020, the total asset owned by the participation sector is estimated to be \$55 billion, with a market share growing to 7.1% over the previous year's performance (Tan et al., 2021). Besides, to increase the Islamic Insurance industry activities and to develop it, share the experiences and express the problems encountered has been started since 2018. To look for better action, the Participation Insurance Review and Research Committee were established in similar years in 2018 as well (Insurance Association of Turkey, 2020).

Consequently, Sukuk financing is the fastest-growing instrument or product in Turkey, and it is increasing with a market share of 2.6% out of foreign market shares assets underlying including its outstanding as well as continuous sukuk performance as presented by the IFSB stability report of 2020. The total sukuk investment grew rapidly, and it reached about \$15.34 billion in the United States of American dollar at the end of 2020, whereas the sukuk issuance performance was \$156.4 million in 2012 (Tan et al., 2021).

The Neova Sigorta, which started its production on December 16, 2009, was Turkey's first company operating following full-fledged participation insurance procedures. The direct net

gross written premium was 264,328 TL on December 31, 2009 (Neova, 2009, p. 8). Nowadays, the direct premium of Neova Takaful (Islamic Insurance) company reached about 1.90 billion TL on December 31, 2020, and it has been bringing a brand new concept to the insurance industry since its inception. Neova Sigorta has a share of 2.79% of the market share of Turkey's non-life insurance at the end of 2020 (Neova, 2020). At the end of 2020, life & non-life insurance premium written assets in Turkey are estimated to be 82.5 billion TL, while the total share of the participation | Islamic insurance sector in production is about 5.2%, with approximately 4.3 billion TL (Insurance Association of Turkey, 2020).

As aforementioned above, Neova Sigorta (Neova Insurance), is one of the first and early operated Participation insurance in Turkey. It is a party | Subsidiary of the Kuveyt Turk participation bank. Kuveyt Turk Participation Bank is a Joint Stock Company, having started its operations on March 31, 1989, in cooperation or partnership with Kuwait Finance House, Turkey Foundations of the General Directorate, the Governmental Social Security Organization of Kuwait, and the Islamic Development Bank (IsDB) as well. The bank's service mainly focuses on the activity like corporate banking, international banking services, retail banking, and credit card transactions. The bank operates based on the rules of interest-free principle and profit/loss sharing accounts. The main field of activity of the bank, as a participation bank, is to collect funds through current accounts and to provide funds to its customers. As of December 30, 2020, the bank operates with 435 branches and 6000 personnel. In line with the decision taken on May 05, 2020, Turkapital Holding BSCC, buys all shares from other shareholders like Takaful Insurance Company KSCC, KFH Takaful Insurance Company KSC, Autoland Automotive industry and trade, and they transferred their shares to Kuveyt Türk Participation Banks and the first Islamic Insurance was established. Neova Türk's participation insurance shareholding and capital structure of the company is according to May 05, 2020, the nominal capital of the company is 84.800.000 TL and it has been fully paid. The company's capital consists of 84,800,000 shares, each worth TL 1 (Neova, 2020, p. 14).

Bereket participation Insurance plc is another full-fledged participation insurance operating in Turkey-based on shari'ah ruling and principles. It has been operating since 22 July 2019 and registered in the Trade Registry journal in the same year as part of Bereket insurance company (dependent on Bereket insurance). As of March 31, 2021, the nominal capital of the company is 10 million TL (31 December 2020: 10.000.000 TL), 10 million TL share of which (31 December 2020: 10.000.000 TL) has been paid for each 1 TL value worth (Insurance, 2021, p. 11). In Turkey, those companies nowadays operating with the window method under conventional insurance have been planned and determined as the last date of the operating period ended on December 31, 2021 (Insurance Association of Turkey, 2020).

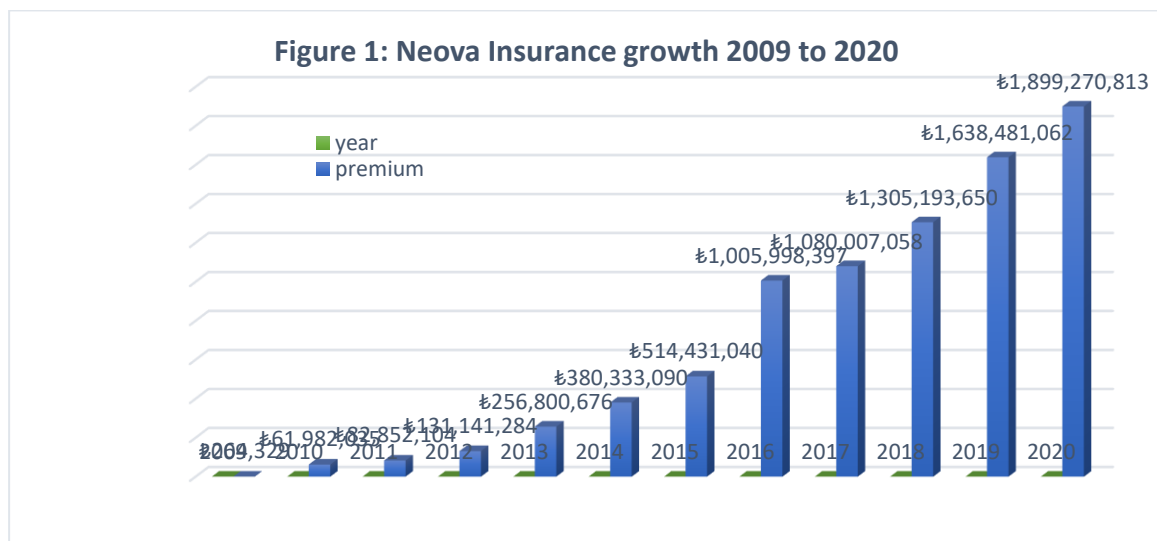
In the history or development of participation insurance sector in Turkey, a good example was given below using data explored rely on Neova insurance growth from time to time from 2009 to 2020 summarized as below in terms of premium written, market share, number of regions, and agency including banks breaches at large.

Table 1: Neova Insurance Growth 2009 to 2020

Neova Company Profile 2009 to 2020						
company name	year	premium	market share in non-life insurance	number of regions	number of agency	numbers of branches of banks
Neova	2009	₺264,329	N/A	4	120	130
Neova	2010	₺61,982,035	N/A	5	303	1250
Neova	2011	₺82.852.104	N/A	7	420	450
Neova	2012	₺131.141.284	0,77	N/A	563	571
Neova	2013	₺256.800.676	1,23	10	812	673
Neova	2014	₺380.333.090	1,67	10	1000	785
Neova	2015	₺514.431.040	1,89	10	1150	847
Neova	2016	₺1.005.998.397	2,84	12	1500	909
Neova	2017	₺1.080.007.058	2,72	12	1900	975
Neova	2018	₺1.305.193.650	2,73	13	2100	1,047
Neova	2019	₺1.638.481.062	2,83	13	2200	1,088
Neova	2020	₺1.899.270.813	2,79	13	2398	1147

Source: Author's (Neova annual Report 2009 to 2020)

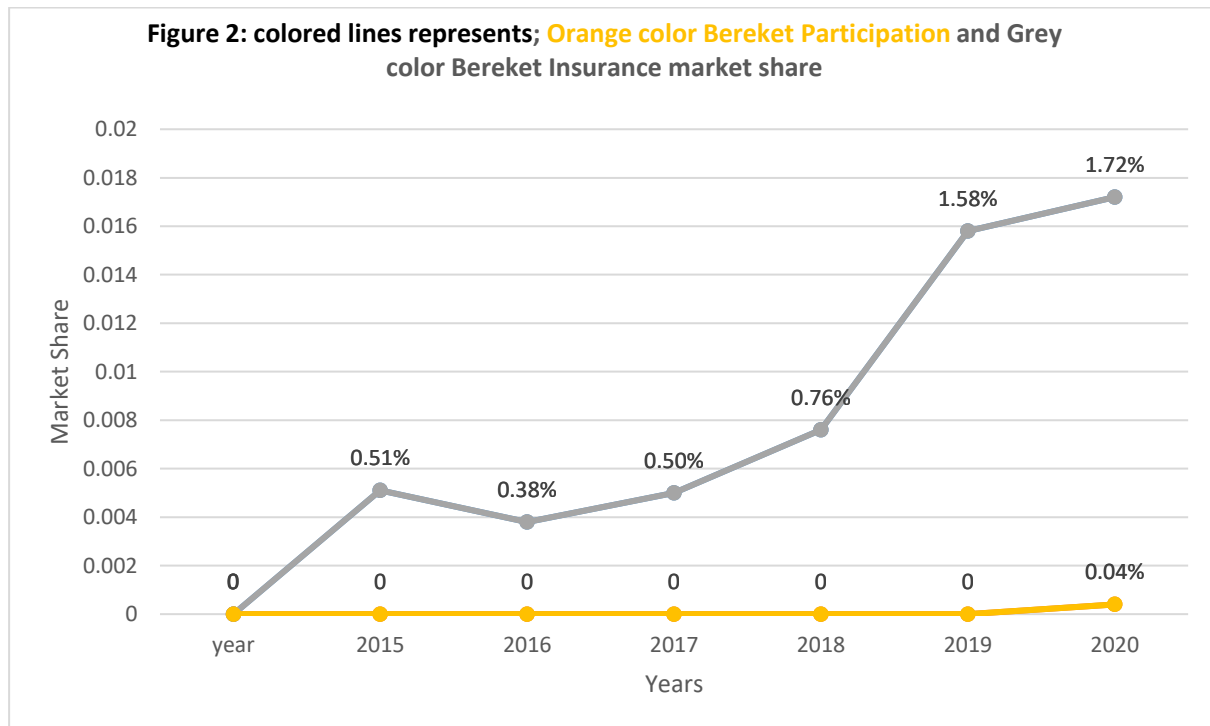
The following graph shows the aggregate amount of Neova participation insurance growth from 2009 to 2020 yearly as well as the gross written Premium insurance as follows:

Figure 1: Neova insurance growth from 2009 to 2020

Source: Author

Conventional insurance in Turkey is the most dominant and leading sector in terms of market share. The market share of Bereket participation insurance in the graph below shows how much it is in an infancy stage using 0.04%. The comparison between Bereket conventional insurance and Bereket participation bank in insurance market share is 1,27% and 0,04%, respectively.

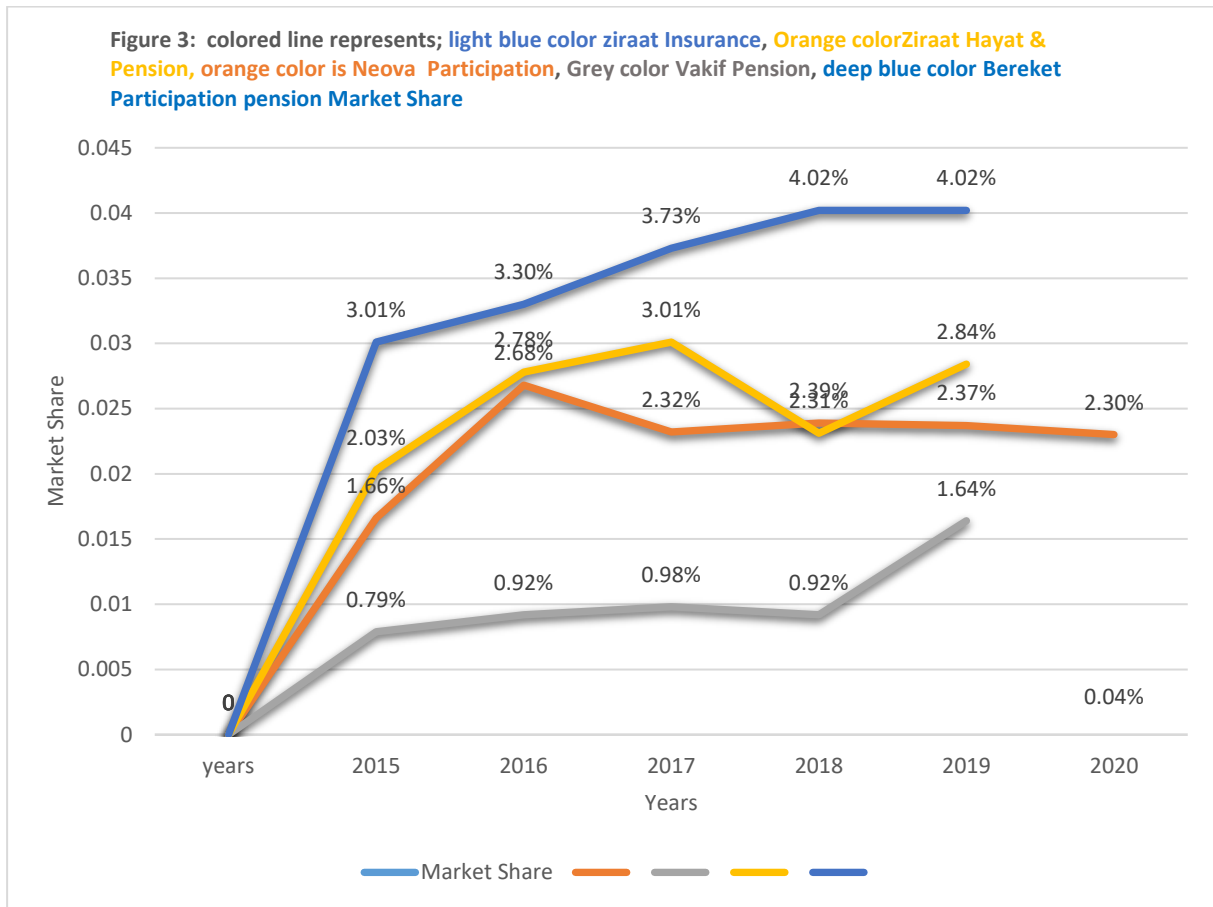
Figure 2: Cumulative Written Premium of Bereket Insurance vs Bereket Participation Market Share



Source: TSB Visual Analysis Reports (English) Dec 12, 2021

The following chart illustrates the market share of interest-free window method insurance operating in Turkey in comparison to the full-fledged Islamic insurance (participation) industry like Neova participation and Bereket participation insurance. They include Vakif (Foundation) banks life and pension insurance and Ziraat banks life and pension insurance companies. The market share of those companies operated based on window methods insurance which provides services of shari'ah compliant in conventional banks (Laçınbala & Ünsal, 2019) such as Vakif Bank(foundation) and Ziraat Bank life and pension are equal to 1.64% and 2.84%, respectively, while the full-fledged Neova participation and Bereket participation insurance were equal to 2.37% in December 2019. The following diagram shows the collective market share comparison between them as follows:

Figure 3: Cumulative Gross Premium of Insurance Market Share Chart in Turkey Dec 12, 2021



Source: TSB visual Analysis Reports (English) Dec 12, 2021

In 2020, the Neova participation insurance market share was 2.17%, ranked 14th in the previous year, while it's growing fast and increasing to 10th position in October 2021 by 2.54% market share, as illustrated in Table 3 below. The Turkish private pension sector consists of a total of 63 companies operating in 2020, and its total asset or premium insurance of non-life & life branches growing by 19.3% that was reached 82.6% billion TL, with a total retirement or pension funds increase of 33.65% with a total 170.2 billion whereas, total assets of the sector increased by 30% in 2020 to 307.8 billion TL (Insurance Association of Turkey (IAT), 2020). In this context, even though there is promising and good progress seen for Neova Participation insurance, the overall growth of the participation insurance sector (Islamic insurance) in Turkey is very small and in the infancy stage, meaning that statistically insignificant. Thus, the enablement environment and reform are required to improve the existing participation insurance as well as to operate new companies fully relying on Shari'ah ruling and principles in the insurance financing sectors at large.

Table 3: Top 10 Insurance Market Share Versus Neova Participation Insurance 2021

Company Name	Market share	Last year market share
Turkish Insurance Plc	10.73 %	10.46%
Anadolu Limited Turkish Insurance	10.07%	9.53%
Allianz Insurance	9.67%	9.90%
Ak Insurance Plc	6.43%	6.02%
Axa Insurance Plc	5.03%	5.48%
Hdı Insurance Plc	4.44%	4.06%
Turkey Life & Retirement Plc	3.84%	5.61%
Sompo Insurance Plc	3.29%	4.17%
Mapfre Insurance Plc	3.03%	3.10%
Neova Participation Insurance Plc	2.54%	2.17%
Total	59.05%	60.50%

Source: Author's 2021, TSB visual Analysis Reports (English)

On the other hand, there has no one firm that has reached the top five in the Insurance industry in Turkey. The biggest top 5 conventional insurance companies in Turkey take a market share of almost 42% and whereas only one participation insurance reaches the top 10 and it's ranked last place, meaning that as the 10th position at the end of October 2021. The total market share of conventional insurance in 2020 occupies about 95.7%, whereas the market share of participation insurance is covered by 4.3% only. These results clearly illustrate that the Takaful insurance value is still small enough, and to enhance and promote Takaful | Shariah-compliant insurance in the country (Turkey) requires more reform, rules, and regulations, a policy that support businessman and entrepreneurs that are looking forwards to entering this business field in general. Overall as of October 2020, all full-fledged banks operating in Turkey have been working a channel network estimated to be 1,243 local as well as global branches with about 16,859 employees that are growing by 5% when it's compared to the previous year (in 2019) (Tan et al., 2021).

2.2. Takaful Funds and Islamic Investment in Turkey

Due to the covid-19 health crisis, the global economy was distracted on a huge scale worldwide, particularly from late 2019 to the beginning of 2021 years. Based on the United Nations Conference on Trade and Development (UNCTAD's) report of 2020, world investment, particularly foreign direct investment (FDI), decreased by 40%, which is estimated to be \$1.54 trillion (KPMG, 2020). The Turkey's economy was also influenced by the covid-19 pandemic as well. However, there are 39 no-life insurance companies, 21 life and pension companies, and three reinsurance companies providing service in Turkey, including participation or Islamic Insurance as well. The gross written premium of non-life insurance value is 68.2 billion TL, life and pension insurance premiums are 170.2 billion TL and 14.4 billion TL, respectively and also reinsurance companies produced around 3 billion written

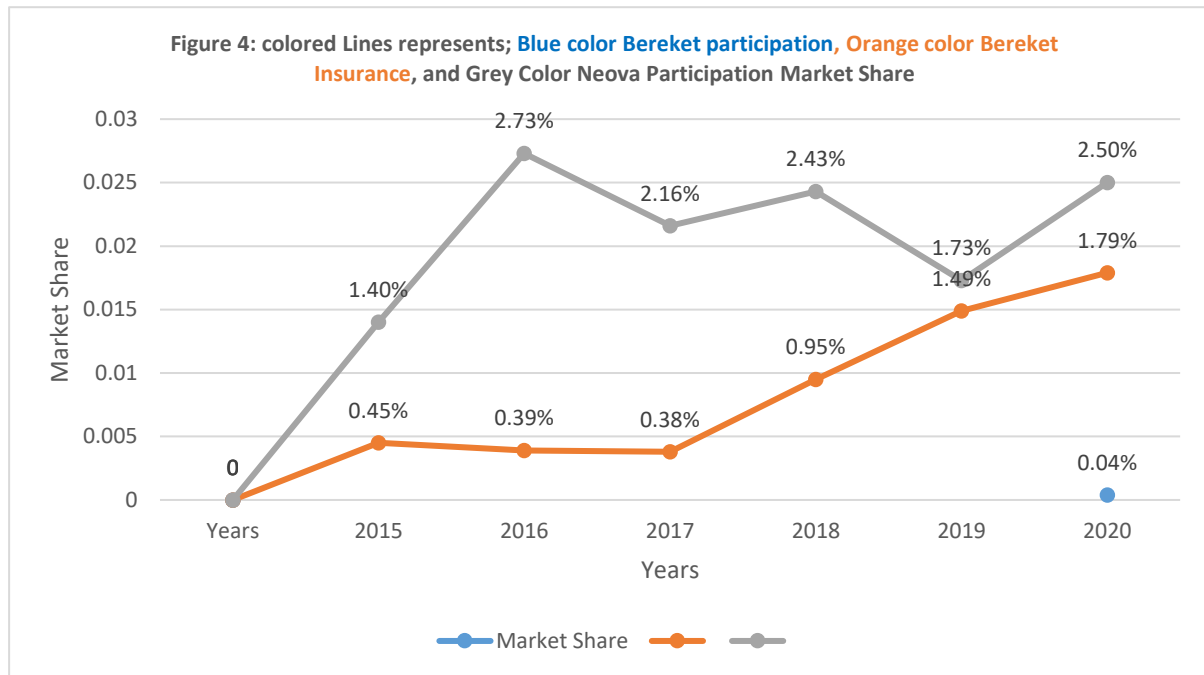
premium insurance in 2020. The total premium of the participation insurance sector (Takaful company) is near 2 billion TL.

The participation sector in insurance activities in Turkey started in 2009 and has a history of approximately 11 years. In 2019, a total of twelve companies were operating. In the Participating Insurance industry, this number reached 14 companies in total in the first quarter of 2020, and the sector continued to develop. However, as a result of the merger of public companies during the year, this number decreased. At the end of 2020, it was realized as 12 companies. As of the end of 2020, 7 of these companies are in non-life branches, whereas the other five operate in life/retirement branches. Besides, six of these companies are "full participation models", and they carry out all their transactions within the framework of participation insurance rules and principles. The other six companies are conventional insurance. It continues as Islamic insurance activities in the industry with the system defined by the "Islamic Insurance window method" together with its transactions. Lançınbala & Ünsal claim that participation insurance associated with the window model, which provides shari'ah-compliant services and products together with the conventional bank, is significant for the Turkey insurance sector both in the short and medium strategic program as well (Laçınbala & Ünsal, 2019).

However, on December 19, 2020, the provisions of the regulation published in the Official Journal No: 31339 has been announced that companies that want to continue after this date should terminate the window system and continue with the full-fledged participation rules and principles following as stated or described in the above regulation. If the company does not want to continue, its portfolio following the new regulation will be transferred to companies under the supervision of the Insurance and Private Pension Regulation and Supervision Agency to manage the process.

The following chart shows the cumulative or gross written premium insurance market share percentage of some participation insurance. To mention some Neova participation insurance, Bereket participation insurance, and Bereket insurance market share comparison graph illustrate as follows:

Figure 4: Cumulative Written Premium of Bereket Insurance & participation vs Neova Participation Dec 12, 2021



Source: TSB Visual Analysis Reports (English) Dec 12, 2021

2.3. The Size and Its Role of Insurance in Turkey's Economical Development

Turkey is one of the founding members of some organizations, such as the OECD (the Organization for Economic Cooperation & Development) and the OIC (the Organization of Islamic Cooperation). In contemporary times Turkey is a group of G20 member countries that make together with the largest economies over the globe.

In the past two decades, Turkey's economy has been growing rapidly, and Turkey's insurance sector is also growing fast from time to time simultaneously. Even though Turkey's economy grew and developed well, still, the volume of the insurance industry is small when compared with the rest World. According to some, studies show the Premium production of Turkey was \$12.7 million in 2013, whereas the size of the world, England, France, Germany, and the EU is \$4, 640.9, \$329.6, \$254.75, \$247.16, and \$1, 494.3 million respectively (Yıldırım & Çakar, 2015). As aforementioned in the above research, the size of the conventional is also small. The overall size of the insurance industry or companies are only about 1% of financial intermediation, according to a recent report based on BRSA (Banking Regulation and Supervision Agency in Turkey) in December 2020, when compared to other financial sectors' special commercial banking industry is 91% out of total financial markets assets (Black Sea Trade and Development Bank, 2020). The premium per capita in the world and the EU was \$652 and \$2,680 respectively in 2013, whereas this number was \$166 in Turkey in the same year. Therefore, the statistics on Premium production, as well as Premium per capita development level in Turkey, are below World and EU countries' average (Yıldırım & Çakar, 2015).

Sakalliođlu (2017) reported that Turkey's insurance industry assets are growing by 4% when compared to other financial sectors. The premium (written premium) gross reached 40.5 billion TL, whereas the non-life insurance was almost 35 Billion TL.

The share of Islamic insurance funds in Turkey, particularly in the non-life insurance market, was 2.80 per cent on December 31, 2020. Neova participation insurance and Bereket participation insurance are both companies, major operating according to interest-free and PLS-based rules and principles Takaful (Islamic insurance) industry in Turkey. Both companies' total capital is estimated to be 1.93 billion TL (Neova's capital on December 31, 2020, is equal to 1,90 billion TL, and Bereket participation insurance on March 31, 2021, is equal to 34.11 billion TL).

3. The Analysis of Takaful Industry in Turkey: Challenges and Prospects

Section three presents Takaful models utilized or operating mainly in Turkey, the implication of financial inclusion through the participation sector, challenges that participation is going through, and its prospect, as well as the ways out to enhance the participation insurance sector in Turkey in general.

3.1. Takaful Models in Turkey

In Turkey, the interest in Takaful Insurance has spread rapidly over time with various applications associated with the needs of countries and different regions as well. Islamic Insurance (participation insurance) in Turkey follows or operates within the framework of the Wakalah, Mudaraba as well as mixed (hybrid) model³. In the Mudaraba model, the company acts as an entrepreneur responsible for the operation and administration of the premiums collected. The profit from the amount of the operated pool is also shared between the company and the pool within a predetermined ratio. In the Wakalah model, the operator company receives some of the savings as a fee before starting to operate the pool. The basic principle of this model is that the company acts as the agent of the policyholder. The role of the company is to fulfil all transactions belonging to the pool for a predetermined fee. And also, Hybrid Model (Wakalah/Mudaraba), in which the company receives an attorney's fee in exchange for Takaful fund management and other technical and legal transactions related to insurance, all of the technical profit is distributed to the participants, but the investment profit is shared between the participant and the company at a predetermined rate (Malik & Ullah, 2019).

Accordingly, in Takaful firms, the Mudharaba model relies on partnership methods in Islamic business activities. The way of practising is the capital owner or Rabul Maal) provides the capital). While the other provides the skill, and it is called the Mudharib. If there is a profit, the partners divide this between them in accordance with previously agreed shares. If there is a loss, the Rab ul Maal has to bear the loss, and the Mudharib does not get anything or any share for the skills and services he/she has provided. Wakalah model is a contract of agency

³ <https://www.berekettekaful.com.tr/katilim-sigortaciligi-nedir>

or delegated authority under which the Muwakkil (principal) appoints a Wakeel (agent) to carry out a specific task on its behalf. Wakalah-Mudharaba Model is a combination of the Wakalah and Mudaraba models. In this model, the Takaful operator is compensated for the following services in the form of a Wakalah fee, which is paid upfront: firstly, collecting contributions from participants. Secondly, placing contributions into the Takaful fund. Thirdly, paying compensation from the Takaful fund if a participant suffers a defined loss. Fourthly, if the fund is exhausted, ask participants to make further contributions. And lastly, if there is a surplus in the fund, after all claims have been paid, distribute this among participants. The Takaful operator invests the Takaful fund on a mudarabah basis. Here, the Takaful fund is the Rab ul Maal, while the takaful operator is the mudarib. The profit earned on this investment is divided between both partners—the Takaful operator and the fund—in a predetermined ratio (Malik & Ullah, 2019).

3.2. Financial Inclusion and Takaful Industry in Turkey

In general, in Turkey's legal framework regards insurance, especially the Insurance Law and the participating insurance such as; Turkish Commercial Code No. 6102, Turkish Insurance Law No. 5684, Turkish Code of Obligations No. 6098, there is no specific expression defined regarding participation insurance in the relevant Laws. In this framework, there are also no restrictive provisions that contradict the principles of participation insurance as well.

Participating insurance companies operating in Turkey are subject to all secondary regulations that are subject to all companies engaged in conventional insurance. In addition, to these subjects, the secondary regulations specific to the Participation Insurance sector registered as No: 30186 regulation "Regulation on Working guidelines and Principles of Participation Insurance" were first published in the Official journals on September 20, 2017. And also numbered 2017/22 guidelines "Circular on the Implementation of Participation Insurance" underlined. On the other hand, with the development progress over the years, the demands for reconsidering the legislative infrastructure in the field of participation insurance have increased. "Regulation on Insurance and Private Pension Activities within the Framework of Participation Principles" was published in the Official journals on December 19, 2020, by SEDDK. SEDDK means insurance and private pension regulation and supervision agency, which is the short form (acronym) in the Turkish language. In this context, as of the end of 2020, a new era has entered Turkey's participation insurance sector (Insurance Association of Turkey, 2020).

In this light, to overcome the main constraint and to commence participation insurance sector with the Regulation on Insurance and Private Pension activities within the Framework of Participation Principles, which was published in the Official Journal on December 19, 2020, are presented as follows (Insurance Association of Turkey, 2020);

- General, as well as special forms of principles related to Participating Insurance have been clearly revealed and determined;

- The Advisory Committee members are defined in terms of their qualifications, duties, responsibilities, and working principles. And also, those individuals or persons and companies who participate in these fields should have been getting approval from SEDDK (insurance and private pension regulation and supervision agency);
- Companies that have been operating based on participation (Shari'ah-compliant) rules and principles through products and services, pools, funds, and accounts to be found included;
- The Participation Compliance Unit has been defined and determined in terms of its duties, responsibilities, and working principles accordingly;
- The operating periods of the insurance companies undertaken through the *window method* are determined to end their services on December 31, 2021, and the portfolio owned by them as of this date is determined within the scope of the insured's approval;
- Insurance training that is provided by SEGEM (insurance training centre) and Participation Insurance training were combined into a single training form after all.

Based on the workforce and some authorities responsible for personnel's comments and feedback collected during the study via semi-conducted interview methods via random selection, their responses, when summarized (answers they provide for the question conducted with them), the majority of them agree on the following points listed below: first, still, the awareness of many Turkish businessmen and entrepreneurs to participate and operate Islamic financing as well as Islamic insurance (Takaful) is very low. Second, the conference, the meeting, and education related to this topic are still not significant, and it is focused on more general issues, meaning that it is not focused on a particular area of participation insurance issue to solve the problem from the ground. Third, the number of experts and professional personnel is also very small. Fourth, the regulation has also come late, and it is still not enough when compared to the Middle East countries as well as Malaysia country, even though Turkey's population is estimated to be more than 99% Muslim. Fifth, Turkey is a promising and high potential market for Islamic Insurance and other Islamic financing systems at large. Lastly, in Turkey, the financial industry, the people's mindset, and the market trends are fully occupied by the conventional system, and it needs reform from the public as well as more awareness from the community as well.

3.3. Challenges of Takaful Industry in Turkey

Even though Islamic insurance is one of the promising industries in the financial field for Turkey, job opportunities, including Professional employees such as actuaries, brokers, experts, and specialists as well as administrative personnel, are a huge gap, particularly in the Islamic insurance or Takaful sectors. To secure in the field, knowledge-based and well-aware professionals take part in a great role in the development and growth of the industry. In other words, not only quantity but also quality is very important as well (Yıldırım & Çakar, 2015). In Turkey, the financial industry, as well as the people's mindset and the market trends, are fully dominated by the conventional system, and it requires further jobs both from the public and private, as well as from various non-governmental institutions in this area.

3.4. The Prospect of Takaful Industry in Turkey

The insurance sector is a dynamic sector over the globe. It is going to change from time to time rapidly emerging economy (development and growth) across the worldwide. In this context, these business sectors are high potential sectors in terms of job creation, employment, and economic empowerment in Turkey in the financial industry (Yıldırım & Çakar, 2015). The Turkish government has a great strategic vision to determine the country (Istanbul) as the centre of both the domestic market and international market in terms of financing, particularly in Islamic Finance as well. Thus, to realize such a strategic vision also requires reforms enabling an atmosphere of financial inclusion and widening research and development (R&D) in the financial sectors like financial engineering helps channel the financing through the real economy.

The Turkey economy is highly dependent on exports and foreign direct investment. The amount of foreign direct investment (FDI) amount increased from period to period, which was \$20.2 billion in 2007, and it decreased in 2008 to \$15 billion due to the financial crisis, according to a report showed (Gül & Gün, 2008). Accordingly, the amount of FDI inflows in 2020 in Turkey is about \$7.7 billion, whereas the overall total foreign direct investment inflows into Turkey between 2003-2020 were recorded as \$225 billion (FDI, 2020).

3.5 Ways and Means To Enhance Takaful Industry in Turkey

Turkey is one of the highly promising countries in line with Islamic financial sectors in the global. The way to enhance and increase Islamic financing, including Islamic banking, Islamic Insurance, Islamic capital market, and Islamic microfinance, are to create an enablement environment in terms of the legal system, economic policy, and economic development strategies in the short run and long run, rules and regulations promote public investment, and private investment meet the well-being of the society, and reform in financial sectors that encourage whole actors to involve in or towards the real economic system than fictitious activities in general.

Thus, to robust the participation insurance sector and make Turkey the hub of the Islamic financing region, the Turkish government should be working on the reform that is creating more companies to operate their goods and services rely on Shariah-compliant products. In this context, the other step that may be done is to encourage investors of private investment or public investment sectors as they are to commence their business activity in an Islamic manner and acts by giving them proper investment incentives rely on the various incentives (i.e., tax exempting for a limited time), providing interest-free credit for investors (capital contributions), professional employee salary incentives, creating a good environment for their business to motivate them as well as making aggregate awareness for the public toward a real economy based on Shariah-compliant in overall their activity by taking a necessary measurement, training, meeting, and conference, research and development (R&D) regarding the Takaful industry as well.

4. Conclusions and Recommendations

This paper focused on the development of the participation insurance sector in Turkey in the contemporary period. The result of the study illustrates that the participation insurance sector investment volume is still insignificant, and there are a lot of challenges to increasing the size of investment funds based on full Shari'ah-compliant investment in the sectors, especially using the Takaful industry. It is also a failure of the way of operating ethical as well as moral values in business activities and corporate social roles as well. The study outcome support that having a participation insurance framework, regulations, or guidelines is not enough but also needs or requires more attention and focus for further reform in the fields to attract stakeholders' attention as well.

The central point of this paper is the development of the participation insurance sector in terms of its volume as well as investment funds undertaken through participation insurance (Takaful|Islamic insurance). So, even though there is a promising potential in the sectors still, the aggregate size of investment undertaken to rely on the participation insurance sector in Turkey is statistically insignificant. It is very crucial to recommend that to take into consideration investment, and business decision-making activities in a wide range suppose of an optimistic approach and for viable impacts channelling to the real economy and in comprehensive ways. Accordingly, a great reform is crucial to facilitating the enabling and creation of a valuable asset for participation or Islamic insurance institution. And also, it helps to enhance new employees, to get the attraction of new customers to raise its gross profit growth simultaneously.

In this study, the semi-structured interview and secondary data methodology were executed to analyze the development of the Takaful industry in Turkey. Thus, the Turkish government has various or couples of strategic visions followed by making Istanbul one of the international financial hubs in the coming few years. Besides, the Islamic financing (participation) sectors in Turkey will be promising practices and actions that will attract all markets, not only domestic and local markets but also foreign (international or global) markets as well.

In conclusion, to enhance and grow and develop the Shariah-compliant investment funds via Takaful in Turkey, creating an enabling environment and making good reforms are very crucial. It is also important to improve the ethical and moral values to connect the previous window method-based operation to the new reform of full-fledge or Shari'ah-compliant operation framework easily. As well as promoting existing institutions and new firms to encourage the way they join the Takaful industry by making arrangements to provide some incentive to them through policy rely on the legal system of the country.

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