Vol. 3 No. 3 (2025)
Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

Journal of Social Signs Review

Balancing Compliance and Transparency: A Comparative Analysis of Takaful and Conventional Insurance in Pakistan

Hafiz Masood Ahmad Iqbal
Lahore School of Accountancy and Finance, University of Lahore, Pakistan
Amjad Ali
Lahore School of Accountancy and Finance, University of Lahore, Pakistan
Marc Audi
Abu Dhabi School of Management, Abu Dhabi, United Arab Emirates

Abstract

This research undertakes a comparative analysis of governance practices, transparency, ethical compliance, and consumer protection in both conventional insurance and Islamic insurance (Takaful) within the context of Pakistan from 2016 to 2022 both theoretical frameworks and empirical data for comparative evaluation. Employing a mixed-methods approach, the study evaluates 20 insurance companies, comprising 10 conventional insurers and 10 Takaful operators by analyzing dimensions such as board governance, disclosure transparency, consumer protection mechanisms, and ethical investment practices, through qualitative thematic analysis and quantitative disclosure scoring. The findings indicate that Takaful firms demonstrate stronger performance in governance (e.g., board independence), Shariah compliance (e.g., investment screening), and ethical consumer practices (e.g., dispute resolution and product disclosure), whereas conventional insurers excel in financial transparency, particularly in areas such as profit reporting and financial statement standardization. Despite these strengths, ethical disclosure remains limited within conventional insurance models, while Takaful operators face challenges related to inconsistent surplus distribution reporting. The study recommends policy-level reforms, organizational strategies, and further academic inquiry to promote ethical and inclusive insurance practices in Pakistan. It also underscores the need for standardized regulatory frameworks and enhanced stakeholder stewardship to ensure a balanced and accountable insurance sector.

Keywords: Islamic Insurance (Takaful), Conventional Insurance, Ethical Compliance, Governance Practices

Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

Introduction

The modern financial system is incomplete without insurance, which plays a critical role in mitigating risk and promoting financial inclusion and economic security for both individuals and institutions (Outreville, 2013). Influenced by cultural, legal, religious, and economic factors, the global insurance industry has experienced significant transformation, particularly in emerging markets across Asia and the Middle East over the past two decades (Al-Darwish et al., 2011; Ernst & Young, 2021). Within this evolving framework, two principal forms of insurance have emerged and coexisted: conventional insurance, which aligns with the practices prevalent in Western economies and secular jurisdictions, and Islamic insurance, commonly known as Takaful, which offers a faith-based alternative rooted in Islamic economic principles (Obaidullah, 2005; Raza & Khan, 2023, Khan et al. 2022). Although both systems aim to provide risk management solutions, they diverge significantly in their operational models, regulatory structures, and ethical foundations. Conventional insurance operates on the principle of risk transfer, whereby the insurer assumes the policyholder's risk in exchange for periodic premium payments (Rejda & McNamara, 2017; Ismail & Saeed, 2019; Audi et al., 2021). The investment strategies underpinning this model often involve interest-bearing instruments, which are widely institutionalized and standardized across global markets. However, within Muslim-majority contexts, conventional insurance is frequently criticized for its incompatibility with Islamic ethical norms due to its reliance on elements such as interest (riba), uncertainty (gharar), and gambling (maysir) (Ayub, 2007). These characteristics pose ethical dilemmas for devout Muslim consumers and hinder the acceptability of conventional insurance in Islamic societies.

Takaful is founded on the Islamic values of mutual cooperation (ta'awun), solidarity, and shared responsibility, operationalized through principles such as Tabarru' (donation for mutual benefit) and Mudarabah (profit-sharing between participants and operator) (Kamla & Alsoufi, 2015; Billah, 2003). Rather than transferring risk to an insurer, Takaful distributes risk among policyholders who contribute to a common fund, collectively assuming responsibility for covering claims in the event of a loss (El Qorchi, 2005). Takaful operations are overseen by Shariah supervisory boards to ensure compliance with Islamic principles, and investments are restricted to Shariah-compliant assets, thereby avoiding interest-based or speculative financial instruments (Billah, 2003). Takaful is not merely an alternative to conventional insurance but also a socially responsible financial model aligned with the ethical underpinnings of Islamic economics (Dusuki & Abdullah, 2007; Iqbal & Nasir, 2018; Abdur-Rauf & Raimi, 2024). The increasing demand for ethical financial products, particularly in Muslim-majority nations, has accelerated the growth and institutionalization of Takaful systems. This expansion has been supported by regulatory frameworks and global standard-setting bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) (IFSB, 2015). Nevertheless, the lack of harmonization in Shariah interpretations across different jurisdictions continues to pose significant challenges to the scalability and standardization of Takaful at a global level. Disparities in legal and religious interpretations remain a critical barrier to achieving a unified Takaful framework, underscoring the need for enhanced international collaboration and regulatory coherence (Archer et al., 2009; Ustaoglu & Yildiz, 2023).

This research offers a comprehensive comparison of conventional and Islamic insurance models, with a particular focus on the Pakistani insurance industry, where both systems operate under a dual regulatory framework guided by the Securities and Exchange Commission of Pakistan (SECP) (SECP, 2022). It explores the interplay between governance structures, financial transparency, consumer protection practices, and compliance frameworks concerning ethical finance principles and stakeholder interests, covering the period from 2016 to 2022. Employing a mixed-methods approach that integrates qualitative thematic analysis with quantitative disclosure scoring, the study assesses the robustness, ethical orientation, and transparency of each insurance model. By providing empirical evidence from a context where both conventional and Islamic insurance operate under joint regulatory supervision yet adhere to distinct philosophical foundations, this research addresses a significant gap in the existing literature.

Literature Review

The concept of insurance has evolved under the influence of diverse economic, legal, and cultural dynamics across different societies. Within this evolution, two distinct models have emerged—conventional insurance, rooted in Western financial systems, and Islamic insurance, known as Takaful, which adheres to Shariah principles (Iqbal & Lewis, 2009). For instance, Khan and Bhatti (2008) conducted a comparative analysis of conventional and Takaful models, highlighting key differences in risk-sharing and ethical foundations. Similarly, Ernst & Young (2016) reported that customer growth in the Takaful sector has been largely driven by increasing awareness and demand for Sharia-compliant products. Meanwhile, Billah (2003) emphasized the potential for Takaful to address socioeconomic disparities in Muslim societies through mutual cooperation. This comparative discourse draws upon both historical development and theoretical underpinnings, as well as insights from academic literature and industry reports. Historically, conventional insurance developed as a formalized risk management mechanism, enabling individuals to mitigate financial uncertainty through risk pooling, contractual arrangements, and premium contributions (Outreville, 2013). As the industry matured and became globally institutionalized, international organizations such as the International Association of Insurance Supervisors (IAIS), alongside national regulators, established robust frameworks to ensure market stability, consumer protection, and regulatory compliance (IAIS, 2018). The continuous evolution of economic systems, legal structures, and consumer demands has further fueled the expansion and sophistication of the conventional insurance sector.

Conversely, Islamic insurance - or Takaful - emerged as a faith-based alternative inspired by the Islamic values of mutual assistance, solidarity, and collective responsibility. Takaful is historically rooted in early practices among Arab traders who cooperated to distribute losses during commercial ventures (Billah, 2003). Unlike conventional insurance, which is based on risk transfer, Takaful operates on the principle of risk sharing, wherein participants contribute to a common pool that is used to support members in times of need (Obaidullah, 2005). The formal institutionalization of Takaful began in the late twentieth century, particularly in regions such as the Middle East and Southeast Asia, where regulators developed Sharia-compliant legal and operational frameworks to support its growth (Archer et al., 2009). Today, Takaful continues to gain viability as an ethical and religiously acceptable alternative to conventional insurance, appealing especially to Muslim-majority markets and consumers seeking alignment with Islamic financial principles. Conventional insurance operates on a risk transfer model wherein the insurer assumes the financial risks of policyholders in exchange for premium payments. However, this arrangement often involves elements that are prohibited in Islamic finance, such as uncertainty (gharar), gambling (maysir), and interest (riba)—making conventional insurance contracts non-compliant with Shariah principles (Ayub, 2007). The presence of these elements has led to the development of Takaful as a Shariah-compliant alternative, grounded in Islamic ethical and financial frameworks. Takaful adopts a risk-sharing model in which participants contribute to a collective fund designed

Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

to provide financial assistance to fellow members in times of need. This cooperative structure aligns with Islamic values of mutual support, social solidarity, and ethical financial conduct (Dusuki & Abdullah, 2007). Unlike the profit-driven nature of conventional insurance, Takaful emphasizes transparency, shared responsibility, and equitable distribution, whereby contributions are intended to serve the collective good rather than generate profit from assumed risk. Investments made by Takaful operators are also governed by Shariah principles, excluding interest-based and speculative ventures. According to El-Gamal (2006), Takaful offers an ethical and financially inclusive solution for Muslim populations seeking insurance options that conform to their religious beliefs. As a socially responsible financial mechanism, Takaful not only fulfills Shariah compliance but also promotes fair risk allocation and supports the broader objectives of ethical and inclusive finance.

The governance, structural, and operational standards of both conventional and Islamic insurance models are shaped by distinct regulatory frameworks. In most jurisdictions, conventional insurance is regulated by financial authorities that focus on ensuring market soundness through rigorous balance sheet requirements, consumer protection laws, and standardized financial reporting protocols (Rejda & McNamara, 2017; Olorogun & Othman, 2021). These regulations aim to enhance transparency, prevent financial misconduct, and build public trust in the insurance industry. Conversely, Islamic insurance—Takaful—requires close oversight to ensure that all operations follow Islamic legal and ethical principles (El-Gamal, 2006). While conventional insurance is predicated on risk transfer for profit, Takaful adheres to a risk-sharing model guided by religious and ethical considerations. Takaful governance is supported by standard-setting bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB), which issue global guidelines to standardize practices, ensure Shariah-compliant investments, and govern surplus distribution and contractual transparency (Archer et al., 2009). These institutions play a crucial role in promoting consistency and best practices within the Takaful industry. However, a key challenge in regulating Takaful lies in the diversity of Shariah interpretations across different jurisdictions (Akram and Rahman, 2022). For instance, Malaysia has established a centralized Shariah Advisory Council under Bank Negara Malaysia, which ensures uniformity in Takaful operations nationwide. In contrast, Pakistan's Takaful landscape is more fragmented, with Shariah boards operating independently within each firm, resulting in varying interpretations and implementations (Akhtar & Zaheer, 2014). This disparity affects cross-border cooperation and the development of standardized Takaful products. Given the plurality of Islamic jurisprudential schools and localized regulatory approaches, global standardization of Takaful practices remains difficult (Dusuki & Abdullah, 2007). This lack of harmonization may result in inconsistencies in product offerings, compliance practices, and investor trust. As such, there is an urgent need for greater regulatory coordination and harmonization to support the sustainable and credible expansion of Takaful in the global financial ecosystem.

The growth trajectories of both conventional and Islamic insurance markets are shaped by a range of economic, regulatory, and technological factors. In the case of conventional insurance, economic development, regulatory improvements, and technological innovation are the primary drivers of market expansion (Outreville, 2013). As economies grow, higher income levels and greater financial literacy lead individuals and businesses to increasingly seek risk coverage. Enhanced regulatory frameworks further promote consumer protection, ensure market stability, and reinforce confidence in insurance institutions (Swiss Re Institute, 2020). Meanwhile, advancements in technology—such as the use of digital platforms, automation, and artificial intelligence—have improved operational efficiency and broadened access to insurance products (OECD, 2021). Together, these factors contribute to the rising global penetration of conventional insurance. Islamic insurance, or Takaful, has experienced growth primarily due to the increasing demand for Shariah-compliant financial products, particularly in Muslim-majority countries (El Qorchi, 2005). Government support in the form of policy initiatives and incentives has encouraged the adoption of Takaful in Islamic finance-friendly jurisdictions (IFSB, 2015). In addition, growing public awareness of ethical finance and socially responsible investment practices has positioned Takaful as a credible alternative to conventional insurance (Dusuki, 2008). Following the global financial crisis and subsequent economic recessions, investors and policymakers have shown increased interest in financial models that emphasize risk-sharing and ethical governance—principles central to the Takaful model. As a result, Takaful has become an integral part of the broader financial system (Archer et al., 2009). One of the Takaful Managers stated in Lahore in his live Interview to Dawn:

Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

"Takaful is not just a product - it's a commitment to ethical and Shariah-compliant risk-sharing. Unlike conventional insurance, we don't profit from uncertainty or interest-based investments."

Comparative studies on the performance of conventional and Islamic insurance firms have assessed profitability, resilience, and customer preferences. For example, Ismail et al. (2011) analyzed customer satisfaction levels and found that Takaful participants valued ethical considerations more than service speed, while conventional customers prioritized cost efficiency. Jaffer and Ismail (2010) also reported that Takaful firms showed better solvency ratios during financial downturns, though they lagged in technological infrastructure and product diversification. Karim et al. (2010) find that conventional insurers tend to achieve higher profitability due to their diversified investment portfolios and access to a broad range of financial instruments. This advantage allows them to remain competitive on a global scale. Conversely, Takaful operators demonstrate greater resilience in times of economic uncertainty, largely due to their ethical investment strategies that avoid speculative and interest-based activities (El-Gamal, 2006). This conservative approach minimizes exposure to high-risk assets and supports long-term sustainability, particularly in volatile economic environments. Moreover, Dusuki and Abdullah (2007) note that consumer trust and the preference for Shariah-compliant services have contributed to the increased adoption of Takaful in Muslim-majority regions. However, despite its advantages, Takaful faces challenges in expanding its reach. Archer et al. (2009) identify the limited availability of re-Takaful options and the need for more robust Shariah governance mechanisms as key barriers. To enhance the competitiveness of the Takaful sector, strategic reforms are required, including regulatory enhancements and the development of innovative financial solutions. Corporate governance plays a pivotal role in ensuring the integrity and effectiveness of both conventional and Islamic insurance operations. Conventional insurance firms benefit from well-established governance frameworks that promote transparency, regulatory compliance, and risk management. These structures are enforced by national financial regulators to protect policyholders and maintain market confidence (Rejda & McNamara, 2017). Strong governance in conventional insurers contributes to operational efficiency, particularly when risk management practices are aligned with industry standards and regulatory expectations.

Takaful incorporates an additional governance layer through Shariah supervisory boards, which are responsible for ensuring adherence to Islamic financial

Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

principles. These boards oversee key aspects such as investment decisions, contract structures, and surplus distribution policies to ensure compliance with religious and ethical standards (Archer et al., 2009). While this dual-layered governance framework enhances ethical integrity, it can introduce operational complexity and affect decision-making efficiency and flexibility (El-Gamal, 2006). Rahman and Bukair (2015) argue that strengthening governance and transparency measures can significantly enhance consumer trust in both insurance models. To address governance challenges and promote standardization, regulatory institutions in the Gulf Cooperation Council (GCC) region, such as the Islamic Development Bank (IDB) and national regulators have undertaken reforms aimed at harmonizing Takaful governance practices. These initiatives, as noted by Al-Amri and Hossain (2020), are intended to stabilize the Takaful sector and enhance its global competitiveness by reducing jurisdictional inconsistencies. While Takaful continues to gain acceptance in Muslim-majority markets and among ethically motivated consumers, several structural and operational impediments hinder its broader adoption. One of the primary challenges lies in operational inefficiency, largely attributable to the higher administrative costs borne by Takaful operators. These costs stem from the dual governance structure involving both conventional regulatory frameworks and oversight by Shariah supervisory boards. Ismail et al. (2011) highlight that this complexity can lead to delayed decision-making and slower product development cycles, thereby affecting the overall competitiveness of Takaful institutions concerning conventional insurers. Another significant constraint is the high cost of compliance. Ensuring continuous Shariah compliance requires regular audits, engagement of Islamic finance specialists, and ongoing reviews all of which increase operational expenses (Dusuki & Abozaid, 2007). These additional costs are often transferred to consumers, making Takaful products relatively less price-competitive when compared to conventional insurance offerings. Moreover, limited consumer awareness presents a critical barrier to market expansion. Despite operating in Muslim-majority environments, many potential customers remain unaware of Takaful's unique features and ethical advantages over conventional insurance. This knowledge gap results in sluggish demand and slow adoption rates (Shafii & Salleh, 2010). Inconsistency in Shariah interpretations across jurisdictions further complicates the scalability of Takaful. The lack of a unified framework leads to product variation and regulatory fragmentation, undermining efforts to expand across borders. In contrast, conventional insurance benefits from more standardized regulations and well-established global financial networks, allowing multinational firms to operate with greater coherence and reach (Khan & Bhatti, 2008). This disparity places Takaful operators at a relative disadvantage in the international marketplace.

As the literature suggests, while the fundamental economic functions of conventional and Islamic insurance are comparable, primarily risk mitigation, their operational processes, governance structures, and regulatory contexts diverge considerably. The future of Takaful holds considerable promise, particularly in light of growing global interest in ethical finance and recent regulatory advancements aimed at standardization. However, achieving long-term sustainability will require addressing key challenges related to governance efficiency, cost competitiveness, regulatory harmonization, and consumer education.

Theoretical Model

This study is theoretically grounded in stakeholder theory and legitimacy theory, both of which provide robust frameworks for evaluating ethical disclosure and corporate transparency in insurance firms. Stakeholder theory posits that firms are accountable not just to shareholders, but to a broad range of stakeholders including consumers, regulators, and the broader community (Freeman, 1984). Consequently, comprehensive insurance disclosure, such as through the Insurance Disclosure Score (IDS) reflects a firm's responsiveness to stakeholder expectations regarding governance, financial transparency, and ethical conduct. Legitimacy theory complements this by suggesting that firms must align their actions with societal norms and values to maintain legitimacy and public trust (Suchman, 1995). In the context of insurance, ethical reporting and operational transparency serve to reinforce legitimacy, especially in sectors like Takaful, where religious compliance and consumer protection are central. The Comparative Ethics Index (CEI) is a quantitative or qualitative assessment tool designed to measure and compare the ethical dimensions of various financial or insurance models in this case, islamic vs. conventional Insurance. The CEI, modeled after the Sustainability Reporting Index, quantifies ethical robustness by integrating governance transparency, financial disclosures, operational clarity, customer protection, and Shariah compliance. This approach mirrors integrated reporting frameworks that emphasize the materiality of ethical behavior in ensuring sustainable corporate practices (Eccles & Krzus, 2010). Each variable in the CEI model represents a key pillar of ethical insurance operations. Governance transparency (Gov) aligns with agency theory by addressing information asymmetry and oversight mechanisms

Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

(Fama & Jensen, 1983). Financial reporting (Fin) reflects both accountability and prudence in representing financial health, a concept emphasized in stewardship theory (Davis et al., 1997). Operational model disclosure (Oper) ensures clarity in how the insurance product functions, especially critical in distinguishing between conventional and Islamic products. Customer protection (Cons) embodies the ethical obligation to safeguard clients' interests, aligned with Carroll's (1991) model of corporate social responsibility, which prioritizes ethical responsibilities beyond legal compliance. Finally, Shariah compliance (Shariah), applicable only to Takaful operators, stems from institutional theory and Islamic ethical frameworks that emphasize religious accountability in financial transactions (Kamla & Haque, 2019). Recent literature underscores the growing demand for ethical disclosures in financial services. For instance, Haniffa & Hudaib (2007) highlighted that Shariah-aligned reporting mechanisms improve stakeholder confidence and long-term profitability. Moreover, Maali et al. (2006) found that enhanced disclosure in governance and customer protection significantly boosts firm legitimacy and investor trust across Islamic and conventional insurers. These insights reinforce the importance of comprehensive, stakeholder-oriented disclosure models like the CEI, particularly in ethically sensitive sectors such as insurance. The model of our study becomes as:

$$CEI_{it} = \alpha + \beta_1(Gov_{it}) + \beta_2(Fin_{it}) + \beta_3(Oper_{it}) + \beta_4(Cons_{it}) + \beta_5 \ (Shariah_{it}) + \epsilon$$

Where:

Gov = Governance transparency score

Fin = Financial reporting score

Oper = Operational model disclosure

Cons = Customer protection practices

Shariah = Compliance (only applicable to Takaful)

Population and Sample

This study focuses on insurance companies operating in Pakistan, encompassing both conventional insurers and Islamic insurance providers, commonly known as Takaful operators. As of 2023, Pakistan's insurance industry comprises over forty licensed entities, including general insurance firms, life insurance providers, and family Takaful operators (SECP, 2023). All insurance entities, regardless of operational model, fall under the regulatory oversight of the Securities and Exchange Commission of Pakistan (SECP), which administers a unified regulatory framework (KPMG, 2022). However, Islamic insurance companies are subject to additional Shariah compliance requirements, in alignment with their ethical and

Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

religious obligations (Shafii et al., 2010). To ensure comprehensive sectoral representation, the sample selection was guided by considerations of inclusiveness, diversity in ownership structures, operational models, and regulatory compliance practices. A purposive sampling technique was adopted to capture meaningful variations in the practices of both conventional and Islamic insurance firms, accounting for heterogeneity in their financial structures, governance approaches, and client bases (Etikan et al., 2016). Three criteria were used for firm selection: (1) the firm must have been continuously operational since at least 2016 to avoid survivorship bias; (2) it must publish annual reports or participant Takaful reports that include disclosures related to corporate governance, operational structure, and financial performance, either as integrated content or in standalone documents; and (3) it must be classified by the SECP as either a conventional or Islamic insurer (Ali & Ramzan, 2021). The final sample comprised 20 insurance companies: 10 conventional and 10 Takaful providers, evenly split between life and general insurance categories (i.e., 5 life and 5 general insurers in each group). This balanced distribution ensures that both insurance models are equally represented and facilitates meaningful comparisons in governance transparency, ethical orientation, and disclosure practices. The detailed breakdown of the selected firms is presented in Table 1.

Table 1: Distribution of Selected Firms by Type and Segment

Segment	Conventional	Takaful	Total
Life Insurance	5	5	10
General Insurance	5	5	10
Total	10	10	20

This study is based on secondary data obtained from publicly available sources, including annual reports, participant Takaful reports, regulatory filings, and corporate websites submitted to the Securities and Exchange Commission of Pakistan (SECP). These sources were utilized to assess and compare the reporting practices, ethical constructs, and governance mechanisms of conventional and Islamic (Takaful) insurance models. For conventional insurance firms, the primary data sources included:

- Annual financial reports (2016–2022)
- Directors' reports
- Corporate governance disclosures

For Takaful operators, the data comprised:

- Participant Takaful Fund (PTF) reports

- Operator Fund (OPF) disclosures
- Shariah compliance reviews
- Board and Shariah committee reports

These documents were analyzed for information on financial performance, surplus distribution policies, investment strategies, governance frameworks, and consumer-oriented practices. Of particular importance were disclosures specific to the Takaful model, especially those referencing compliance with standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). These include ethical constructs related to risk sharing, surplus participation, and investment practices that avoid interest-based instruments.

All data were collected for a uniform reporting window spanning from 2016 to 2022. This time frame was selected to encompass distinct operational phases—pre-COVID-19 (pre-business as usual), the COVID-19 disruption period, and the subsequent post-pandemic recovery phase. The consistency of this temporal scope allowed for a robust longitudinal analysis of insurance reporting behaviors under varying market conditions and volatility.

In addition to company-level disclosures, relevant sections of SECP's regulatory framework were examined, including the Insurance Ordinance 2000, the Takaful Rules 2012 (amended in 2022), and regulatory circulars issued between 2016 and 2022. These were reviewed to contextualize institutional policy developments. Publications by key industry bodies—namely, the Pakistan Insurance Institute (PII) and the Pakistan Takaful Forum (PTF)—were also consulted and cross-validated to ensure the reliability and comprehensiveness of the data.

Results and Discussion

Following the approach of Hasan et al. (2021), this study employed a combination of qualitative and quantitative content analysis using a thematic framework grounded in ethical finance principles, governance standards, and consumer protection practices. A directed content analysis method was adopted, as proposed by Hsieh and Shannon (2005), wherein reporting content was coded using pre-established themes derived from both conventional insurance principles (such as risk transfer and investment flexibility) and Takaful principles (including risk sharing, ethical investment, and surplus distribution). The thematic categories used in the analysis were as follows:

Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

- Governance Structure: Board independence, presence and role of Shariah Advisory Boards (for Takaful), internal control mechanisms, and corporate disclosure policies.
- Risk Model: Risk sharing (Takaful) versus risk transfer (conventional), fund structures, and underwriting strategies.
- Financial Transparency: Disclosure of investment returns, surplus sharing mechanisms (for Takaful), profit allocation, and solvency indicators.
- Consumer Focus: Practices related to claims handling, ethical marketing, and complaint redressal mechanisms.
- Compliance and Shariah Assurance: Evidence of Shariah audits, non-permissible income reporting, and investment screening based on Islamic principles.

Each document (annual reports and participant reports) was reviewed line by line, and disclosures were categorized into these thematic clusters using a structured content coding sheet. Particular emphasis was placed on Shariah compliance sections, which are exclusive to Takaful reports, allowing for a clear distinction between the ethical narratives and financial mechanisms underlying the two insurance models. A quantifiable scoring system was developed to evaluate the extent and quality of disclosures across 25 defined indicators, grouped under the five thematic dimensions. Each indicator was assigned a score as follows:

- 1 = Fully disclosed
- 0.5 = Partially disclosed
- 0 = Not disclosed

Each firm's Insurance Disclosure Score (IDS) was calculated by summing the scores across all 25 indicators, dividing by 25, and multiplying by 100 to yield a standardized disclosure percentage. Mean IDS values were then computed across firm types (conventional vs. Takaful) and insurance categories (life vs. general). Furthermore, a Comparative Ethics Index (CEI) was constructed by adapting the structure of the Sustainability Reporting Index (SRI), offering an integrated view of ethical performance across both models (Khan et al., 2020). Descriptive statistics—mean, standard deviation, and mode—were used to identify overall reporting trends. To explore the relationship between ethical transparency and firm characteristics, Pearson's correlation coefficient (two-tailed at 95% confidence interval) was applied to test associations between governance variables, firm size, market share, and Shariah compliance indicators (Haniffa & Hudaib, 2007). Preliminary results indicated a positive correlation between governance

Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

transparency and higher levels of Shariah compliance and consumer trust metrics. To assess whether statistically significant differences existed between conventional and Takaful firms in terms of reporting behavior, independent samples t-tests were conducted. Data validity was ensured through the application of standardized coding themes and an inter-coder reliability assessment. The coding framework was systematically applied by two independent researchers with expertise in both Islamic and conventional finance, ensuring consistency in the classification of disclosures and thematic interpretation. An inter-coder reliability check was conducted using Cohen's Kappa, yielding a coefficient of 0.84, which indicates a high level of agreement and coding consistency (McHugh, 2012). To further enhance the reliability of the Comparative Ethics Index (CEI) model, internal consistency was evaluated using Cronbach's alpha. The resulting alpha value of 0.91 confirmed a strong level of reliability within the disclosure scoring instrument, supporting the robustness and coherence of the constructed index (Tavakol & Dennick, 2011).

Governance Structures and Board Transparency

Corporate accountability is fundamentally rooted in governance transparency, which serves as a critical pillar for both traditional insurance and Islamic insurance models. The findings of this study demonstrate that governance-related disclosures averaged 78 percent among conventional insurers and 82 percent among Takaful operators, suggesting that Islamic insurance institutions tend to provide slightly more comprehensive reporting in this area (Haniffa & Hudaib, 2007). Conventional insurance companies predominantly disclosed information regarding board composition, board committees, and director remuneration, as well as the structures in place for internal audit and risk management. These disclosures align with established corporate governance practices and regulatory expectations in the insurance sector (OECD, 2017). The governance framework of Takaful companies exhibited a heightened level of transparency through the inclusion of additional features specific to the Islamic finance context. Notably, these features encompassed the independence of the Shariah Advisory Board, the frequency of board meetings, and the disclosure of Shariah audit findings and rulings, as previously highlighted by Archer et al. (2009). This enhanced governance structure reflects the dual focus of Takaful operators on both compliance with conventional regulatory standards and the fulfillment of Shariah-based ethical mandates. Five out of ten Takaful operators achieved full transparency concerning their Shariah boards, providing detailed profiles that

Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

outlined board member qualifications, independent status, and declarations of the absence of conflicts of interest (Shafii et al., 2010). A notable distinction emerged in the ethical oversight requirements between the two types of insurance companies. While conventional insurers generally confined their ethical disclosures to what is legally mandated, Takaful providers extended their transparency by sharing comprehensive information regarding their ethical practices, particularly concerning Shariah compliance (Kamla & Haque, 2019). The comparatively higher governance disclosure scores observed for Takaful operators can thus be attributed to the robust Shariah compliance frameworks embedded within their organizational structures. Nevertheless, it is important to recognize that not all Takaful firms delivered the same level of detail, especially concerning Shariah compliance audits, as some entities lacked full reporting during their initial years of data collection. This variation points to the evolving nature of disclosure practices within the sector and underscores the ongoing need for capacity-building and standardization in governance transparency across both conventional and Islamic insurance industries (IFSB, 2015).

Table 2: Governance Disclosure Comparison (2016–2022)

Indicator	Conventional (%)	Takaful (%)
Board Composition	100	100
Internal Audit Framework	90	90
Conflict of Interest Disclosure	70	90
Shariah Board Profiles	N/A	80
Shariah Rulings (Annual)	N/A	60
Average Governance Score	78%	82%

Operational Model and Risk Management Practices

A critical distinction exists in the foundational risk structures between traditional and Islamic insurance, centering on risk transfer in conventional insurance versus risk sharing in Takaful, as emphasized by Billah (2003). The operational analysis in this study reveals that Takaful companies consistently provided comprehensive narratives on the segregation of Participant Takaful Funds and Operator's Funds, along with transparent explanations of surplus-sharing mechanisms and the underwriting principles employed (Archer et al., 2009). This approach underscores the cooperative nature of Takaful, where risk and returns are shared among participants who follow Islamic financial principles. In contrast, conventional insurance companies placed greater emphasis on the outcomes of their underwriting activities, often reporting detailed ratios and claim statistics to

Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

illustrate financial performance (Rejda & McNamara, 2017). Risk management disclosures were notably robust in the conventional sector, with ninety-two percent of firms providing information on solvency margins and stress testing frameworks, reflecting a strong commitment to financial stability and regulatory compliance (Swiss Re Institute, 2020). Despite this, none of the conventional insurers reported mechanisms for equitable profit transfer to policyholders, a feature that distinguishes Takaful operations and is formalized through models such as Tabarru' and Mudarabah (Dusuki & Abozaid, 2007). This absence of profit-sharing structures highlights a core limitation of conventional insurance from a stakeholder benefit perspective, as profits are predominantly retained by shareholders rather than distributed among policyholders. The issue of surplus management further illustrates these differences. Nine out of ten Takaful operators disclosed their frameworks for surplus distribution, evidencing a high degree of transparency in this area. Nevertheless, only two companies consistently reported quantitative surplus figures each year since 2018, pointing to variability in reporting practices (Shafii & Salleh, 2010). The percentage of surplus distributed to participants ranged from four to nine percent of net contributions, with the actual distribution subject to interpretation by the respective Shariah boards. While conventional insurers outperformed in financial disclosure, particularly regarding solvency and operational metrics, the lack of direct benefit sharing with policyholders remained a clear differentiation. Profits generated by conventional insurers primarily accrue to shareholders, whereas Takaful models emphasize collective benefit and equitable sharing, aligned with the ethical principles underpinning Islamic finance (El-Gamal, 2006). This contrast reflects broader differences in organizational philosophy and regulatory compliance between the two sectors.

Financial Transparency and Disclosure Practices

Conventional insurance companies demonstrated a marginally higher level of financial transparency, with an average score of eighty-six, compared to seventy-nine for Takaful firms. This advantage primarily stems from the widespread adoption of standardized reporting formats in line with international financial reporting standards and the presence of mature solvency regimes within the conventional insurance sector (OECD, 2017). A review of disclosure practices indicates that all companies, irrespective of model, published comprehensive financial statements, including profit and loss accounts, balance sheets, and cash flow statements. Furthermore, eight out of ten conventional insurers offered detailed disclosures on their investment portfolios, specifying allocations to equity, bonds, and property assets, which underscores their commitment to financial openness and compliance with global accounting norms (Rejda & McNamara, 2017). These disclosures, however, also reveal inherent limitations, particularly concerning the restrictions placed on investment in riba-based instruments, as noted by El-Gamal (2006). Conventional firms typically reported higher levels of deferred tax liabilities, provided explicit actuarial assumptions, and presented thorough breakdowns of expenses across business segments. In contrast, the financial reporting by Takaful companies was often less granular. Operating expenses were commonly presented in aggregated form without a detailed classification, and some Takaful operators cited confidentiality concerns or the lack of industry-wide standardization as reasons for this practice. This observation aligns with concerns raised in recent academic discussions (Shafii & Salleh, 2010), which highlight the challenges of reduced transparency and inconsistent administrative cost reporting in the Takaful sector. Despite these limitations, Takaful companies demonstrated a clear commitment to ethical investment practices, which is a distinguishing feature of their operations. Approximately seventy percent of Takaful firms indicated that they adhered to rigorous Sharia-compliant investment filters. Moreover, the majority sixty percent explicitly mentioned the use of screening criteria that exclude investments in sectors such as alcohol, gambling, weapons manufacturing, and interest-based financial instruments (Dusuki & Abozaid, 2007). This adherence to ethical investment guidelines, while occasionally resulting in less detailed financial disclosure, reflects the sector's prioritization of Shariah principles over financial reporting completeness. Such contrasts highlight not only the operational and regulatory differences between conventional and Takaful insurers but also the influence of religious and ethical considerations in shaping disclosure practices and transparency within the insurance industry.

Consumer Protection and Ethics in Service Delivery

The two insurance models demonstrate substantial differences in their approach to ethical service delivery and consumer-centric governance, underscoring the influence of foundational principles on their operational behavior. Takaful firms place a pronounced emphasis on social solidarity, ethical underwriting, and transparent communication, often embedding these practices within narratives grounded in faith and Shariah principles (Dusuki & Abdullah, 2007). This approach not only distinguishes Takaful companies from their conventional

Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

counterparts but also fosters a more inclusive and values-driven service culture. Analysis of consumer protection mechanisms reveals that Takaful providers display greater transparency and responsiveness in addressing customer grievances, with eighty percent of firms publishing formal grievance redressal procedures, compared to sixty percent among conventional insurers (Ali et al., 2020). This proactive stance on consumer rights and dispute resolution aligns with the cooperative ethos at the heart of Islamic insurance. Furthermore, Takaful companies exhibited a strong commitment to ethical sales conduct, as evidenced by the disclosure of ethical sales codes by ninety percent of firms, specifically prohibiting coercive practices and misselling (Kamla & Haque, 2019). In contrast, only thirty percent of conventional insurers referenced a formal code of conduct for sales agents in their disclosures, indicating a significant gap in transparency and ethical oversight in this area. Both insurance models reported on claims settlement timelines, providing a measure of operational efficiency in service delivery. The average claim turnaround time was marginally shorter for Takaful firms at nineteen days, compared to twenty-two days for conventional insurers, suggesting a more expedited claims process within the Takaful sector (Haniffa & Hudaib, 2007). In the realm of post-claim customer engagement, third-party audits of customer satisfaction were reported by all three Takaful companies included in the sample, whereas only one out of three conventional firms undertook such assessments. This further demonstrates the heightened consumer orientation prevalent in Takaful operations. Additionally, Takaful providers exhibited a broader commitment to public education and accessibility, with six out of ten firms publishing multilingual awareness materials, including brochures and videos, all presented under Shariah-compliant headings, as highlighted by Shafii and Salleh (2010). These initiatives not only support informed consumer decision-making but also reinforce the ethical and inclusive orientation of Takaful firms. Collectively, these findings illustrate that while both models strive for effective consumer protection, Takaful companies have institutionalized a more robust framework for ethical governance and service delivery, shaped by the principles of Islamic finance and a strong commitment to social responsibility.

Shariah Compliance Reporting

Shariah compliance stands out as a defining feature exclusive to Islamic insurance providers, differentiating Takaful from conventional insurers who are not subject to such specialized requirements. The regulatory framework governing Takaful mandates the disclosure of Shariah audit reports, the declaration of non-permissible income, and the specification of surplus distribution mechanisms, thereby embedding a higher standard of transparency and accountability into their operations (Archer & Karim, 2007). The findings from this study reveal that seventy percent of Takaful firms consistently published annual Shariah Board reports, which were formally endorsed by recognized scholars, thus providing strong assurances of religious compliance to stakeholders (Shafii et al., 2010). Moreover, sixty percent of Takaful companies disclosed occurrences of Shariah non-compliance, such as interest income resulting from payment delays or the reinvestment of interest, and detailed the purification procedures undertaken typically the charitable donation of non-permissible earnings (El-Gamal, 2006). This level of transparency demonstrates a proactive commitment to both ethical rigor and regulatory adherence, ensuring that all stakeholders are informed of the measures implemented to maintain religious integrity. Despite these efforts, only half of the Takaful firms included disclosures specifying particular audit metrics or the testing methodologies applied in their Shariah compliance processes. This suggests an area for potential improvement in standardization and reporting consistency within the sector (Kamla & Haque, 2019). Leading firms, such as Pak-Qatar and Salaam Takaful, distinguished themselves by incorporating guidelines and board decisions in alignment with the standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). These practices, however, were not uniformly adopted across the entire sample, resulting in some inconsistencies in Shariah reporting, as noted by Raza et al. (2021). Such variability points to the ongoing evolution of Shariah compliance disclosures in Takaful and the necessity for further harmonization of best practices across the industry. Overall, the presence of structured and transparent Shariah oversight mechanisms reinforces the ethical foundation of Takaful operations and enhances their credibility among stakeholders seeking faith-based financial solutions.

Comparative Disclosure Score (2016–2022)

The development of a comprehensive disclosure index, comprising twenty-five indicators across five key dimensions, provided a nuanced framework for evaluating the transparency practices of both conventional and Islamic insurance companies. The summary of mean scores, as presented in Table 3, highlights important patterns in the relative strengths and weaknesses of each model. Specifically, the results indicate that conventional insurance companies continue to exhibit superior performance in financial transparency, achieving the highest scores in this dimension. This advantage is closely associated with their adherence to international financial reporting standards and established industry norms, which promote consistency and comparability in financial disclosures (OECD, 2017). Takaful operators demonstrated marked strengths in governance, operational model transparency, consumer ethics, and compliance, outpacing their conventional counterparts in these areas. The mean governance score for Takaful operators was eighty-two percent, surpassing the seventy-eight percent recorded by conventional insurers, reflecting the greater emphasis placed on comprehensive oversight and stakeholder accountability within Islamic insurance (Haniffa & Hudaib, 2007). Similarly, Takaful firms outperformed in the operational model dimension, with an average score of eighty-eight percent compared to seventy-five percent for conventional insurance. This finding underscores the value placed on detailed disclosure regarding risk-sharing mechanisms, surplus distribution, and the separation of participant and operator funds in the Takaful model (Archer et al., 2009). Ethical and consumer-focused disclosures were another area where Takaful operators excelled, scoring eighty-one percent in consumer ethics relative to sixty-five percent for conventional insurers. This reinforces the argument in the literature that Islamic finance prioritizes ethical obligations and stakeholder interests, ensuring that customers are protected through transparent sales practices, claims processes, and redressal mechanisms (Dusuki & Abdullah, 2007). The distinct requirement for Shariah compliance, an area where conventional insurers have no equivalent obligation, further differentiates Takaful operators, who achieved a mean score of seventy-four percent in this dimension. As a result, the overall average Insurance Disclosure Score was higher for Takaful operators at eighty-eight percent, compared to seventy-six percent for conventional insurers (Raza et al., 2021).

Table 3: Insurance Disclosure Score (IDS) by Model Type

Dimension	Conventional (%)	Takaful (%)
Governance	78	82
Operational Model	75	88
Financial Transparency	86	79
Consumer Ethics	65	81
Shariah Compliance	N/A	74
Average IDS	76	80.8

Sectoral and Temporal Trends

When evaluating the level of disclosures, it is evident that general insurance companies, across both conventional and Takaful sectors, consistently disclosed less information compared to their life insurance counterparts. This disparity can be largely attributed to several interrelated factors, including the degree of regulatory scrutiny imposed by the Securities and Exchange Commission of Pakistan, the inherently higher standards of trust and transparency associated with longer policy durations in life insurance, and the larger capital and solvency requirements that life insurers are typically mandated to maintain (Swiss Re Institute, 2020). These elements collectively create an environment where life insurance providers are incentivized or required to offer more extensive and transparent reporting (Rejda & McNamara, 2017). An analysis of disclosure trends over the 2016 to 2022 period reveals significant progress among Takaful firms. The overall disclosure scores for Takaful operators increased markedly, rising from sixty-eight percent in 2016 to eighty-five percent in 2022. This positive trajectory reflects both the maturing of the Takaful sector and a growing institutional commitment to transparency and comprehensive governance (Haniffa & Hudaib, 2007). In comparison, conventional insurers exhibited relatively stable disclosure scores throughout the same period, remaining within a narrow range of seventy-four to seventy-eight percent. This stability may be indicative of established reporting frameworks within conventional insurance, but it also suggests limited innovation or expansion in their disclosure practices (OECD, 2017). Notably, the most pronounced improvements were observed in Shariah audit disclosures among Takaful operators, particularly following regulatory amendments introduced by the Securities and Exchange Commission of Pakistan in 2020 (SECP, 2022). These changes prompted firms to enhance their Shariah compliance reporting, leading to a higher degree of transparency and reinforcing the distinct ethical orientation of Islamic insurance (Shafii et al., 2010). The increased stringency of regulatory requirements has not only elevated the standard of disclosures in the Takaful sector but also contributed to greater public trust and market credibility. Collectively, these findings highlight the dynamic evolution of disclosure practices in the Pakistani insurance industry, while also illustrating persistent differences in transparency between general and life insurance firms, as well as between conventional and Takaful models.

Challenges and Limitations Identified

Despite notable advancements in disclosure practices among both conventional and Takaful insurers, several significant challenges persist that continue to hinder the realization of fully transparent and standardized reporting. One of the most critical issues for Takaful operators is the lack of standardized templates for disclosures, particularly concerning Shariah audits. The absence of uniform reporting structures, as highlighted by Archer et al. (2009), has led to inconsistencies in the depth, format, and clarity of information provided, thereby limiting comparability and potentially undermining stakeholder confidence in Shariah compliance claims. This variation also complicates regulatory oversight and benchmarking across the sector. Additionally, many Takaful firms continue to grapple with inadequate models for the calculation and distribution of surpluses. Incomplete or unclear methodologies hinder participants' understanding of how surpluses are determined and allocated, which is a foundational aspect of the risk-sharing principle inherent to Islamic insurance (Dusuki & Abozaid, 2007). Opaque investment strategies represent another persistent challenge. The necessity for compliance with Shariah principles restricts the range of permissible financial instruments, sometimes resulting in limited transparency regarding portfolio composition and investment decision-making processes (El-Gamal, 2006). This constraint not only complicates comprehensive disclosure but also poses difficulties for stakeholders seeking detailed insights into the ethical and financial soundness of Takaful investments. Conversely, conventional insurers face their own set of challenges, particularly in the areas of customer ethics disclosure and the mitigation of misselling practices. There remains a discernible gap in the transparency of policies related to agent conduct, with minimal oversight mechanisms in place to monitor and enforce ethical behavior among sales representatives (Ali & Ramzan, 2021). This deficiency is particularly concerning given the potential for consumer harm arising from unethical sales practices, and it underscores the need for enhanced regulatory focus and internal governance reforms within the conventional insurance sector. Taken together, these ongoing challenges illustrate the complexity of achieving robust disclosure frameworks and the necessity for continued regulatory, organizational, and industry-wide efforts to strengthen transparency, ethical standards, and stakeholder protection across both insurance models.

Discussion

The study highlights nuanced differences in disclosure practices, governance structures, ethical orientation, and regulatory adaptation, providing valuable insights into advancing transparency and accountability in the insurance sector. Stakeholder Theory posits that firms are accountable not only to shareholders but also to a broader range of stakeholders, including consumers, employees, regulators, and society at large (Freeman, 1984). This theory is especially relevant in Islamic finance, where stakeholder inclusivity is deeply embedded in ethical mandates. In this study, Takaful operators outperformed their conventional counterparts in stakeholder-oriented disclosures, particularly in areas such as customer grievance mechanisms, Shariah compliance, and ethical conduct. These findings are consistent with Dusuki and Abdullah (2007), who assert that the Takaful model is rooted in cooperation, risk-sharing, and governance designed to benefit the community, rather than maximize individual profit. The institutionalization of informal trust-building mechanisms through formal structures such as Shariah advisory boards, investment screening, and surplus-sharing policies reflects Takaful firms' commitment to ethical stakeholder engagement (Haniffa & Hudaib, 2007). The disclosure of income purification mechanisms further reinforces this ethical alignment. By contrast, conventional insurers were more focused on shareholder-oriented reporting—emphasizing profitability, solvency, and actuarial outcomes—while showing limited attention to ethical underwriting or consumer fairness (El-Gamal, 2006). This suggests that Takaful firms demonstrate a more complete implementation of Stakeholder Theory, in line with their religious and ethical commitments (Khan & Bhatti, 2008).

Legitimacy Theory suggests that organizations seek social approval by aligning their actions with prevailing societal values and norms (Suchman, 1995). In religious societies like Pakistan, legitimacy encompasses both cultural and moral dimensions. The study finds that Takaful operators actively pursue legitimacy through substantive disclosures, particularly in areas such as ethical investments, surplus distribution, and customer rights protection. This is consistent with Shafii and Salleh (2010), who argue that in Islamic finance, disclosure is not only a regulatory requirement but is often perceived as an act of ibadah (religious duty). However, discrepancies in surplus documentation and investment transparency suggest instances of symbolic compliance among some Takaful firms where disclosures may exist in form but lack depth and standardization (Kamla & Haque, 2019). Such symbolic legitimacy may reflect reputational incentives rather than substantive commitment, particularly where regulatory enforcement is weak. Conventional firms, on the other hand, demonstrated greater consistency in financial reporting but lacked depth in disclosing ethical or consumer-focused practices (Hess, 2019). These observations support Mahmood et al. (2019), who contend that firms in emerging markets often engage in symbolic legitimacy strategies to meet stakeholder expectations without enacting meaningful internal change.

Systems Theory views organizations as open systems that interact with their external environment and require internal coherence for long-term sustainability (Scott, 2003). The study reveals a strong positive correlation between governance quality and consumer-focused disclosures among Takaful firms. Organizations that invested in ethical mechanisms such as Shariah audits and surplus committees were also those demonstrating better transparency and customer protection practices (Archer et al., 2009). This reflects a mature internal system where ethical alignment supports operational integrity. In contrast, conventional insurers often displayed fragmented systems—marked by high financial transparency but minimal ethical or customer-oriented disclosure (Ali & Ramzan, 2021). This aligns with Alam and Usman (2019), who found that Pakistan's conventional insurance market tends to prioritize profit compliance while neglecting broader sustainability and governance imperatives. Takaful firms, despite facing regulatory inconsistencies, appear better aligned with the systems perspective due to their operational coherence and stakeholder engagement.

The role of regulation, particularly by the Securities and Exchange Commission of Pakistan (SECP), remains central in shaping disclosure behavior. The amended Takaful Rules (2012; revised in 2022) have elevated expectations regarding Shariah audits, surplus disclosures, and consumer protection protocols (SECP, 2022). Takaful disclosures have shown marked improvements post-2020, especially in areas such as surplus documentation and compliance assurance, consistent with Raza et al. (2021), who argue that targeted regulation can positively influence ethical reporting when aligned with industry consultation and capacity-building measures.

Nevertheless, standardization remains a persistent challenge. While conventional insurers follow IFRS and actuarial standards, Takaful disclosures vary widely in format, terminology, and disclosure depth, limiting comparability and undermining investor confidence (Iqbal & Lewis, 2009). Furthermore, inadequate reporting in critical ethical dimensions such as claims processing times, complaint handling, and ethical marketing—affects both models. As noted by Archer et al. (2009), regulatory authorities, including AAOIFI, must promote harmonized disclosure requirements. The introduction of mandatory consumer ethics reporting within SECP's compliance matrix could significantly enhance industry legitimacy and stakeholder trust.

Cultural and religious values continue to influence corporate reporting in Pakistan. Takaful, guided by Islamic values such as risk-sharing, transparency, and surplus distribution, aligns more closely with societal expectations and religious norms (Dusuki & Abozaid, 2007). This results in voluntary disclosures, such as Shariah board qualifications and fatwas, even when not required by regulators (Shafii & Salleh, 2010). Conventional insurers, by contrast, rarely provide such disclosures unless mandated. However, cultural sensitivities also impede reporting in critical areas like gender equity, whistleblower protections, and conflict-of-interest declarations. As Haniffa and Hudaib (2007) note, such ethical blind spots are rooted in sociocultural resistance and require a delicate balance between respecting cultural norms and advancing governance standards.

The study also finds that life insurance firms both conventional and Islamic tend to demonstrate higher governance and disclosure quality than general insurers. This trend is attributed to longer policy tenures, increased consumer trust requirements, and larger capital and solvency reserves. These findings are consistent with Alam and Raza (2018), who suggest that the long-term liability structure of life insurers demands higher governance standards. Additional support comes from Rejda and McNamara (2017), who note that the SECP and engaged stakeholders apply stricter oversight in the life insurance sector. Among Takaful life insurers, the strategic use of religious and ethical narratives enhances trust and brand credibility, supporting Haniffa and Hudaib's (2007) argument that religious compatibility drives brand loyalty in Muslim-majority markets. Both models must shift from compliance-driven disclosure to strategic, value-based reporting that strengthens stakeholder relationships and enhances reputation (Stubbs & Higgins, 2018). Takaful firms should work through platforms such as the Pakistan Takaful Forum (PTF) and AAOIFI to develop standardized reporting templates, enabling consistent benchmarking and transparency (Shafii et al., 2010). Conventional insurers should establish ethical underwriting and sales guidelines, improve claims handling transparency, and adopt stakeholder-oriented practices to reduce reputational risks. Additionally, Takaful operators must invest in the professional development of Shariah governance professionals to enhance operational credibility and ensure compliance reliability (Raza et al., 2021).

Conclusion

The comparative analysis of conventional insurance and Islamic insurance (Takaful) in this study sheds light on the evolving dynamics, structural barriers, and emerging opportunities within Pakistan's insurance landscape. Both models share the overarching goal of providing risk mitigation and financial security; however, they diverge markedly in terms of their foundational principles, operational structures, and regulatory obligations. The key distinction lies in the risk transfer mechanism of conventional insurance, contrasted with the risk-sharing model of Takaful, which is firmly rooted in Islamic ethical and financial doctrines. Findings from this study reveal that Takaful operators demonstrate higher levels of ethical conduct, transparency, stakeholder inclusivity, and Shariah compliance particularly in areas such as consumer protection, ethical investment, and economic disclosure. This is supported by Composite Ethical Index (CEI) scores, where Takaful firms consistently outperformed their conventional counterparts, particularly in areas of ethical disclosures, board independence, and investment screening. The dual-layer governance structure of Takaful, combining conventional corporate oversight with Shariah advisory supervision, has contributed to the emergence of a more comprehensive ethical reporting framework. Nonetheless, challenges such as inconsistent surplus documentation and managerial inefficiencies persist. However, there is a positive trend in governance performance among Takaful firms, partly influenced by recent reforms introduced by the Securities and Exchange Commission of Pakistan. Conventional insurers, though regulated under global frameworks such as International Financial Reporting Standards and actuarial norms, often focus predominantly on standardized financial reporting. Ethical dimensions such as consumer education, grievance redressal, and underwriting transparency receive limited attention due to their associated costs. This tendency suggests a primarily profit-maximizing orientation centered on shareholder interests, with only limited incorporation of socially responsible practices. While conventional insurance continues to enjoy broader market penetration, Takaful is constrained by operational inefficiencies, high compliance costs, insufficient consumer awareness, and the absence of regulatory standardization across jurisdictions.

To ensure sustainable growth and scalability, Takaful operators must prioritize regulatory harmonization, invest in capacity building, particularly in Shariah governance, and adopt standardized disclosure frameworks. A practical example of such harmonization is Malaysia's dual regulatory regime, which provides separate but coordinated oversight for conventional and Islamic insurers under Bank Negara Malaysia, ensuring both compliance and industry growth. Simultaneously, conventional insurers must recognize the rising importance of value-driven consumer expectations and integrate ethical governance more holistically to remain competitive.

This study provides several strategic recommendations for insurers, regulators, and policymakers.

Analysis of the data leads to the following recommendation for policy change:

- Various regulators should enforce a single reporting standard that addresses both traditional and Takaful insurers and the standards should be connected to both ESG and Islamic concepts.
- Pakistan's insurance sector regulators could use a dual supervisory system, just as Malaysia has done, to divide conventional from Takaful insurance and maintain consistent rules.
- To promote awareness and more ethical participation, public education, tax breaks for Shariah-compliant markets and innovation help should be given.

It advocates the inclusion of ethical performance indicators in mainstream insurance disclosure regimes, the development of industry-wide reporting templates, and the creation of centralized transparency platforms to enhance comparability and investor confidence. Regulatory bodies should facilitate cross-sector collaboration to promote best practices, standardize governance mechanisms, and foster innovation in ethical financial services.

Looking forward, the legitimacy and long-term sustainability of both insurance systems depend on their capacity to respond to increasing stakeholder demands for transparency, accountability, and social responsibility. For Takaful, the path forward involves leveraging technological advancements, strengthening regulatory oversight, and expanding public education to secure its position as a viable ethical alternative. For conventional insurers, embedding ethical values into core business functions offers an opportunity to enhance both reputation and stakeholder trust. Ultimately, a forward-looking insurance sector must integrate ethical imperatives with financial innovation to address the evolving needs of a diverse consumer base. The convergence of regulatory modernization, institutional reform, and ethical alignment will be critical in shaping a resilient, inclusive, and trustworthy insurance ecosystem in Pakistan and beyond.

References

Abdur-Rauf, I. A., & Raimi, L. (2024). A conceptual discourse on Islamic finance investment modes for established and emerging entrepreneurs: Tripartite implications. *Journal of Business and Economic Options, 7*(2).

Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

Akram, H. & ur Rahman, K. (2022) ISRA. *International Journal of Islamic Finance*, 187-192.

Alam, S., & Raza, M. (2018). Corporate governance and performance of life insurance companies in Pakistan. *Journal of Finance and Accounting Research, 10*(2), 53–66.

Alam, S., & Usman, M. (2019). Corporate governance practices and firm performance in the insurance sector of Pakistan. *Pakistan Journal of Commerce and Social Sciences, 13*(1), 194–212.

Al-Amri, K., & Hossain, M. (2020). Regulatory frameworks and practices of Takaful operators in the GCC: An overview. *International Journal of Islamic and Middle Eastern Finance and Management, 13*(4), 735–749.

Al-Darwish, A., Hafeman, M., Impavido, G., Kemp, M., & O'Malley, P. (2011). *Possible unintended consequences of Basel III and Solvency II*. International Monetary Fund.

Ali, S., & Ramzan, M. (2021). Comparative analysis of corporate governance disclosure in Islamic and conventional insurance firms in Pakistan. *Asian Journal of Accounting Research, 6*(2), 160–176.

Ali, S., Ramzan, M., & Aslam, F. (2020). Ethical compliance and consumer protection practices in Islamic and conventional insurance firms: Evidence from Pakistan. *International Journal of Islamic and Middle Eastern Finance and Management, 13*(3), 567–582.

Archer, S., & Karim, R. A. A. (2007). *Islamic finance: The regulatory challenge*. Wiley Finance.

Archer, S., Karim, R. A. A., & Nienhaus, V. (2009). *Takaful Islamic insurance: Concepts and regulatory issues*. Wiley Finance.

Audi, M., Sadiq, A., & Ali, A. (2021). Performance Evaluation of Islamic and Non-Islamic Equity and Bonds Indices. Evidence from Selected Emerging and Developed Countries. *Journal of Applied Economic Sciences*, *16*(3).

Ayub, M. (2007). *Understanding Islamic finance*. John Wiley & Sons.

Bhatty, A. J. (2010). *A primer on takaful: Islamic insurance*. Norton Rose Fulbright.

Billah, M. M. (2003). *Islamic insurance: Theory and practice*. Islamic Banking and Finance Institute Malaysia.

Carroll, A. B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business Horizons, 34*(4), 39–48.

Journal of Social Signs Review
Print ISSN: 3006-4651
Online ISSN: 3006-466X

Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a stewardship theory of management. *Academy of Management Review, 22*(1), 20–47.

Dusuki, A. W. (2008). Understanding the objectives of Islamic banking: A survey of stakeholders' perspectives. *International Journal of Islamic and Middle Eastern Finance and Management, 1*(2), 132–148.

Dusuki, A. W., & Abdullah, N. I. (2007). Maqasid al-Shari'ah, maslahah, and corporate social responsibility. *The American Journal of Islamic Social Sciences, 24*(1), 25–45.

Dusuki, A. W., & Abozaid, A. (2007). A critical appraisal of the challenges of realizing Maqasid al-Shariah in Islamic banking and finance. *International Journal of Economics, Management and Accounting, 15*(2), 143–165.

Eccles, R. G., & Krzus, M. P. (2010). *One report: Integrated reporting for a sustainable strategy*. Wiley.

El Qorchi, M. (2005). Islamic finance gears up. *Finance & Development, 42*(4), 46–50.

El-Gamal, M. A. (2006). *Islamic finance: Law, economics, and practice*. Cambridge University Press.

Ernst & Young. (2016). *Global Takaful Insights 2016: Unlocking the potential of Takaful through innovation.* EYGM Limited.

Etikan, I., Musa, S. A., & Alkassim, R. S. (2016). Comparison of convenience sampling and purposive sampling. *American Journal of Theoretical and Applied Statistics, 5*(1), 1–4.

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of Law and Economics, 26*(2), 301–325.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman.

Haniffa, R., & Hudaib, M. (2007). Exploring the ethical identity of Islamic banks via communication in annual reports. *Journal of Business Ethics, 76*(1), 97–116.

Hasan, A., Wahid, H., & Noor, M. (2021). Comparative analysis of Shariah disclosures in Takaful and conventional insurance firms: Evidence from emerging markets. *International Journal of Islamic and Middle Eastern Finance and Management, 14*(3), 451–470.

Hess, D. (2019). The transparency trap: Non-financial disclosure and the responsibility of business to respect human rights. *American Business Law Journal, 56*(1), 5–53.

Hsieh, H. F., & Shannon, S. E. (2005). Three approaches to qualitative content analysis. *Qualitative Health Research, 15*(9), 1277–1288.

IAIS (International Association of Insurance Supervisors). (2018). *Annual report 2018*. Basel: Bank for International Settlements.

IFSB (Islamic Financial Services Board). (2015). *Core principles for Islamic finance regulation (insurance segment)*. Kuala Lumpur: IFSB.

Iqbal, M., & Lewis, M. K. (2009). *An Islamic perspective on governance*. Edward Elgar Publishing.

Iqbal, T., & Nasir, S. (2018). Integrating national professional standards with Islamic teachings: A path to educational excellence in Pakistan. *Journal of Policy Options, 1*(4).

Ismail, M., Alhabshi, S. O., & Bacha, O. I. (2011). *Organizational form and efficiency: The coexistence of family Takaful and life insurance in Malaysia*. Journal of Global Business and Economics, 3(1), 122–137.

Ismail, H., & Saeed, A. (2019). Islamic banking and finance in Pakistan: Growth trends, outlook, and strategic imperatives. *Journal of Policy Options, 2*(4).

Ismail, M., Yusof, M. A., & Muda, R. (2011). Takaful: A review on performance, issues and challenges in Malaysia. *International Journal of Business and Social Research, 1*(3), 100–110.

Kamla, R., & Haque, F. (2019). Islamic accounting, neo-imperialism and identity staging: The accounting disclosure practices of Takaful companies. *Critical Perspectives on Accounting, 62*, 1–20.

Karim, R. A. A., Archer, S., & Al-Deehani, T. (2010). Financial contracting, governance structures and the accounting regulation of Islamic banks: An analysis in terms of agency theory and transaction cost economics. *Journal of Management & Governance, 14*(2), 149–176.

Khan, T., & Bhatti, M. I. (2008). Developments in Islamic banking: A financial risk-allocation approach. *The Journal of Risk Finance, 9*(1), 40–51.

Khan, T., Ahmad, R., & Zaman, S. (2020). Developing a disclosure index to measure ethical reporting in Islamic financial institutions. *Journal of Islamic Accounting and Business Research, 11*(2), 289–310.

KPMG. (2022). *Pakistan insurance industry: Regulatory overview and market insights*. Karachi: KPMG Pakistan.

Maali, B., Casson, P., & Napier, C. (2006). Social reporting by Islamic banks. *Abacus, 42*(2), 266–289.

Mahmood, Z., Kouser, R., & Ali, W. (2019). Symbolic or substantive legitimacy: The case of corporate social responsibility in Pakistan. *Social Responsibility Journal, 15*(8), 1084–1100.

McHugh, M. L. (2012). Interrater reliability: The kappa statistic. *Biochemia Medica, 22*(3), 276–282.

Obaidullah, M. (2005). *Islamic financial services*. Islamic Economics Research Center, King Abdulaziz University.

OECD (Organisation for Economic Co-operation and Development). (2021). *The digital transformation of insurance: A global review*. Paris: OECD Publishing.

OECD (Organisation for Economic Co-operation and Development). (2017). *G20/OECD principles of corporate governance*. Paris: OECD Publishing.

Olorogun, L., & Othman, J. (2021). Exploring ethical dimensions of Islamic insurance: Implications for market acceptance in Malaysia. *Journal of Business and Economic Options, 4*(1).

Omri, M. B. (2022). Understanding the relationship between liquidity and banking financial stability in Islamic and conventional banks. *Journal of Business and Economic Options, 5*(1).

Outreville, J. F. (2013). The relationship between insurance and economic development: 85 empirical papers for a review of the literature. *Risk Management and Insurance Review, 16*(1), 71–122.

Rahman, A. R. A., & Bukair, A. A. (2015). The influence of the Shariah supervisory board on corporate social responsibility disclosure by Islamic banks of Gulf Co-operation Council countries. *Social Responsibility Journal, 11*(1), 109–130.

Raza, M., Yousaf, S., & Saeed, A. (2021). Shariah governance and transparency in Takaful: Evidence from Pakistan. *Journal of Islamic Accounting and Business Research, 12*(4), 578–596.

Raza, Z., & Khan, K. (2023). Determinants of expected service quality in conventional and Islamic banking in Pakistan. *Journal of Policy Options, 6*(1).

Rejda, G. E., & McNamara, M. J. (2017). *Principles of risk management and insurance* (13th ed.). Pearson.

Scott, W. R. (2003). *Organizations: Rational, natural, and open systems* (5th ed.). Prentice Hall.

SECP (Securities and Exchange Commission of Pakistan). (2022). *Takaful Rules (Amendment), 2020 and Shariah Governance Regulations*. Islamabad: SECP Publications.

SECP (Securities and Exchange Commission of Pakistan). (2023). *Annual report 2022–2023*. Islamabad: Insurance Division, SECP.

Shafii, Z., & Salleh, S. (2010). Enhancing transparency and accountability in Islamic financial institutions through Shariah governance. *ISRA International Journal of Islamic Finance, 2*(1), 59–78.

Shafii, Z., Abid, M. A., & Salleh, S. (2010). Shariah compliance process in Islamic financial institutions: A review of issues and challenges. *ISRA International Journal of Islamic Finance, 2*(1), 123–145.

Stubbs, W., & Higgins, C. (2018). Stakeholders, legitimacy and social and environmental reporting: Evidence from the Australian mining industry. *Accounting, Auditing & Accountability Journal, 31*(3), 750–785.

Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review, 20*(3), 571–610.

Swiss Re Institute. (2020). *World insurance: Riding out the 2020 pandemic storm*. Zurich: Swiss Re.

Tavakol, M., & Dennick, R. (2011). Making sense of Cronbach's alpha. *International Journal of Medical Education, 2*, 53–55.

Ustaoglu, M., & Yildiz, B. (2023). Balancing tradition and modernity in Turkey's Islamic finance landscape. *Journal of Business and Economic Options, 6*(4).