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GREEN TAKAFUL AS A SUSTAINABLE FINANCIAL INSTRUMENT IN MALAYSIA'S ISLAMIC CAPITAL MARKET

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ABSTRACT

The growing convergence between Islamic finance and Environmental, Social and Governance (ESG) principles has opened a critical avenue for Takaful in the Islamic mutual risk-sharing system to formalise as a sustainable instrument within Malaysia's Islamic Capital Market (ICM). Despite Malaysia's pre-eminent position in global Islamic finance, green Takaful remains nascent in both scholarship and market practice, particularly relative to the well-established green Sukuk market. Employing qualitative document analysis guided by explicit inclusion and exclusion criteria, this paper examines the philosophical alignment between Maqasid al-Shariah and ESG principles, the current landscape of green Takaful products in Malaysia, and the regulatory enablers, structural challenges, and prospects for green Takaful as a formal ICM instrument. Findings confirm

that Maqasid al-Shariah and ESG are deeply coherent, that Malaysia's regulatory ecosystem in anchored by BNM's VBIT Framework (2021) and the updated CRMSA Policy Document (2025), which provides a strong institutional foundation, and that green Takaful and green Sukuk are functionally complementary: the latter finances green assets while the former protects them. International benchmarking against the UAE, Saudi Arabia, Indonesia, and Sri Lanka confirms Malaysia's comparative leadership, though a dedicated green Takaful ICM framework remains absent. Four targeted policy recommendations are proposed.

Keywords: Green Takaful; ESG; Maqasid al-Shariah; BNM; Islamic Capital Market

INTRODUCTION

The global sustainable finance movement has fundamentally reshaped expectations of financial institutions in demanding that economic activity be assessed not only on financial returns but also on environmental impact, social responsibility, and quality of governance. In the Islamic finance ecosystem, this shift presents both a challenge and an opportunity, which Islamic financial institutions must demonstrate that their Shariah-compliance credentials extend beyond the avoidance of *riba* (interest) and *gharar* (excessive uncertainty) to actively contribute to the broader sustainable development agenda.

Malaysia stands at the forefront of this challenge and opportunity. As the world's top Sukuk issuer in 2023 and the country ranked first in the Islamic Finance Development Indicator for eleven consecutive years (AMRO Asia, 2024), Malaysia's Islamic finance ecosystem has demonstrated an unparalleled capacity for product innovation and regulatory sophistication. The Islamic Capital Market (ICM) in Malaysia now encompasses a diverse range of Shariah-compliant instruments, including green and sustainable sukuk, Islamic REITs, and ESG-screened equities that generated RM27.61 billion in Sustainable and Responsible Investment (SRI) Sukuk issuances in 2023 alone (Capital Markets Malaysia, 2025).

Yet within this thriving ecosystem, Takaful, Malaysia's Shariah-compliant insurance system based on mutual cooperation (*ta'awun*) and shared responsibility, has remained largely on the periphery of the sustainable ICM landscape. The Takaful segment is projected to grow at a 14.78% compound annual growth rate (CAGR) through 2030, making it the fastest-growing segment of global Islamic finance (Mordor Intelligence, 2026). This growth

trajectory, combined with the inherent alignment between Takaful's risk-sharing principles and ESG objectives, positions green Takaful as a potentially transformative sustainable finance instrument awaiting formalisation.

The regulatory momentum supporting this transition is substantial. BNM issued the updated CRMSA Policy Document on 17 March 2025, explicitly requiring Takaful operators and Retakaful operators to use scenario analysis to assess exposure to both physical climate risks (floods, droughts, heatwaves) and transition risks (policy changes, carbon pricing, technological disruptions), and to integrate climate considerations into risk management, credit policies, and capital allocation frameworks (Bernard Business Consulting, 2025). This regulatory development, combined with the VBIT Framework (2021) and Malaysia's commitment to net-zero GHG emissions by 2050 under the Twelfth Malaysia Plan, creates a compelling institutional context for the emergence of green Takaful as a formal ICM instrument.

Despite this momentum, green Takaful remains underexplored in the literature and underdeveloped as a formal Islamic capital market instrument. Existing studies have primarily focused on ESG integration at the operational level of Takaful institutions (Mohd Zain et al., 2024) or on climate-risk readiness surveys of Takaful operators (Mohamad Istihar & Noordin, 2024), leaving the structuring of green Takaful as a capital market proposition relatively untouched. Therefore, this paper aims to examine the philosophical alignment between Maqasid al-Shariah and ESG principles as a theoretical foundation for green Takaful, assess current green Takaful products and sustainability practices in the Malaysian market, and analyze the regulatory enablers, structural challenges, and future prospects for green Takaful as a sustainable ICM instrument, and benchmark Malaysia’s green Takaful development against selected international jurisdictions. To address these, the paper uses qualitative document analysis of regulatory, industry, and academic sources, and it evaluates the implications for policy, product innovation, and market development.

LITERATURE REVIEW

The literature on green Takaful is still emerging, but it sits within the broader and fast-growing discourse on sustainable Islamic finance. Recent studies show that Islamic finance is increasingly expected to contribute not only to Shariah compliance, but also to environmental stewardship, social responsibility, and governance quality. In Malaysia, this shift is especially relevant because the Islamic capital market already has a strong sustainability infrastructure, making it

a natural environment for exploring green Takaful as a sustainable financial instrument (Shahrom & Kunhibava, 2023).

Maqasid al-Shariah and ESG Principles: Philosophical Convergence

Maqasid al-Shariah refers to the overarching objectives and purposes of Islamic law, which classical Islamic jurisprudence identifies as the preservation of five essential human interests in religion (*hifẓ al-din*), life (*hifẓ al-nafs*), intellect (*hifẓ al-aql*), lineage (*hifẓ al-nasl*), and wealth (*hifẓ al-mal*). These objectives serve as the ethical compass for all Islamic financial transactions, ensuring that they contribute to human welfare rather than merely generating profit (Mohd Zain et al., 2024).

Table 1: Integration Framework: Maqasid, ESG and SDGs

Maqasid al-Shariah (Objectives)	ESG Pillar	Aligned SDGs	Takaful Operational Focus
Hifz al-Din **(Protection of Religion**	Governance	SDG 16 (Peace, Justice & Strong Institutions)	Shariah-compliant investments, ethical conduct, transparency, and integrity.
Hifz al-Nafs **(Protection**	Social	SDG 1, 2, 3 (Poverty, Hunger, Health & Well-being)	Providing affordable Takaful coverage for health, protection against disasters, and social safety nets.
Hifz al-Aql **(Protection of Intellect)**	Social/ Governance	SDG 4 (Quality Education), SDG 17 (Partnerships for the goals)	Promoting financial literacy, research and development, and ethical advisory services.
Hifz al-Nasl **(Protection of Lineage/Dignity)**	Social	SDG 5 (Gender Equality), SDG 10 (Reduces Inequality)	Inclusive insurance products, protecting families, and ensuring fair treatment for all genders.

***Hifz al-Mal* (Protection of wealth)**	Environmental/ Governance	SDG 7, 8, 12, 13, 14, 15 (Climate Action, Responsible Consumption	Ethical investment (SRI/Sukuk), resource efficiency, and climate risk management.

The alignment between Maqasid al-Shariah and ESG principles has attracted growing scholarly attention. Hasan (2020) demonstrates how Islamic finance can align with global sustainability frameworks by providing a model for Shariah-compliant risk sharing, such as Takaful. According to Mondaq explain that SDG 13 (Climate Action) directly reflects the Islamic injunction against *fasad fi al-ard* (corruption of the earth). At the same time, SDG 3 (Good Health and Well-Being) resonates with Takaful's core protection mandate under *hifz al-nafs*. Mohd Zain, Muhamad, Abdullah, Sheikh Ahmad Tajuddin, and Wan Abdullah (2024) presented a landmark conceptual framework integrating ESG principles within Takaful operations guided by Maqasid al-Shariah, arguing that through safeguarding the five Maqasid objectives, Takaful operators can play a pivotal role in fostering social cohesion, empowering communities, and contributing to SDGs. Their disclosure index integrating the 17 SDGs and ESG principles with Maqasid al-Shariah provides a comprehensive framework for evaluating Takaful operators' ethical performance from both Western and Islamic perspectives.

However, a critical limitation of the framework is its predominantly conceptual nature in the proposed Maqasid-toward-ESG integration model has yet to be empirically validated within a Takaful-specific ICM context, and the operationalisation of ESG metrics through an Islamic lens remains contested in the broader literature (Mohd Zain et al., 2024). Empirically, the Maqasid-SDG Integration Theory has been validated in finding that Malaysia's VBI framework achieved 64% SDG-aligned financing versus 28% in GCC countries, demonstrating that centralised Shariah governance with community engagement significantly outperforms fragmented regulatory models. Their Maqasid-SDG Index revealed a 63% explanatory power ($R^2 = 0.63$) for ethical outcomes, confirming that Shariah-compliant mechanisms drive sustainability when supported by adaptive jurisprudence and centralised regulation (Sharif et al., 2025). Further, this alignment is confirmed through empirical evidence from Malaysia. Najid, Muhamat, and Jaafar (2024) demonstrate that Islamic finance integration with ESG sustainability efforts generates measurable improvements in both financial and non-financial performance.

A major theme in the literature is the conceptual alignment between Maqasid al-Shariah and ESG. Mohd Zain, Muhamad, Abdullah, Sheikh Ahmad Tajuddin, and Wan Abdullah (2024) argue that the five Maqasid objectives provide an ethical foundation for sustainable Takaful operations, while Najid, Muhamat, and Jaafar (2024) show that Islamic finance can generate both financial and non-financial sustainability benefits. This alignment suggests that green Takaful is not an imported sustainability concept, but one that can be rooted in Islamic ethical principles. More recent work also reinforces the view that Maqasid al-Shariah can guide sustainable investment decisions and support ESG-based screening in Islamic finance (Rafiqi et al., 2025).

Value-Based Intermediation for Takaful (VBIT)

The Value-Based Intermediation (VBI) framework, originally introduced by BNM for Islamic banking, was extended to the Takaful sector in 2021 through the dedicated VBIT Framework. The VBIT Framework seeks to align Takaful practice with the higher objectives of Maqasid al-Shariah by embedding ethical, social, and environmental considerations into Takaful operators' core business strategies and product development processes (Puad et al., 2024). It is noted that VBIT emphasises ethical principles, social responsibility, and sustainability, encouraging both profitability and societal well-being in the Takaful context (Abdul Kadir et al., 2024).

The VBIT Framework explicitly identifies green product innovation as a priority area. Takaful coverage for green technology projects, including solar energy installations, electric vehicle fleets, and renewable energy infrastructure, forms a central pillar of the VBIT Action Plan (Puad et al., 2024). Great Eastern Takaful has operationalised VBIT through a dedicated VBIT Lead, focusing on sustainable business growth and socio-economic impact, and is undertaking an industry-wide climate risk stress testing exercise in 2025 as mandated by regulators (Great Eastern Takaful, 2024).

The literature also highlights the importance of Value-Based Intermediation for Takaful (VBIT) as a regulatory and operational support mechanism. Puad, Shahar, and Rafdi (2024) explain that VBIT encourages Takaful operators to embed ethical, social, and environmental values into their core business strategies and product development. This framework is significant because it moves Takaful beyond conventional protection services and toward a model that supports sustainability-oriented outcomes. In this sense, VBIT provides a practical bridge between theory and implementation (Shahrom & Kunhibava, 2023). Syed Alwi, Abd Halim, Tengku Ahmad Mazlin, Abdul Kadir,

and Saiful Fikri (2021) show that Islamic finance in Malaysia is evolving from basic Shariah compliance to value-based outcomes. This supports green takaful by providing a framework (VBI) that prioritizes environmental protection as 'protection of progeny'.

Climate Risk and Takaful in Malaysia

The intersection of climate risk and Takaful has emerged as a critical area of inquiry for Malaysian researchers and policymakers. Mohamad Istihar and Noordin (2024) conducted a survey of Takaful operators in Malaysia, finding widespread recognition of the importance of climate risk assessment while revealing a neutral stance on the efficacy of current risk management strategies in addressing unforeseen climate-related risks. Critical impediments identified include internal data deficiencies, skills gaps, and regulatory constraints on climate risk adaptation. Respondents notably favoured direct climate-specific metrics, including flood models and rainfall intensity, for quantifying climate impacts in reflecting Malaysia's acute exposure to extreme weather events. It specifically addresses the Malaysian context by citing the Prime Minister's pledge to cut GHG emissions by 45% and the role of the local financial industry in supporting this through 10% climate finance (Muhamat et al., 2017).

The regulatory response to climate risk in Malaysian Takaful has been progressive. BNM's CRMSA Policy Document on 17 March 2025 requires Takaful operators to integrate climate considerations into risk management frameworks and to develop strategic responses ensuring resilience under different climate pathways (Bernard Business Consulting, 2025). The BNM also co-chairs the Joint Committee on Climate Change (JC3) with the Securities Commission Malaysia, a collaborative platform established in 2019 to build climate resilience across the Malaysian financial sector, whose members include Bursa Malaysia and 21 financial institutions (BNM, 2022).

Another important strand of the literature focuses on climate risk and Takaful readiness. Mohamad Istihar and Noordin (2024) find that while Takaful operators in Malaysia recognise the importance of climate risk, many still face weaknesses in data availability, technical skills, and regulatory adaptation. Their findings suggest that green Takaful cannot be developed through ethical positioning alone, and it also requires strong risk management capacity and climate-responsive governance. This is consistent with BNM's climate-related regulatory direction, which reinforces the need for scenario analysis and risk integration in the Takaful sector.

Regulatory Framework for Sustainable ICM in Malaysia

Malaysia's sustainable finance regulatory architecture provides a comprehensive foundation for green Takaful's potential ICM integration. The SC's SRI Sukuk Framework (2014) and SRI-Linked Sukuk Framework (2022) have driven cumulative sustainable Sukuk issuances of RM18.92 billion since 2014, with Malaysia accounting for approximately 24% of total ASEAN sustainable bond and Sukuk issuances (Capital Markets Malaysia, 2025). The SRI Sukuk and Bond Grant Scheme cover up to 90% of external review costs for sustainable issuances, capped at RM300,000 per issuance (DFDL, 2024). BNM's Climate Change and Principle-based Taxonomy (CCPT, 2021) further provide a guiding framework for financial institutions to classify economic activities aligned with climate change objectives and to redirect financial resources toward low-carbon initiatives (Law.asia, 2025). The SC's Capital Market Masterplan 2026–2030 and FIKRALab initiative further signal an institutional commitment to Maqasid al-Shariah-anchored ICM product innovation (Shahrom & Kunhibava, 2023).

Emerging Green Takaful Market Practice in Malaysia

Existing studies and industry reports also show that green Takaful is beginning to appear in market practice. Takaful products linked to solar coverage, environmentally responsible investment portfolios, and sustainability initiatives demonstrate that the concept is no longer entirely theoretical. For example, operator-level efforts such as ESG-integrated investment-linked takaful, sustainability statements, rooftop solar installation, and climate stress testing suggest that parts of the industry are already moving toward a greener model. However, these practices remain fragmented and are not yet consolidated into a dedicated green Takaful framework.

METHODOLOGY

This study used a systematic review approach, which involved collecting and analysing articles that pertaining to the topic of this paper. There are several journals was chosen from the International Journal of Islamic and Middle Eastern Finance and Management, the International Journal of Islamic Finance, Journal of Muamalat and Islamic Finance Research, and others have been reviewed as quantitative and qualitative reference databases. Keywords such as "ESG," "Green Takaful," "financial instrument," "Islamic capital market," and "SDG" were used to search for and reference in this study. The papers from 2022 to 2025 were accessed from Scopus, Google Scholar, Emerald Insight, and Consensus. After screening for relevance and quality, 25 documents were

retained for analysis, including 6 primary regulatory and policy documents, 4 industry sustainability reports, and 15 peer-reviewed academic articles and grey literature sources. The regulatory, industry, and academic was employed to enhance the credibility and robustness of the findings. This enabled comparison of official policy intent, market practice, and scholarly interpretation, and facilitated identification of both areas of convergence and gaps that still limit green Takaful's formal development.

FINDINGS AND DISCUSSION

The researchers' findings from the document analysis: green Takaful products currently operating in the Malaysian market; the regulatory enablers that support their development; the structural challenges that constrain their formalisation as ICM instruments; the future prospects for green Takaful as a sustainable ICM instrument; and an international benchmarking comparison across selected jurisdictions. These findings build a comprehensive account of where green Takaful stands within Malaysia's sustainable ICM ecosystem, how it complements the established green Sukuk market, and what institutional and regulatory conditions are required to complete it.

Green Takaful Products in the Malaysian Market

The document analysis identified three principal expressions of green Takaful currently operating in Malaysia. The most commercially deployed is Takaful Malaysia's product, the Takaful myHome Solar Protection also known as Takaful mySolar Protection, which provides comprehensive all-risk coverage for residential and commercial solar photovoltaic (PV) systems with coverage ranging from RM10,000 to RM10,000,000 (Takaful Malaysia, 2025). This product was launched as part of the operator's VBIT Action Plan and directly supports Malaysia's national renewable energy agenda, with a special discount offered to existing policyholders of the myHouseowners and Holders Takaful plan to incentivise solar adoption (Takaful Malaysia Annual Report, 2024).

The second expression is the integration of ESG screening criteria into Investment-Linked Takaful (ILT) fund portfolios. Takaful Malaysia adopted an ESG investment policy in 2024 that outlines the roles of fund managers in integrating ESG considerations into investment assessments, defines exclusion lists, and sets ESG exposure limits aligned with BNM's CCPT and CRMSA frameworks, as well as ASEAN Green, Social, and Sustainability Bond Standards (Takaful Malaysia Sustainability Statement, 2024). Maybank's Takaful arm similarly offers Shariah-compliant, values-based financial solutions guided by

BNM's CRMSA framework, demonstrating sector-wide adoption of ESG-integrated investment practices (Maybank Sustainability Report, 2024).

The third expression encompasses operator-level environmental stewardship that builds governance infrastructure for future green ICM instruments. Takaful Malaysia installed rooftop photovoltaic panels at Menara Takaful Malaysia in 2024, projecting 35% energy savings over 25 years, and developed its first GHG inventory, establishing 2024 as its emissions-tracking base year, in line with its commitment to Net Zero GHG emissions by 2050 (Takaful Malaysia Sustainability Statement, 2024). Great Eastern Takaful established a Sustainability Taskforce and a dedicated VBIT Lead, and is undertaking an industry-wide climate risk stress testing exercise in 2025 as mandated by regulators (Great Eastern Takaful, 2024).

Regulatory Enablers Supporting Green Takaful

The regulatory environment for green Takaful in Malaysia is among the most enabling globally. The updated CRMSA Policy Document on 17 March 2025 is particularly transformative, requiring Takaful operators to use scenario analysis to assess exposure to both physical climate risks and transition risks, and to integrate climate considerations into risk management and capital allocation frameworks (Bernard Business Consulting, 2025). This converts ESG integration from a voluntary practice into a regulatory obligation, fundamentally repositioning climate risk management as core to Takaful governance. The BNM's co-chairing of the JC3, which issued a Climate Data Catalogue in 2022 to serve as a reference on climate and environmental data for the financial sector, further supports the data infrastructure necessary for credible green Takaful product development (BNM, 2022).

The VBIT Framework's explicit inclusion of green product development as a priority area provides direct institutional backing for green Takaful innovation. Under the VBIT Action Plan, Takaful coverage for solar energy installations and electric vehicle fleets is identified as a mechanism for stimulating the shift to renewable energy, while community-focused health Takaful programmes that prioritise accessibility for excluded populations support financial inclusion objectives (Puad et al., 2024). The SC's SRI Sukuk and Bond Grant Scheme in covering up to 90% of external review costs for sustainable issuances (DFDL, 2024) represents a financial incentive model that could be adapted to support the development of green Takaful-linked ICM instruments.

Challenges in Advancing Green Takaful as an ICM Instrument

Absence of a Dedicated Green Takaful Framework

According to Abi Huraira and Mohamed Naushad (2025), regulatory support is essential to promote the development and adoption of green takaful products. Such support helps ensure that appropriate frameworks and guidelines are established to effectively govern and encourage the growth of these products. The most significant structural challenge is the absence of a dedicated framework for green Takaful as an ICM instrument, analogous to the SC's SRI Sukuk Framework. While green Sukuk benefits from well-established ICMA guidance, SC product frameworks, and grant incentive schemes, no equivalent standardised pathway exists for green Takaful-linked securities. This gap creates regulatory uncertainty for product developers and reduces investor confidence in the Shariah compliance and environmental integrity of green Takaful instruments.

Climate Risk Readiness Gaps Among Takaful Operators

Mohamad Istihar and Noordin (2024) identified critical impediments to climate risk integration among Malaysian Takaful operators, including internal data deficiencies, skills gaps in climate risk assessment, and regulatory constraints on adaptation. Despite widespread recognition of climate risk's importance, operators exhibit a neutral stance on the efficacy of existing risk management strategies, suggesting that the CRMSA mandate will require substantial capacity-building investments before green Takaful can be scaled effectively.

Consumer Awareness and Literacy

Current green Takaful offerings function as retail insurance products in the most notably the Takaful myHome Solar Protection, rather than as tradeable capital market instruments. Bridging this gap requires the development of Takaful-linked sustainable Sukuk or green ILT structures capable of attracting institutional ICM participation and enabling secondary market liquidity. The Financial Protection Forum 2024 identified limited financial and insurance literacy as a key barrier to green Takaful penetration, particularly among agricultural communities and SMEs most vulnerable to climate-related losses. Nasir, Hasan, and Osman (2023) clarify low awareness of Islamic finance products among Malaysian consumers, including Takaful. The Financial Protection Forum (2024) similarly points to limited financial literacy as a barrier to climate-risk insurance uptake among vulnerable groups and SMEs. This indicates that even when green Takaful products are available, market growth

may remain slow unless consumers understand the value and purpose of such products. The successful introduction of green takaful products relies heavily on market awareness. Takaful operators must align product design with consumer demand and preferences, which requires rigorous market research and robust public education on the benefits of eco-friendly coverage. Furthermore, Abi Huraira & Mohamed Naushad (2025) argue that strategic alliances with government bodies and environmental organizations can significantly accelerate market expansion.

Prospects for Green Takaful as a Sustainable ICM Instrument

The prospects for formalising green Takaful as a sustainable ICM instrument are compelling. Malaysia's dominance in the ASEAN SRI Sukuk market, accounting for approximately 24% of total issuances under ASEAN standards (Capital Markets Malaysia, 2025), demonstrates that the country possesses both the market infrastructure and regulatory sophistication to pioneer new categories of sustainable Islamic financial instruments. The global ESG Sukuk market grew from USD 4.8 billion in 2020 to USD 15.2 billion in 2024 (LSEG, 2025), and Shariah-compliant mechanisms including green sukuk, have been shown to reduce emissions by 2.3 million metric tons annually (Syaichoni et al., 2025). It is establishing a proven template that green Takaful-linked instruments could emulate.

A green Takaful-linked Sukuk wherein a Takaful operator issues Sukuk whose proceeds are directed toward green underwriting reserves or renewable energy Takaful product development would occupy an innovative and commercially differentiated niche at the intersection of Malaysia's two most dynamic sustainable finance growth areas. Mohd Zain Mohd Zain, Wan Abdullah, Muhamad Nasir, and Hassan (2025) have already developed a comprehensive sustainability performance index for Takaful operators has already been developed that integrates Maqasid al-Shariah with stakeholder perspectives, providing the measurement infrastructure necessary for investor due diligence on such instruments. Malaysia's net-zero 2050 commitment creates a long-term and expanding market for climate risk protection products, with green Takaful positioned as a Shariah-compliant solution that simultaneously serves commercial, social, and environmental objectives.

International Benchmarking

To contextualise Malaysia’s green Takaful development, this section benchmarks its regulatory and product landscape against four selected jurisdictions in the

UAE, Saudi Arabia, Indonesia, and Sri Lanka. These jurisdictions were selected based on the presence of an active Takaful market, documented ESG or green finance policy activity, and availability of verifiable documentary evidence. Table 2 summarises the comparative analysis.

Table 2: International Benchmarking of Green Takaful Development

Jurisdiction	Green Takaful/Takaful-ESG Development	Regulatory Body	Lesson for Malaysia
Malaysia	Most advanced globally: VBIT Framework 2021, CRMSA 2025, myHome Solar product dedicated to BNM-SC coordination via JC3	BNM & SC Malaysia	Reference model; needs a dedicated green Takaful ICM Framework
UAE	Dubai Islamic Economy Strategy includes a green finance roadmap for Takaful operators. IA is developing ESG disclosure guidelines for insurers	Insurance Authority (IA)	Product taxonomy approach- defining what qualifies as 'green' for Takaful
Saudi Arabia	Vision 2030 drives ESG integration in the financial sector. SAMA issued guidelines requiring insurers to disclose climate-related risks.	Saudi Arabia Monetary Authority (SAMA) & CMA Saudi Arabia	Top-down centralised regulatory push as a driver applies to BNM's CRMSA mandate.
Indonesia	OJK sustainable finance roadmap (2021-205) includes Takaful operators. Sharia insurance (Asuransi Syariah) is adopting ESG reporting.	Otoritas Jasa Keuangan (OJK)	A broader sustainable finance roadmap that explicitly includes takaful that applies to Malaysia's ICM Masterplan

Sri Lanka	Sri Lanka ranks 22nd in the World Risk Index, reflecting significant climate vulnerability, yet green lending comprises only 1.4% of the total banking sector portfolio.	Central Bank of Sri Lanka	A cautionary case in Sri Lanka illustrates the consequences of high climate exposure without an enabling green Takaful regulatory framework.

An international benchmarking perspective helps situate Malaysia's progress within the broader Islamic sustainable finance landscape. Indonesia is a useful regional comparison because of its large Muslim population and growing Islamic finance sector, but its Takaful and sustainable finance framework is generally less integrated and less mature than Malaysia's. This suggests that Malaysia has a stronger institutional base for formalising green Takaful, especially in terms of regulatory coordination and product innovation.

The United Arab Emirates and Saudi Arabia also offer useful benchmarks because they possess substantial Islamic finance capacity and developed capital markets, yet green Takaful development remains less clearly formalised within dedicated frameworks compared with Malaysia. Singapore provides another comparison point because of its advanced sustainable finance governance and regulatory discipline, although its Islamic finance base is much smaller and its Takaful market is limited. These comparisons indicate that Malaysia occupies a relatively advanced position in combining Islamic finance, sustainability policy, and capital market infrastructure.

Therefore, Malaysia stands out because of its more integrated ecosystem, including the VBIT Framework, the CRMSA Policy Document, and established sustainable sukuk mechanisms. This institutional environment provides a stronger basis for developing green Takaful as a formal Islamic capital market product. The benchmarking exercise reinforces the paper's argument that Malaysia is well-positioned to pioneer a dedicated green Takaful framework (Muhammad et al., 2024).

CONCLUSION

This study has explored green Takaful as a developing sustainable financial instrument within Malaysia's Islamic Capital Market in evaluating its theoretical basis, present product offerings, regulatory facilitators, challenges, future outlook, and comparative status internationally. The results indicate that Maqasid al-Shariah and ESG principles are fundamentally aligned and coherent with the five Maqasid principles corresponding directly to the three ESG pillars and the

SDGs. This philosophical alignment grants green Takaful a strong Islamic legitimacy, setting it apart from traditional green insurance offerings. Malaysia's regulatory landscape, supported by the VBIT framework 2021, the revised CRMSA Policy document March 2025, the SC's SRI sukuk framework, and the JC3 collaborative platform, provides an unparalleled global environment for green Takaful innovation. Developments in concrete products, such as Takaful Malaysia's myHome Solar Protection plan and industry-wide ESG-integrated ILT portfolios, show that green takaful is moving from regulatory goals to actual market presence. International benchmarking shows that Malaysia is at the forefront among ASEAN Takaful jurisdictions, but it can gain further insights from the UAE's taxonomy strategy and Indonesia's comprehensive sustainable finance framework. Nonetheless, the establishment of green Takaful as a capital market instrument is hindered by the lack of a specialized ICM framework, gaps in climate risk capabilities among operators, minimal ICM integration, and inadequate consumer knowledge.

POLICY IMPLICATIONS

Four policy suggestions are offered to tackle these issues. The SC and BNM must collaborate to create a Green Takaful ICM Framework similar to the SRI Sukuk Framework that offers Shariah endorsement routes, eligibility criteria for products based on the UAE's taxonomy disclosure obligations for green Takaful-related securities. Secondly, the SRI Sukuk and Bond Grant Scheme must be expanded to include external verification expenses for green Takaful-linked sustainable securities, encouraging product innovation at the ICM level. Third, the Malaysian Takaful Association (MTA), along with Capital Markets Malaysia, ought to initiate a nationwide green Takaful literacy initiative aimed at SME's, farming sectors, and retail investors to broaden the demand base. Fourth, Malaysia ought to leverage Indonesia's OJK model by explicitly including Takaful operators in the sustainable finance objectives of the Capital Market Masterplan 2026-2030 in guaranteeing accountability across the sector.

Future studies should utilize primary data gathering from Takaful operators and ICM professionals via interviews or surveys to evaluate the practicality of particular green Takaful-related Sukuk frameworks and their possible market reception. Large sample comparative studies across ASEAN jurisdictions would enhance the evidence base for the policy recommendations presented in this paper.

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