

# IFAAS

ISLAMIC FINANCE ADVISORY & ASSURANCE SERVICES

## POLICY FRAMEWORK FOR TAKAFUL AND RETAKAFUL PROVIDERS



12<sup>TH</sup> ITS – LONDON – 10<sup>TH</sup> JULY 2018

### NAJIB AL ASWAD

**DIRECTOR – IFAAS GROUP**

CERTIFIED SHARIAH ADVISER AND AUDITOR (CSAA) – AAOIFI  
CERTIFIED ISLAMIC PROFESSIONAL ACCOUNTANT (CIPA) – AAOIFI

**©2018 IFAAS. All rights reserved**



IFAAS UK



IFAAS France



IFAAS Bahrain



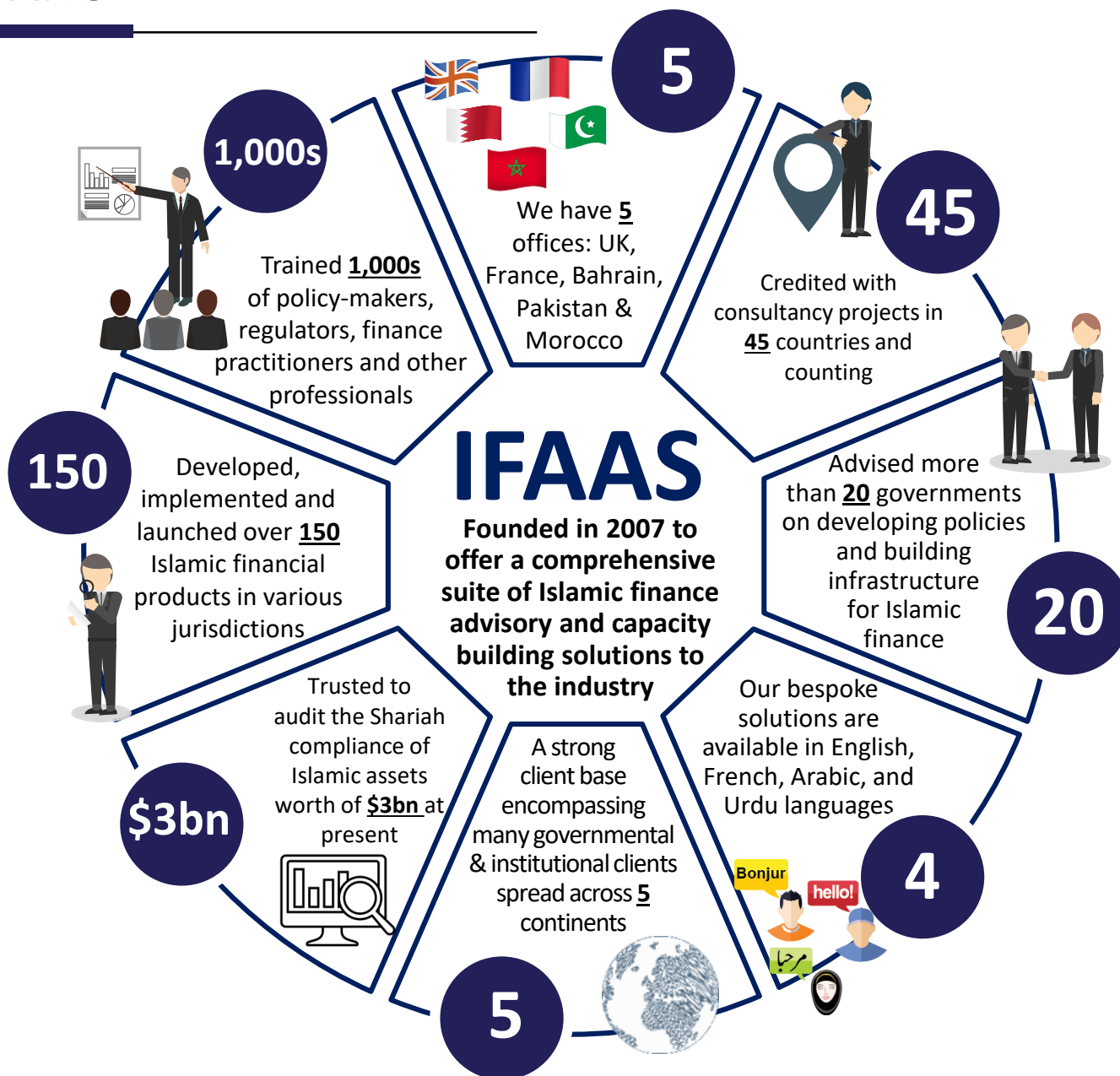
IFAAS Pakistan



IFAAS Morocco

[WWW.IFAAS.COM](http://WWW.IFAAS.COM)

# AT A GLANCE



# CONTENTS

---

- Policy framework
- Key components
- Essentials of the ecosystem
- The role of policy in the success or failure of the industry
- Process for developing the “RIGHT” policy framework

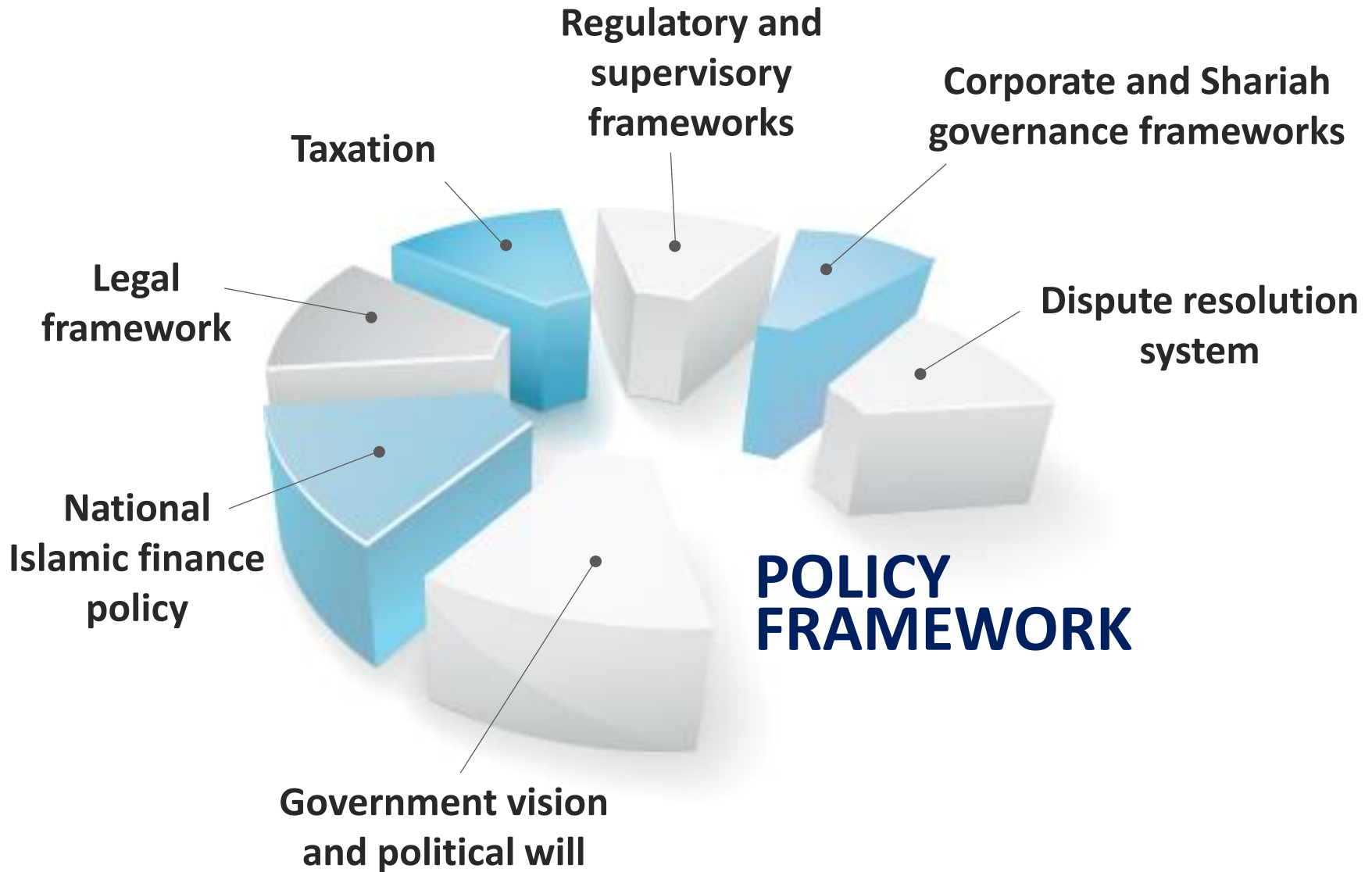




# **POLICY FRAMEWORK FOUNDATIONS**

# KEY COMPONENTS OF POLICY FRAMEWORK

---



# GOVERNMENT VISION AND POLITICAL WILL – WALK OF FAME



Germany



Singapore



UEMOA



Turkey



Kenya



United Kingdom



Malaysia



France



Kazakhstan



Morocco



Indonesia



UAE



Bahrain



THIS IS AN ILLUSTRATIVE EXAMPLE OF THE SCALE OF CLARITY OF GOVERNMENT'S VISION AND STRENGTH OF POLITICAL WILL TO IMPLEMENT ISLAMIC FINANCE IN THE COUNTRY, IT DOES NOT REFLECT THE INDUSTRY KPIs IN THE COUNTRY

# **LEGAL AND TAXATION**

---

## **LEGAL FRAMEWORK**

- **What is the overall objective?**
- **Types of legal frameworks**
  - Single legislation (amendments/additions)
  - Dual legislation (separate sets)



## **TAXATION**

- **Potential objective(s)**
- **Examples**
  - Value-added tax
  - Income tax
  - Tax deductions



# REGULATORY AND SUPERVISORY FRAMEWORKS

---

- **Overall objective**
  - Establish effective regulatory framework and supervisory tools to have a stable Takaful industry while complying with Shariah requirements
- **Key considerations related to regulating and supervising Takaful/Retakaful providers**
  - Capital adequacy framework
  - Liquidity, prudential and solvency standards (e.g. Qard Hasan treatment)
  - Risk management guidelines
  - Operational guidance notes (covering underwriting, technical provisions etc.)
  - Accounting, reporting and disclosures (basis for disclosure and presentation of reports and financial statements)
  - Ad-hoc regulatory requirements for Islamic windows (e.g. Qatar vs Indonesia)
  - Supervisory tools and methods including periodic reporting, off-site monitoring, on-site inspection etc.





# CORPORATE GOVERNANCE FRAMEWORK

---

## ■ Dual governance framework

- The principles of Islamic finance place great emphasis on robust corporate governance values, structures, transparency and disclosure requirements

## ■ Key considerations related to corporate governance in Takaful/Retakaful providers

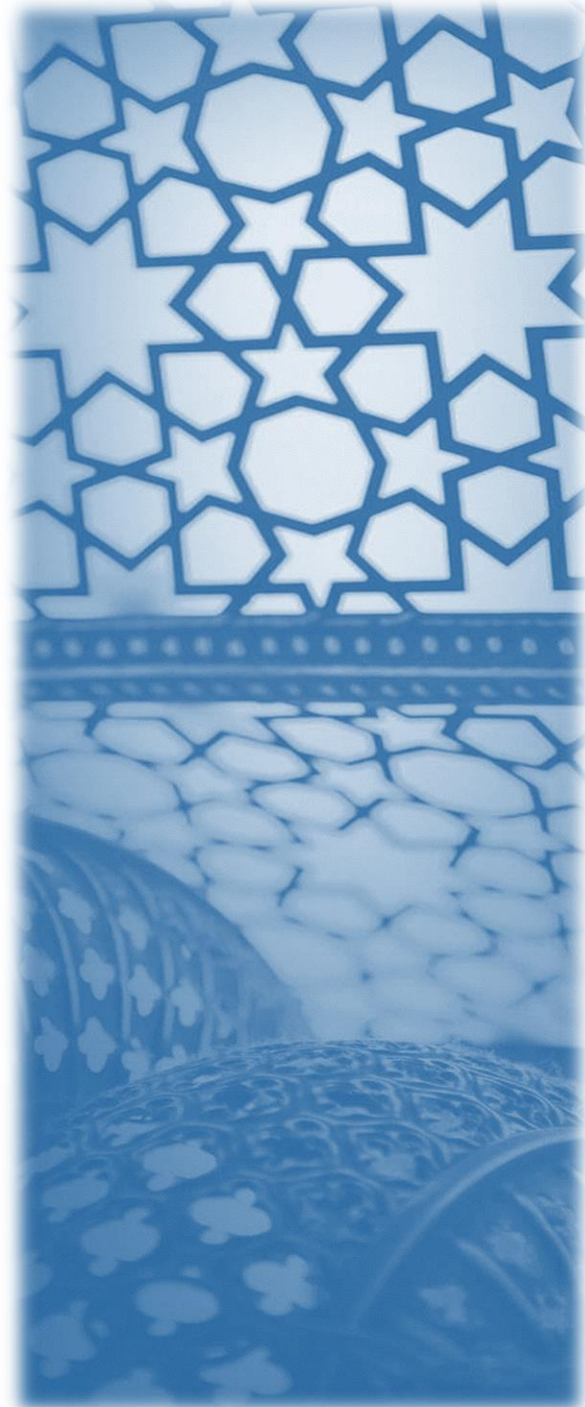
- A comprehensive governance policy is required to set out the strategic roles and functions of each organ of governance, reporting lines and responsibilities (e.g. Board of Directors, Senior Management, Compliance Department etc.)
- Develop and adopt an appropriate code of ethics and business conduct to be complied with by officials at all levels
- Introduce adequate procedures to protect the interests of all stakeholders including shareholders and Takaful/Retakaful participants
- Adopt a sound investment strategy which is appropriately aligned to the risk and return expectations of shareholders and participants



# SHARIAH GOVERNANCE FRAMEWORK

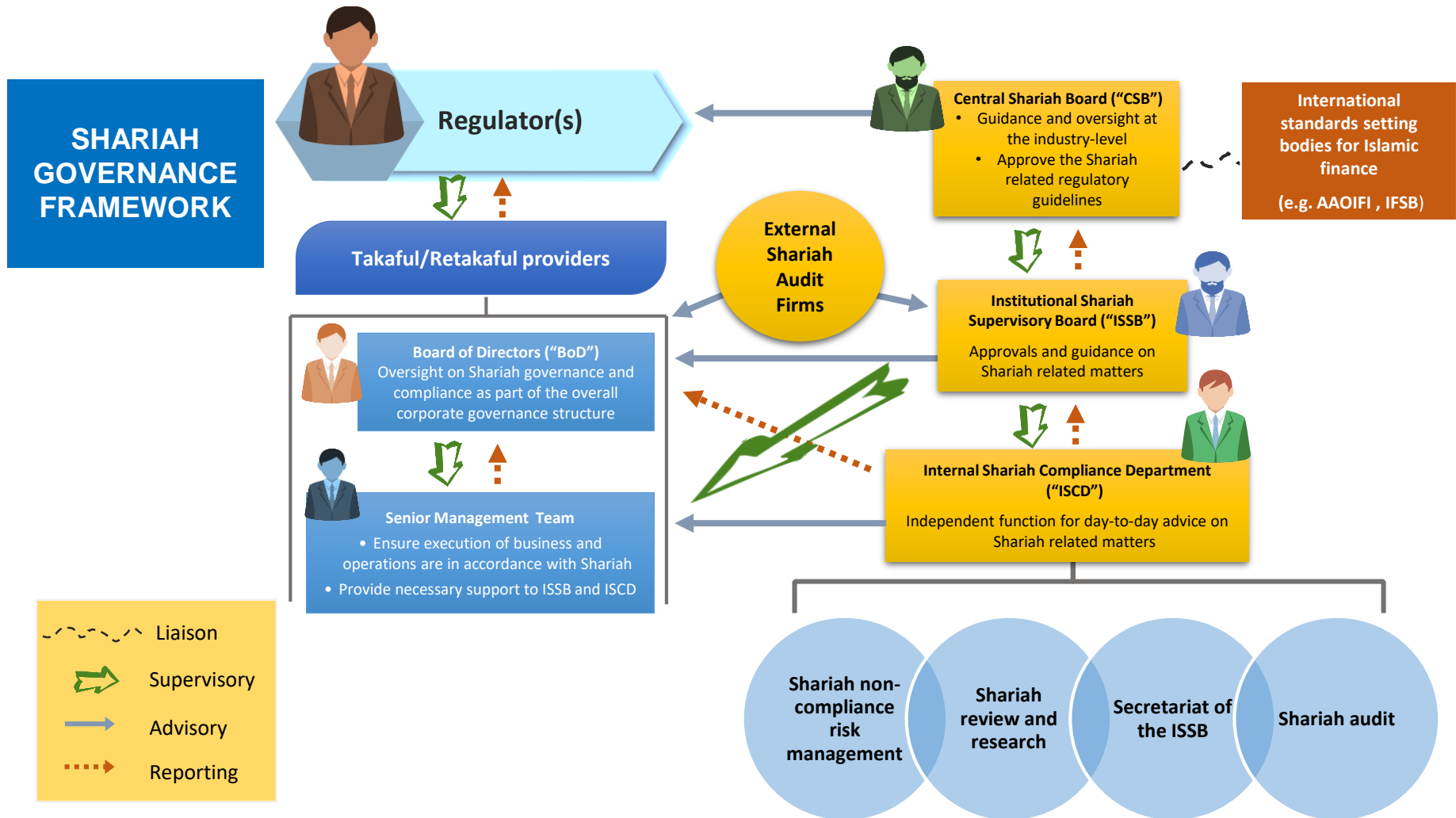
---

- **What are the overall objectives?**
- **Key components of the Shariah governance framework**
  - Central Shariah Board(s) (“CSB”)
  - Institutional Shariah boards
  - Internal Shariah compliance department(s)
    - Secretary
    - Shariah non-compliance risk management
    - Review/compliance
    - Audit
    - Research
  - External Shariah audit
- **Other key parameters**
  - AAOIFI Standards
  - Regulatory Shariah guidelines
  - Dispute resolution system
    - Court system
    - Arbitration and mediation mechanisms



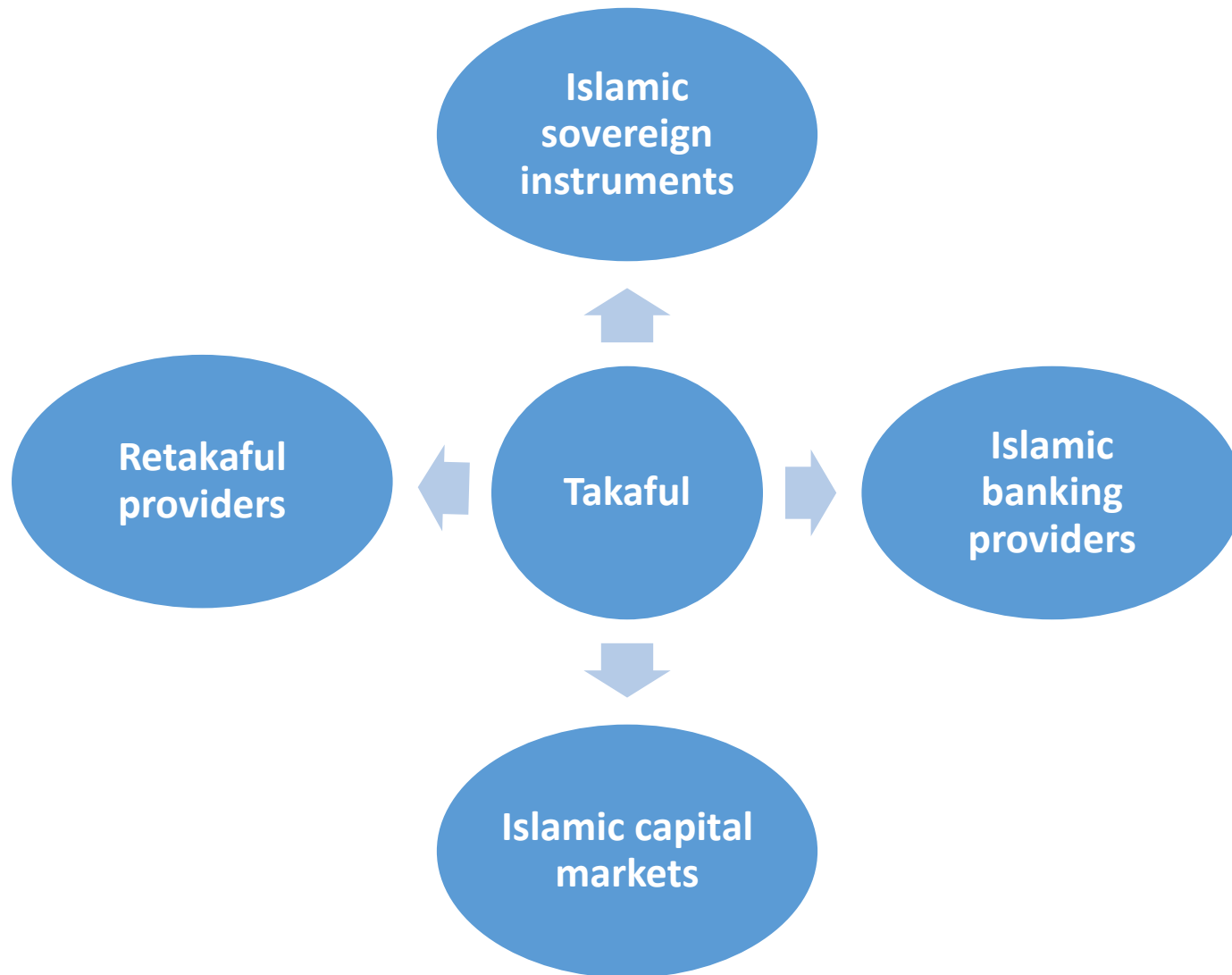
# Shariah Compliance

The cornerstone of Takaful architecture



# KEY COMPONENTS OF THE ECOSYSTEM

---



# THE ROLE OF POLICY IN THE SUCCESS OR FAILURE OF THE INDUSTRY

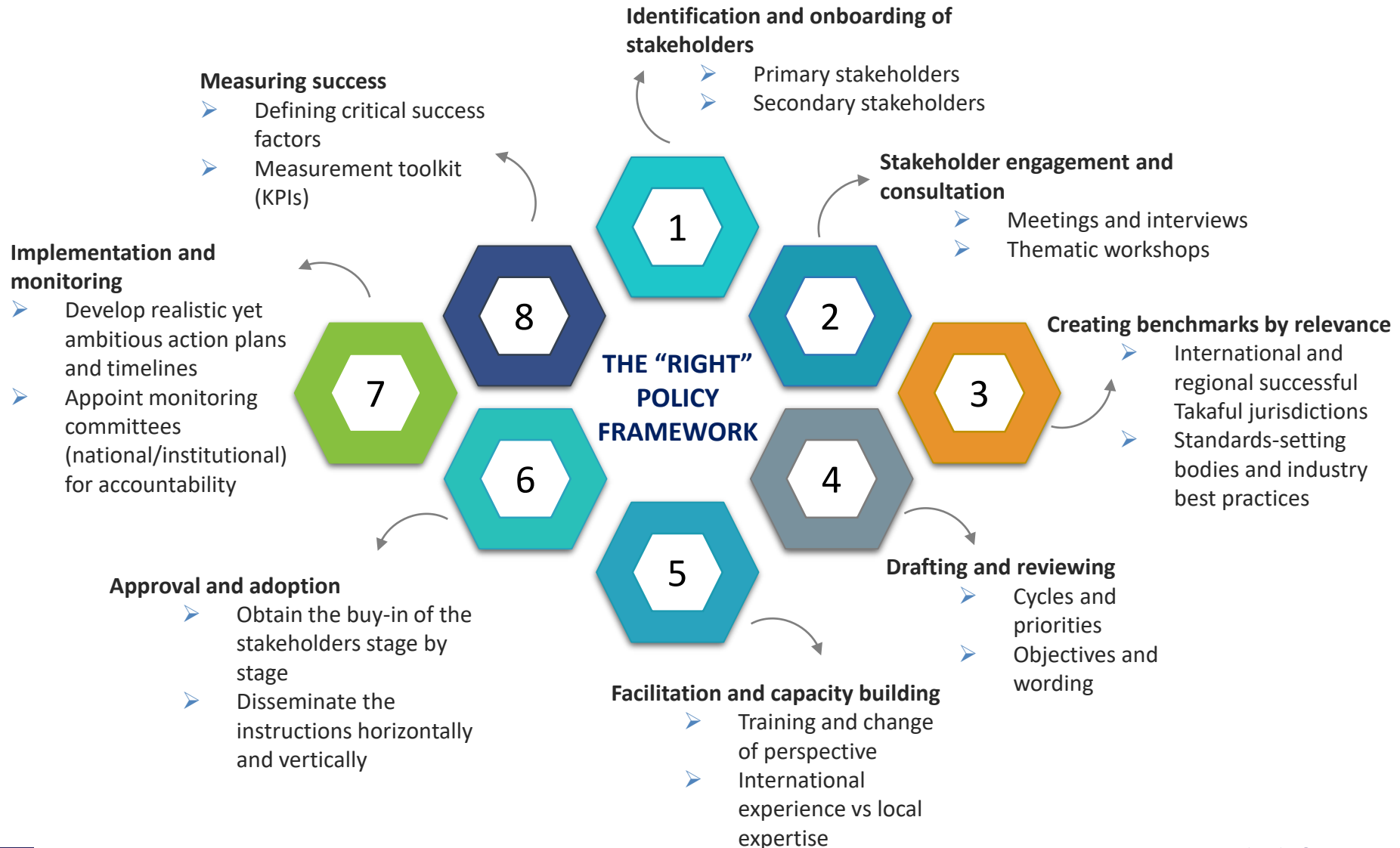
- Lack of government vision and no political will?
  - Confusion and frustration in the market
  - Lack of ownership and fear of taking responsibility
- Unclear national Islamic finance policy?
  - Division and fragmentation
  - Duplication of efforts and waste of resources
- Unsupportive Legal framework?
  - No legal anchoring of Takaful/Retakaful operations
  - Room for independent interpretations leading to disputes
- No tax neutrality?
  - Higher transactional costs
  - No level-playing field
- Ineffective regulatory and supervisory frameworks?
  - Higher operational costs
  - Limited product offerings
  - Higher risks including systemic risk
- Lack of governance and Shariah governance frameworks?
  - Fraud, mismanagement and Shariah non-compliance hazard
  - No trust/confidence in the Islamic proposition of the industry
- Secular dispute resolution system and no Shariah consideration?
  - Jeopardise the public trust in the industry

## COULD A FISH SURVIVE OUT OF WATER?



**THEREFORE, A ROBUST POLICY  
FRAMEWORK PLAYS A MAJOR  
ROLE IN CREATING THE ENABLING  
ENVIRONMENT REQUIRED FOR  
THE SUCCESS OF THE TAKAFUL  
INDUSTRY**

# PROCESS FOR DEVELOPING THE “RIGHT” POLICY FRAMEWORK



# THANK YOU!

## Your contact:

Najib.Alaswad@ifaas.com

# IFAAS

ISLAMIC FINANCE ADVISORY & ASSURANCE SERVICES

©2018 IFAAS. All rights reserved



WWW.IFAAS.COM



### IFAAS UK

Faraday Wharf  
Holt Street  
Birmingham B7 4BB  
TEL : +44 (0) 121 250 5747-8



### IFAAS FRANCE

Tour ARIANE  
5, place de la pyramide  
92 088 Paris - La Défense  
TEL : +33 820 20 41 21



### IFAAS BAHRAIN

5th Floor, GBCorp Tower,  
P.O.Box 10945, Manama /  
Sea Front  
TEL : +97317151521



### IFAAS PAKISTAN

Enterprise Building, 3rd  
Floor, 1 Km Thokar Niaz Baig,  
Multan Road, Lahore  
TEL: +92 423 578 5731



### IFAAS MOROCCO

119 Boulevard  
Abdelmoumen – 2ème  
étage, Casablanca, Morocco  
TEL: +212(0)522 484 829