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Risk Management in Takaful Insurance Companies: The Jordan Islamic Insurance Company as a Model

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Abstract:

This research addresses risk management in Takaful insurance companies, focusing on the practical example of the Jordan Islamic Insurance Company. The study aims to highlight the mechanisms used in risk management, which is considered a vital issue to ensure business continuity and the achievement of Takaful insurance companies' objectives in accordance with Islamic Sharia law. The company manages risks by establishing a Risk Management Committee that creates suitable conditions to identify significant risks and any activities that may expose the company to risks beyond acceptable levels. Additionally, it establishes a Risk Management Department to handle various risks faced by the company, such as market risk, operational risk, credit risk, non-compliance risk, liquidity risk, foreign exchange risk, and Takaful-specific risks. The study also examines the impact of applying Takaful principles in mitigating these risks. Furthermore, it provides an analysis of the operational risk management mechanisms of the Jordan Islamic Insurance Company, emphasizing their role in enhancing efficiency and transparency while adhering to the principles of Islamic Sharia.

***Keywords**: Risk management; Takaful insurance companies; operational risks; Jordan Islamic Insurance Company.*

1. Introduction

Risk management in Takaful insurance companies is a fundamental process aimed at protecting the company's assets and minimizing potential losses through identifying, assessing, and controlling risks. This process focuses on achieving financial stability, improving operational

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performance, and ensuring legal compliance. Risk management involves identifying potential risks that could impact the company, evaluating the likelihood and impact of each risk to set priorities, and addressing those risks by implementing strategies to reduce or eliminate their effects.

Tools and techniques used in risk management include scenario analysis to study the impact of potential risks, financial models to forecast the effect of risks on financial performance, risk insurance to protect the company from specific identified risks, and internal controls to ensure compliance and minimize operational risks. Risk management faces ongoing challenges such as changes in the regulatory environment, technological advancements, and economic risks, all of which require continuous adaptation.

Individuals and institutions of all types are exposed to numerous risks that affect their persons and assets. As these risks increase in scope, insurance has emerged as a means of fostering cooperation among members of society, aimed at helping them confront and manage the risks they face in an organized and cooperative manner. Although insurance is considered one of the most important tools for risk management in society, the industry itself involves numerous risks that hinder its ability to play an effective role in developing and protecting the financial industry as a whole—regardless of the type of insurance company (Islamic or commercial).

However, Islamic insurance companies (Takaful) face a higher degree of risk compared to their commercial counterparts due to the particularities of their operations, which are governed by Sharia-compliant financial and legal frameworks. In order to remain competitive, these companies must be equipped with various tools and methods to manage the risks they encounter, as risk management represents one of the most crucial mechanisms for financial institutions in general, and for Islamic Takaful insurance companies in particular.

Risk management in Takaful insurance companies is a fundamental pillar for achieving sustainability and operational excellence. These companies face complex challenges, as they must comply with the principles of Islamic Sharia on one hand, and provide efficient and competitive financial services on the other. Takaful insurance companies differ from conventional insurance companies in that they operate on a cooperative system based on mutual participation in risk-sharing. This

makes risk management a more sensitive and precise process.

The Jordan Islamic Insurance Company stands as a pioneering model in this field, having successfully developed innovative policies and strategies for managing operational risks while ensuring Sharia compliance and institutional governance. Studying its experience helps highlight mechanisms that other Takaful insurance companies—particularly in emerging markets such as Algeria—can benefit from in addressing operational challenges and enhancing performance.

Therefore, this study aims to examine the risk management processes faced by Takaful insurance companies, how these risks are managed, and to analyze the practical experience of the Jordan Islamic Insurance Company. It also seeks to offer insights that can contribute to improving the operational performance of other Takaful insurers, in a manner consistent with the specific characteristics of each market and the objectives of Islamic Sharia.

Study problem:

The problem of this study can be formulated in the following main question:

What are the mechanisms used for risk management in Takaful insurance companies and their impact on performance and Sharia compliance?

The following sub-questions fall under this problem:

- What is meant by risk management and Takaful insurance companies?
- What are the main risks faced by Takaful insurance companies?
- What is the current state of effective risk management policies and procedures?

Study Hypotheses:

- Mechanisms for implementing a risk management strategy in Takaful insurance companies.
- Implementing effective risk management policies and procedures reduces the negative impact on the performance of the Takaful insurance company.
- The risks faced by Takaful insurance companies vary according to the diversity of their sources.

Importance of the Study:

This study derives its theoretical and practical importance from several considerations. On the theoretical level, the study draws its importance from the following aspects: its originality, being one of the first studies that focuses on the study of risk management in Takaful insurance companies, with the Islamic Insurance Company of Jordan as a model, especially since this type of company is more exposed to risks due to its cooperative Takaful nature and its commitment to the principles of Islamic Sharia, which could affect its stability and fulfillment of obligations. Its relevance to contemporary events in the

country through the state's encouragement of Islamic transactions and its stimulation by providing a legal environment that encourages work according to this type of insurance. Therefore, this study can provide the Algerian library with a set of knowledge and theoretical foundations necessary to bridge the knowledge gap between the theoretical frameworks needed to monitor the most important strategies of risk management in Takaful and re-Takaful insurance companies.

Objectives of the Study:

The study aims at a set of objectives as follows:

- Knowing the extent of Takaful insurance companies' interest in risk management.
- Providing a comprehensive picture of the risks faced by Takaful insurance companies.
- Verifying the effectiveness and efficiency of the strategy followed by Takaful insurance companies to manage operational risks.

Methodology of the Study:

To address the problem of this study, the descriptive method is used, which is based on collecting facts about the phenomenon of risks and their management in Takaful insurance companies in general, and defining and identifying risks in particular and the mechanism of hedging against them.

As for the use of the analytical method, it relied on analyzing the financial data of the Islamic Insurance Company of Jordan during the period from 2022 to 2024, and the extent to which the company sought to reduce these risks by setting policies and procedures aimed at detecting and assessing them when they occur:

- The basic concepts and methods of risks and risk management.
- The risks faced by Takaful insurance companies.
- Risk management mechanisms in Takaful insurance companies – the Islamic Insurance Company of Jordan as a model.

2. The concepts and basic methods of risks and risk management:

2.1. The concept of risk and risk management:

Linguistically (In Arabic): Taken from the triliteral root "kha-ta-ra", and it indicates exposure to something with uncertain consequences. It is said "he risked himself" if he exposed himself to danger, and "risk-taking" means venturing or taking a chance with something that may lead to undesirable outcomes (ابن منظور، صفحة 212).

Terminologically: Risk refers to the likelihood of future events occurring that may lead to losses or damages. Risk is related to the presence of a degree of uncertainty about the outcomes or effects that may occur due to a certain event.

In financial and economic contexts: Risk usually means the possibility of not achieving expected results or incurring unexpected losses.

In insurance science: The concept of risk in insurance science is defined as: the likelihood of a specific event occurring that leads to financial loss or material damage, which is subject to protection through an insurance contract.

The Concept of Risk Management: It is the process of identifying potential risks that may face individuals or institutions, assessing them, and developing strategies to deal with them with the aim of reducing their negative effects or benefiting from the opportunities associated with them.

It also means: a scientific approach or method for dealing with risks by anticipating potential incidental losses and designing and implementing procedures that would reduce the likelihood of loss occurring or the financial impact of losses that do occur to a minimum.

2.2. Steps and stages of the risk management process:

Risk management relies on five steps that nclude the following:

Risk Identification: This is carried out by the risk management team through brainstorming or analysis. In this step, all potential risks are identified and recorded in the risk management system for easy access. The negative impacts of the risks on the institution or project are also determined.

Risk Analysis: In this step, the risk management department analyzes potential threats to the institution or project to assess their severity. In addition, it reveals the connection between the risks and the causes that lead to their occurrence and are related to the institution. This process is carried out manually, and based on it, policies and procedures are determined that shape the framework of risk management.

Risk Assessment: This assessment is divided into qualitative and quantitative:

Qualitative Assessment: Used to evaluate risks that cannot be measured numerically, such as risks from weather changes. The assessment must be impartial.

Quantitative Assessment: Relied upon by institutions to measure threats that can be quantified numerically, such as money. It is the main assessment used in financial matters.

In this step or stage, the most severe and least severe risks are identified to prioritize threats that need to be managed first and urgently, with intervention from senior management. Risk prioritization is essential at this stage so that the administration can obtain a complete overview of all potential threats of varying severity.

Risk Treatment: This step involves taking the necessary actions to avoid the occurrence of risks or reduce the severity of their damage. This is done through discussions with departments, experts, and clients to reach solid ground regarding suitable and proposed solutions. This process occurs under the supervision of senior management (https://bakkah.com)

Risk Monitoring: This involves the risk management team continuously monitoring risks that cannot be completely eliminated, to detect any possible changes using the risk management system. One of the most notable examples of risks that require this process is environmental risks (https://bakkah.com, 2025).

2.3. Risk management strategies:

The method of dealing with risks is carried out according to different strategies, including the following:

Risk Avoidance: This strategy relies on avoiding decisions that increase the likelihood of risk occurring, which largely protects the institution from potential

threats. For example, refraining from investing in a particular project to avoid potential losses and damages.

Risk Reduction: This strategy is applied with the aim of mitigating the negative effects of risks on the institution or company by implementing several measures, such as applying technological solutions to reduce the negative impacts resulting from failure to meet regulatory requirements within the institution.

Risk Transfer: This involves the organization or individual resorting to another party to bear the responsibility of the risk and accept it. It is a way to direct the risk toward a more suitable party willing to bear the financial losses resulting from the presence of the risk, such as contracting with an insurance company that bears the damages caused by the risks faced by the organization or company.

Risk acceptance: this is the organizations or individual's willingness to bear the loss resulting from the occurrence of the risk at the time it happens within the limits of available funds, since the cost of reducing the risk exceeds the value of the risk itself. therefore, business owners see that risk reduction in this case is a risk in itself, and it is better to accept it to avoid bearing excessive financial costs.

2.4. Characteristics of Risk Management: Risk management is characterized by a number of the following features:

Making the Best Decision: Risk management ensures making the best and most appropriate decision through numerous analyses and treatments by reaching multiple solutions and alternatives.

Preparing for the Worst Risks: Risk management helps in dealing with various risks according to their level of severity. In case the worst risks are anticipated, it prepares well for them and improves how they are faced as needed.

Reducing the Harmful Effects of Risks: This is achieved by focusing risk management on minimizing the negative effects of potential risks to the lowest possible level for the organization.

Good Planning: Risk management is distinguished by good planning through setting an appropriate plan to address or eliminate potential risks, in addition to assigning specific roles to each individual within this management.

Risk Prediction: This is the primary function of risk management it always predicts the occurrence of risks, but it is not relied upon for dealing with damages after they occur.

2.5.The Importance of Risk Management:

- Risk management protects and evaluates the institution in a scientifically sound manner and implements various strategies that support the institution's objectives and address its risks. Its importance lies in:

- Developing methods of decision-making, planning, and prioritization through a comprehensive and organized understanding of institutional activities.

- Highlighting gaps and identifying both negative and positive opportunities available to projects in order to avoid future losses, and providing a tool to critique the strategy by giving the institution a better outlook on its future.

- Measuring the adequacy of capital and the ability to meet obligations, in order to avoid the risk of liquidity shortages.
- Assisting in decision-making.
- Developing competitive advantages and controlling risks, as they are a key factor in profitability and increasing competitiveness.
- A tool for strategy implementation: Risk management provides banks with a better view of the future. Without risk management, it is not possible to foresee potential outcomes or profitability fluctuations, and uncertainty surrounding expected gains cannot be controlled. The importance of risk management lies in the fact that without it, strategy implementation would be limited to business guidelines without considering their impact on the bank's risk-return trade-off.
- Enhancing competitive advantage: Recognizing risks is essential to determining appropriate pricing for customers. It is the only tool that allows for price differentiation between customers with varying risk levels. If the bank does not engage in proper pricing, adverse effects may occur, such as overcharging low-risk clients and undercharging high-risk ones. This discourages low-risk customers and supports high-risk ones, leading competitors to attract the low-risk segment by offering lower prices.
- Measuring capital adequacy and the ability to meet obligations: Losses result from all types of risks, and the risk of not meeting obligations is the ultimate outcome of all risks associated with available capital, which determines the maximum losses that exceed solvency limits.
- A decision-making tool: Banks that control their risks are capable of making sound decisions. Understanding risks is a fundamental element in the decision-making process.
- Contributing to pricing decisions: Knowledge of risks allows banks to price them accordingly. Without this knowledge, profit margins cannot be compared across transactions, clients, or business units. The ability to price risks and pass them on to clients allows for several measures that align available capital with risks.
- The technological revolution has led to the emergence of many new risks for institutions, as a result of the shift to electronic transactions.
- The need to develop a competitive advantage for the institution by controlling current and future costs that affect profitability.
- Risk estimation and **hedging** against them in ways that do not affect the institution's profitability, through the use of risk management tools and techniques.
- Assisting in decision-making.

3. THE RISKS FACED BY TAKAFUL INSURANCE COMPANIES AND THEIR MANAGEMENT MECHANISMS:

3.1. THE RISKS FACED BY TAKAFUL INSURANCE COMPANIES:

The main risks faced by Takaful insurance companies include strategies, risk management procedures, and mechanisms. These risks are classified into general and specific risks.

3. 1.1. General risks:

Investment Risks:

The investments of insurance companies are exposed to various risks

related to the performance, return structure, and liquidity of their investment portfolios. This type of risk is called asset risk due to its direct or indirect link to the management of the insured's assets, since insurance companies are obligated to form reserves and also to own sufficient assets to cover them.

Reinsurance Risks:

These are related to the inadequacy of the reinsurance program, which may lead to significant financial difficulties for the company. Therefore, it is necessary to study the extent of the insurer's need for protection and coverage through reinsurance, choose the appropriate type, and determine the terms of the accompanying agreement (برغوث و ضربان، 2024، صفحة 5)

These are risks associated with transferring part of the risk to another company.

Market Risks: These are risks resulting from the company's exposure to potential losses due to adverse movements in market rates and prices. They include interest rate risk, stock price risk, property price risk, exchange rate risk, and financial derivatives risk

Investment Risks: Defined as "the possibility that the actual return on an asset differs from the expected return." The investor is fully certain about the amount of money invested, but not about the amount that will be received from that investment, meaning there is a possibility of obtaining actual returns lower than expected.

Operational Risks: These are risks related to internal systems (or the individuals operating those systems) or external events. In Takaful companies, this includes risks arising from non-compliance with Sharia, shortfalls in obligations, or deficiencies in Takaful investment operations.

Credit Risks: Risks associated with the failure of the other party to meet its commitments. Credit risks in Takaful companies may arise from operational, financial, re-Takaful, or investment activities.

Liquidity Risks: These are potential losses incurred by the Takaful company due to its inability to meet its obligations or to finance asset growth at maturity without incurring unacceptable costs or losses.

Fraud Risks: Fraud is defined as any act or omission intended to achieve illegitimate or unlawful gain for the perpetrator or other parties. This can occur through means such as:

- Concealing material facts related to the insured object;
- Submitting fraudulent claims and covering incidents not included in the insurance policy, whether by the policyholder or a company employee;
- Overcompensating the injured party beyond what they deserve.

Technological Risks: High-tech projects, such as nuclear energy generation and offshore oil and gas exploration, may lead to massive claims in the insurance industry (بريش، محاجبية ، و زواوي، 2021، صفحة 9).

Exchange Rate Risks: Risks resulting from changes in foreign currency rates that affect the value of the financial institution's assets and liabilities (قيداون و قورين، 2019، صفحة 8).

natural risks: these include natural disasters such as earthquakes, volcanoes, storms, rain, floods, and cold waves. these

risks have had a significant impact on the global insurance industry, especially in areas prone to such disasters.

3.1.2. Specific Risks:

Underwriting Risks: Also called insurance risks, these are the risks that affect the underwriting process of insurance contracts or the process of paying compensations. These risks are divided into:

Pure Underwriting Risks:

These risks are related to the random fluctuations of disasters, whether in the value of their damages or their frequency, where the insurer may either have low premiums in exchange for realized risks, or the value of these risks may be greater than expected due to:

Risk of Poor Estimation:

This relates to risk estimation based on incorrect knowledge of their distribution, faulty assumptions, or a lack of experience with new insurance risks. These risks can be reduced to some extent by diversifying underwriting across multiple contracts for various types of risks.

Risk of Random Deviations:

This results from deviations in loss expectations due to random increases in the frequency or severity of disasters, known in insurance as severity. This is because some risks cause damages, incidents, or financial consequences that are multiplied or may trigger other catastrophes. To manage such risks, homogeneous and independent risks should be grouped into a single portfolio, a practice applied in most insurance companies worldwide. Then, the number of realized risks, their distribution, and the value of the maximum probable loss should be determined.

Change Risk:

This risk relates to the fluctuation of expected losses resulting from the inability to predict changes in risk factors that may affect frequency or severity.

Provision Deficiency Risk:

This is the risk where technical and actuarial provisions (in life insurance) may be insufficient to cover liabilities, resulting from flaws in allocation procedures.

Risk of Higher-Than-Expected Compensation Amounts

This refers to the possibility that the actual losses, damages, or financial consequences of damages or future claims differ from what the company expects. Therefore, the collected premiums may not be sufficient to cover the actual future claims. (جيرار, 2019, p. 4).

Risk of Deficit in the Participants' Fund When Paying Compensations:

A deficit in the contribution fund in covering compensations represents a risk of liquidity and financial solvency. The situation worsens as this leads to other types of risks, such as reputational risk, market competition, and even liquidation risks especially considering that insurance companies are responsible for these funds and for completing the coverage process.

Risks Resulting from Jurisprudential Differences Regarding Donated Insurance Premiums:

These are related to the first type of risks. Differences in the description of the nature or contractual relationship of the donation applied to insurance contributions affect the determination of fund asset ownership, as well as the responsibility for the financial solvency of these funds. This is the core of the guarantee and bearing the

consequences of loss when losses occur and compensations are paid (جداده و لزول، 2021، صفحة 6)

Risks of Decrease in the Market Value of Investment Portfolio Components:

It is known that during periods of inflation, interest rates rise, and the market value of fixed-income securities such as common stocks declines. Consequently, the return generated from them may decrease with waves of inflation, leading to a reduction in their market value.

In periods of recession, the market value of investment portfolio components also declines. The suspension of bond interest payments or even the value of the bonds themselves becomes a visible phenomenon. The decline in the return on common stocks as a result of reduced corporate profits is likely. Under such conditions, price levels in the capital market drop, and with them the market value of the investment portfolio components of insurance companies.

Risks of Higher-than-Expected Compensation Amounts:

These risks arise from increased costs of issuing insurance policies and other obligations, when the company pays compensations that exceed the allocated funds. In other words, it is the risk resulting from the company receiving a lower amount of funds compared to the risks it agrees to bear.

If the company invests its funds in efficiently marketed securities, it should expect to receive an appropriate profit. However, if it pays out a large amount in compensation compared to those funds, it cannot expect a satisfactory profit in the long term.

This increase may also occur due to a significant rise in inflation, leading to higher compensation amounts, or due to the occurrence of specific catastrophes. It may also result from errors in estimating the actual size of the risks, leading to miscalculations of compensation values (الحناوي، 2013، صفحة 472).

Legal Risks:

These risks are related to the non-enforcement of financial contracts, meaning they are connected to the bylaws, legislations, and regulatory orders that govern contract compliance and transactions. The nature of these risks can be external, such as regulatory constraints that affect certain types of activities performed by the institution.

They can also be internal, related to management and staff, such as fraud or failure to comply with regulations and laws considered part of operational risks.

Legal risk is a constant issue in financial contracting, resulting from laws and regulations. New laws and ideas may require review for proper deal structuring so that previously compliant parties remain eligible to operate again. For example, changes in legislative application can lead to lawsuits that increase losses arising from asset-liability management policies.

These risks also originate from company management activities, employees, or even agents—such as regulatory violations and other behaviors that could lead to catastrophic loss. An example would be the legal rejection by the insurer of all agreed-upon commitments, leading to full-scale litigation if policyholders have different expectations or understandings regarding

their policy performance compared to what was stated in the contracts.

Risks of Non-Compliance with Sharia: Differences in understanding compliance with Sharia rulings may arise due to varying interpretations of Islamic jurisprudence by different Sharia scholars. What may be considered permissible by one scholar or in one country may be viewed differently by another scholar or in another country. Some difficulties may arise if a Takaful company has different branches in various countries or operates across borders, especially in cases where some countries have their rulings defined and enforced by a national Sharia supervisory authority or a similar body, while in other countries, the responsibility remains with the Takaful company's own Sharia Supervisory Board.

Non-compliance risks with Sharia principles are related to the product development process of the Takaful company. The Takaful company seeks to have a competitive advantage that distinguishes it from conventional insurance companies and other Takaful operators. In its efforts to meet the demand for innovative products, a Takaful company may unintentionally introduce products that are not compliant with Sharia among its offerings.

These risks also pertain to the investment function of the Takaful company. The scarcity of available Sharia-compliant investment instruments may expose the Takaful company to selecting an investment tool whose compliance with Sharia is questionable while trying to achieve a suitable investment return from the participants' investment fund and the participants' risk fund (Islamic Financial Services Board (IFSB), 2013, p. 7)

Risks of Insurance Portfolio Growth: The growth of the insurance portfolio does not always indicate the soundness of insurance companies. This growth may be accompanied by poor risk assessment, where insurance companies accept risks that involve high compensations, which negatively affect the insurance company.

Liquidation Risks: In the event of the liquidation of an insurance company after bankruptcy, there may arise a risk of insufficient financial resources to meet policyholders' obligations. Therefore, insurance companies must maintain adequate technical reserves to deal with such situations. The risk of liquidation is related to the risk of misestimating provisions.

Risks Related to Operating Costs: When calculating the insurance premium, some expenses are added to the final premium paid by the policyholder, related to operating expenses. The risk of operating costs appears if the total premiums are insufficient to cover the insured risks, especially for long-term insurance. Therefore, this risk is associated with the risk of misestimating and technical debt.

3.2. RISK MANAGEMENT METHODS IN TAKAFUL INSURANCE COMPANIES:

3.3.1. General Risk Management Mechanisms:

Natural Risks: Natural risks in both conventional and Takaful insurance companies are managed through the following procedures and methods:

- Meeting requirements appropriate to the nature of natural risks.

- Taking special measures and establishing regulations and systems that reduce or limit losses.
- Requiring the insured to adhere to objective rules and technical conditions regarding building construction. Determining an appropriate insurance premium at the time of issuing policies.
- Complying with all procedures and instructions that may reduce losses and damages.

Product Development Risks: Mechanisms for managing product development risks include:
- Launching a promotional campaign for the new product during its initial production months.
- Aligning the offered price with the product's profitability. _Preparing a weekly report on the sales of the new product and adopting an incentive-based system.
- Conducting a training course for workers about the product and its marketing before launching it in the market.

Information Technology Risks: It risks in insurance companies are managed through:
- Conducting regular maintenance for all devices in use and continuously updating all IT systems.
- To protect the system from breaches, periodically changing passwords.
- Conducting training courses for all employees in the IT department.

Underwriting Risks: Methods for managing underwriting risks in both conventional and Takaful insurance companies include:
- Ensuring that questions are comprehensive and clear about the insurance subject, achieving maximum transparency.
- Defining the required period between submitting the insurance application and the date of issuing the policy. Conducting training courses to improve underwriting practices. Risk assessment and ensuring the existence of risk prevention measures.

Liquidity Risks: Liquidity risk management methods include: _Conducting a comparative study between the company's assets and the expected expenses and claims.
- Setting a maximum limit for the debt level the company can accept and allowing insurance premiums to be paid in installments.
- Maintaining a mix of different currencies and ratios approved by the board of directors.

Fraud Risks: Fraud risk is managed by:
- Hiring competent and experienced staff for contract preparation and claims settlement.
- Establishing specific methods for detecting and investigating fraud, strict monitoring, and maintaining a blacklist for those proven guilty of fraud, deception, or betrayal. _Cooperating with other insurance companies to prevent or reduce fraud incidents.

3.3.2. Specific Risk Management Mechanisms in Takaful Insurance Companies:

Mechanisms that Takaful insurance companies can adopt to manage their specific risks include:

Competition Risks: Close cooperation among Islamic companies to establish strong Islamic insurers committed to Shariah-compliant insurance practices.

- Strengthening financial positions by increasing capital, merging companies, and supporting insurance firms through state intervention in tax policy adjustments.

Deficit Risk in the Participants Fund:

- Shareholders provide a Qard Hasan (benevolent loan) from their own account, which is repaid from the net insurance surplus in subsequent years.

- Reinsurance, where insurance companies reinsure with another company to help meet their obligations to the insured.

Using compulsory and voluntary reserves to cover the deficit.

- A promise to donate by participants in case the fund faces a shortfall.

Lack of Islamic Reinsurance Companies:

- Takaful insurance companies establish Islamic reinsurance firms, either with pooled capital from these companies or with the contribution of Islamic banks.

- Resorting to a simplified cooperative method of Islamic reinsurance, where each Islamic insurer donates an amount to cover its risks, and management of this donation fund is entrusted to a third-party operator.

Jurisprudential Discrepancies in Insurance Premiums and Takaful Portfolio Management:

- Activating the role of the Shariah board and _implementing internal Shariah audits to prevent and quickly detect violations, finding solutions through contract amendments.

- Utilizing Shariah-compliant contract forms such as Musharakah in bearing gharar (uncertainty), which permits limited gharar under specific conditions, making major gharar tolerable.

- Applying statistical methods to reduce, measure, and predict the extent of gharar.

- Pooling risks into a collective pool and distributing the burdens among the exposed members.

Investment Risks:

- Establishing a dedicated investment department based on feasibility studies, risk diversification, and low-risk investments.

_ Developing human resources through proper selection and offering training opportunities in the insurance field.

- Biannual evaluation of the company's investment policy by specialists.

4. Risk Management Mechanisms in Takaful Insurance Companies – The Case of the Islamic Insurance Company of Jordan:

4.1. Introduction to the Islamic Insurance Company of Jordan:

The Islamic Insurance Company was established in the Hashemite Kingdom of Jordan on March 11, 1996, as the first Islamic insurance (Takaful) company in Jordan operating in accordance with the provisions of Islamic Sharia law. The company officially commenced operations on October 1, 1996, after obtaining the necessary approvals from the relevant authorities, particularly the Central Bank of Jordan.

(Islamic Insurance Company, 2024),

The company provides Takaful insurance services within a cooperative framework that adheres to the principles of transparency, mutual cooperation, and risk-sharing among participants, free from interest (riba) or any other Sharia-

prohibited elements. (Islamic Insurance Company, 2023, p. 8)

As of 2024, the company's subscribed and paid-up capital amounted to 15 million Jordanian Dinars (JOD), distributed over 15 million shares, each with a nominal value of One JOD.

(Islamic Insurance Company, 2024, p. 20) .

The company maintains an independent Sharia Supervisory Board, composed of experts in Islamic jurisprudence. This board ensures that all operations and financial transactions comply with Islamic law and issues an annual. (Islamic Insurance Company, 2023, pp. 11-10)

The Board of Directors is elected by shareholders and is responsible for outlining the company's strategic policies. The executive management, led by the General Manager, oversees daily insurance and administrative operations.

Several specialized regulatory committees support governance, including the Audit Committee, Risk Management Committee, Investment Committee, and Sharia Compliance Committee. (Islamic Insurance Company, 2023, p. 14)

The company has achieved several notable milestones, including:

• Pioneering as the first Islamic insurance company in Jordan.

• Sustained growth in gross written premiums and net profits in recent years.

• Receiving multiple awards and recognitions as one of the best Takaful companies in Jordan.

• Expanding its range of Sharia-compliant insurance products, including health, motor, property, accident, and family Takaful.

• Advancing in digital transformation, offering customers electronic services and online platforms.

• Maintaining a clean record in Sharia audits, with no significant violations reported.

(Islamic Insurance Company, 2024, pp. 9-6)

Islamic Insurance Company of Jordan

The company has encountered a diverse range of risks, which can be categorized as follows:

Underwriting Risk:

These risks were manifested in the high claims ratio, particularly in the compulsory motor insurance branch, which eroded profit margins and created challenges in managing claim costs and maintaining sound technical pricing. (Islamic Insurance Company, 2022, p. 41)

Market Risk:

The company operates in a highly competitive environment within the Jordanian insurance market. This situation led to persistent pricing pressures and the need to enhance services in order to maintain market share. (Company, Annual Report, 2022, p. 27)

Operational Risk:

The company faced operational challenges related to upgrading digital infrastructure, enhancing internal information systems, ensuring compliance with quality standards, and reducing human and administrative errors. (Islamic Insurance Company, 2022, p. 50)

Reinsurance Risk:

The company relied significantly on reinsurance agreements with external reinsurers, which exposed it to risks related to increased reinsurance costs, changes in

coverage terms, and delays in the settlement of large claims. (Islamic Insurance Company of Jordan, 2024, p. 49)

Liquidity Risk:

The company managed liquidity cautiously to ensure its ability to meet obligations toward policyholders and beneficiaries, especially in light of unexpected large claims or irregular cash inflows. (Islamic Insurance Company of Jordan, 2023, p. 56)

Sharia Compliance Risk:

Although the company fully adhered to Islamic Sharia principles, changes in Sharia or regulatory standards may pose challenges in developing new products or modifying existing insurance contracts in line with evolving requirements. (Islamic Insurance Company of Jordan, 2024, p. 23)

Macroeconomic Risk:

The company's performance was affected by fluctuations in the economic environment, particularly inflation rates, and rising costs of medical services and spare parts, which increased claims costs and impacted branch profitability. (Islamic Insurance Company, 2022, p. 12)

Investment Risk:

The company faced challenges in generating stable returns on its investments amid volatin local financial markets.

4.2. Risk Management Mechanisms in the Islamic Insurance Company of Jordan

The Islamic Insurance Company in Jordan adopted a comprehensive set of mechanisms to manage various types of risks, ensuring business continuity in compliance with Islamic Sharia, while maintaining financial and operational stability amid economic challenges and market competition.

These mechanisms included: Implementation of the Enterprise Risk

Management (ERM) Framework: The company adopted an integrated ERM framework aimed at identifying, analyzing, measuring, monitoring, and mitigating risks using a scientific methodology that spans all units of the company.

It is based on the "Three Lines of Defense" model: Executive management, responsible for implementing policies. Internal control and risk management departments, overseeing performance and compliance. Internal audit and the Sharia Supervisory Board, acting as independent evaluators. (Islamic Insurance Company of Jordan, 2022, p. 33)

Underwriting and Technical Pricing Policy Controls:

The company conducted a comprehensive review of its underwriting and pricing policies, particularly in high-risk branches such as compulsory motor insurance, to ensure alignment between pricing and risk levels, thereby achieving a balanced risk-return ratio. (Islamic Insurance Company of Jordan, 2023, p. 41)

Enhancement of Reinsurance Agreements: The company diversified its reinsurance partners by: Signing long-term agreements with highly rated international companies such as Munich Re.

Expanding coverage limits and improving contract flexibility. Systematically distributing risk to reduce financial and operational concentration.

Improved Liquidity and Investment Management: The company adopted a conservative financial policy to manage liquidity, ensuring the ability to meet short-term obligations.

Its investment portfolios were diversified in compliance with Islamic Sharia to minimize return volatility and reduce market risks. (Islamic Insurance Company of Jordan, 2023, p. 39)

Strengthening Sharia Governance and Compliance:

The Sharia Supervisory Board played an active role in reviewing all contracts, policies, and new products to ensure compliance with Islamic rulings.

This reduced Sharia non-compliance risks and enhanced community trust. (Islamic Insurance Company of Jordan, 2022, p. 20)

Digital Transformation and Operational Oversight:

The company invested in upgrading its digital infrastructure and modernizing document and insurance operations management systems, thereby enhancing operational efficiency and reducing the likelihood of errors, manipulation, or data loss. (Islamic Insurance Company of Jordan, 2022, p. 50)

Maintaining a Strong Solvency Margin:

The company's solvency margin exceeded 270% over the past three years, significantly higher than the minimum required by the Central Bank of Jordan. This provided strong financial protection against sudden shocks or market crashes. (Islamic Insurance Company of Jordan, 2024, p. 32)

Commitment to International Quality Standards: The company maintained its ISO 9001:2015 certification, reflecting the implementation of internal control systems and continuous improvement processes across departments, which contributed to institutional performance and reduced operational risk. (Islamic Insurance Company of Jordan, 2022, p. 17).

4.3. The Impact of Risk Management on the Financial Performance of the Company (2022–2024)

Table (01): Financial Indicators of the Islamic Insurance Company of Jordan (2022–2024)

Years / Indicators	2022	2023	2024
Surplus / Déficit of Policyholders	309 ,711	26,614	482,696
Unearned Premium Reserve	6,623 ,578	34,559 ,607	37,485 ,785
Outstanding Claims Reserve	8,549, 271	25,177 ,401	5,305, 537
Shareholders' Profit Before Tax	2,346, 921	23,122 ,821	2,876, 126

Total Assets	45,293 ,741	48,661 688,	52,108 ,385

Source: Islamic Insurance Company. Annual Reports (2022, 2023, 2024).

Analysis:

The company shifted from a deficit to a surplus in the policyholders' fund, indicating improved underwriting risk management

The significant increase in the Unearned Premium Reserve reflects higher premium volumes and the implementation of a conservative deferred revenue recognition policy.

Fluctuations in Outstanding Claims Provision suggest changes in claim volumes or improved actuarial accuracy and settlement processes

Shareholders' profit before tax rose sharply in 2022 and 2023, possibly due to non-recurring investment gains, and declined in 2024, reflecting normalized performance based on core insurance activities.

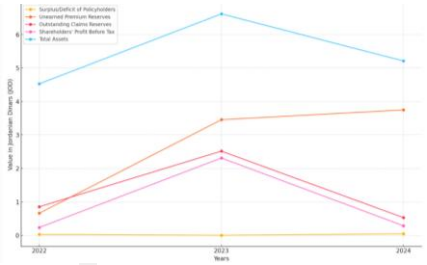
The steady increase in total assets reflects deliberate financial expansion, a sign of effective risk-based asset management and enhanced investor and policyholder confidence

Summary of Analysis:

The above indicators confirm that the Islamic Insurance Company's risk management practices have had a positive and measurable impact on its financial performance.

Through improved underwriting control, conservative financial provisions, accurate reserving practices, and asset growth strategies, the company was able to boost financial stability and reinforce stakeholder trust.

Fig.1. Development of key financial indicators for the takaful insurance company(2022-2024)



Source: Prepared by the researchers based on the annual reports of the Islamic Insurance Company – Jordan.

Analysis:

Policyholders' Surplus/Deficit:

A sharp decline in 2023 compared to 2022, followed by a notable increase in 2024. This reflects fluctuations in underwriting performance, possibly due to improved claims management or an increase in earned premiums in 2024.

Unearned Premium Reserves:

A significant increase from 2022 to 2023, followed by relative stability in 2024. This may indicate an expansion in deferred premiums, suggesting growth in the company's insurance portfolio.

Outstanding Claims Reserves:

A sharp rise in 2023, followed by a major decrease in 2024.

This suggests that a large portion of outstanding claims was settled in 2024, or that the claims handling process improved significantly.

Shareholders' Profit Before Tax:

A substantial increase in 2023, followed by a decrease in 2024—yet remaining higher than in 2022. This indicates strong investment performance or cost reduction in 2023, although the company was unable to maintain the same level in 2024.

Total Assets:

Continuous growth over the three years, indicating financial stability and an expansion of the company's asset base.

4.4. The Impact of Risk Management Mechanisms on Sharia Compliance at the Islamic Insurance Company of Jordan

Re-Takaful Mechanism:

The company relies on Sharia-compliant Islamic reinsurance (Re-Takaful) providers, avoiding transactions involving interest (riba) or excessive uncertainty (gharar).

The use of conventional reinsurance companies is minimized and only permitted after approval by the Sharia Supervisory Board.

Sharia Impact: Preserves the principle of takaful and avoids prohibited elements.

Independent Sharia Committees and Oversight: The company has an independent Sharia Supervisory Board that reviews contracts, products, and policies. Annual reports from the board outline the level of compliance and include observations or directives.

Sharia Impact: Institutional Sharia oversight ensures that operations align with Islamic jurisprudential standards.

Sharia-Compliant Investment Diversification: The company invests policyholders' and shareholders' funds exclusively in Sharia-compliant instruments (e.g., sukuk, halal equities, real estate). It avoids interest-bearing bonds or shares in non-compliant businesses.

Sharia Impact:

Protects stakeholders' funds from involvement in interest or prohibited speculation

Segregation of Policyholders' and Shareholders' Funds:

The company adheres to the takaful model by maintaining a clear separation between policyholders' accounts (Takaful fund) and shareholders' accounts.

Contracts predefine each party's responsibilities and surplus distribution methods.

Sharia Impact: Avoids gharar (ambiguity) in stakeholder relationships and ensures transparency

Conservative Underwriting and Pricing Mechanisms:

The company prices products fairly, ensuring equity among policyholders and avoiding unjust risk transfer

Risk analysis is conducted to prevent one group from bearing the burden of another.

Sharia Impact:

Promotes balance and justice among participants

Transparent Claims Management: A clear claims review and verification system is in place. Claims involving prohibited activities (e.g., alcohol-related coverage) are rejected.

Sharia Impact: Upholds the principle of halal in indemnities.

4..5. Comparative Analysis of Risk Management in Takaful Insurance – The

Jordanian, Malaysian, and Saudi Experiences Comparative:

Jordan – Islamic Insurance Company:

The Islamic Insurance Company in Jordan relies on an internal specialized risk management committee, which monitors financial and operational risks that may affect the company's stability Company, In response to the 2023 increase in health claims, the company revised its underwriting policies and repriced certain products to mitigate exposure

Monthly analytical reports are submitted to the board of directors, addressing indicators such as retention ratios and outstanding claims.

Despite these measures, the company still relies on traditional tools and lacks advanced digital risk management systems such as Enterprise Risk Management (ERM) (IFSB, 2020). (Islamic Finacial Services Board, 2020)

Malaysia – Etiqa Takaful and Ikhlas:

The Malaysian experience represents an advanced model in risk management, marked by strong integration between Shariah, regulatory, and technical frameworks. (Malaysia, Bank Negara, 2022).

Etiqa Takaful employs a fully integrated ERM system, regularly updates its risk register, and aligns it with performance indicators (Etiqa, 2022) (Etika Life Insurance Berhad , 2022)

Quarterly stress testing is conducted to evaluate the company's resilience under adverse financial conditions (BNM, 2021).

Mandatory risk management training programs are provided to staff in cooperation with Bank Negara Malaysia. (Bank Ngara Malaysia, 2020)

Following the COVID-19 pandemic, some Malaysian Takaful companies adopted multi-dimensional scenario analysis to enhance flexible risk assessment (ISRA, 2021). (International Shariah Research Academy, 2021)

Saudi Arabia – Salama Cooperative Insurance Company:

The Saudi model is gradually evolving, as Takaful companies continue to develop their risk management frameworks with support from the Saudi Central Bank. In 2022, Salama Cooperative restructured its risk management unit and linked it directly to executive leadership. (Salama Company, 2022)

The company adopted a written operational risk policy covering areas such as fraud, system failures, and pricing errors

Recently, the company began implementing a Risk Impact Probability Matrix to prioritize mitigation strategies. (Saudi Central Bank (SAMA), 2023)

There is also a growing interest in using artificial intelligence tools to detect abnormal patterns in claims data.

Conclusion: Jordan is progressing steadily toward a more integrated risk management framework, although current mechanisms remain largely traditional (Islamic Insurance Company Jordan, 2023)

Malaysia stands out as the most advanced, combining international standards with robust practical implementation (International Shariah Academy for Islamic Finance (ISRA), 2021) .

Saudi Arabia is adopting a gradual, upward trajectory toward modernization and continuous enhancement, particularly

under the guidance of the central regulatory authority.

4. Conclusion:

This study examined the risk management practices adopted by the Islamic Insurance Company of Jordan during the period 2022–2024.

It focused on the types of risks faced by the company, the mechanisms implemented to manage those risks, and the impact of these mechanisms on financial performance and compliance with Islamic Sharia principles.

The applied analysis revealed that, despite operating within a relatively limited regional market, the company has made significant progress in establishing risk management systems that combine both effectiveness and Sharia compliance. The company's consistent profitability, disciplined claims management, and asset growth are all clear indicators of the success of its adopted governance model.

Findings:

_The company faces a diverse set of risks, most notably underwriting, operational, market, liquidity, and Sharia compliance risks.

- It relies on effective risk management mechanisms, supported by an independent risk management unit.

- The company has developed risk mitigation strategies that uphold full compliance with Sharia principles.

- The company's financial statements show a positive correlation between effective risk management and improved profitability, claims control, and asset growth.

- Malaysia is considered a global leader in Takaful thanks to its advanced regulatory framework and integration of digital technologies.

- Saudi Arabia shares structural similarities with Jordan but benefits from a significantly larger market size and financial depth.

- The strength of the Jordanian company lies in maintaining rigorous Sharia compliance despite limited resources

Recommendations:

- Enhance digital risk oversight by investing in advanced digital systems for risk monitoring and anticipation, following the Malaysian model.

- Strengthen human capital through training and recruitment of specialized experts in Sharia-based and actuarial risk management. _Expand Re-Takaful partnerships by exploring global alliances with Islamic reinsurance companies to reduce exposure and improve risk-sharing.

- Collaborate with regulatory authorities to design Sharia-compliant financial instruments that hedge against market fluctuations.

- Align with international standards by gradually adopting the guidelines of the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

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