

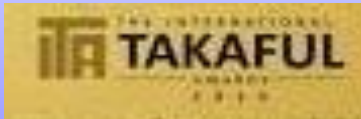


# *Regulatory and Operational Issues in the Takaful Industry.*

## **The 11<sup>th</sup> International Takaful Summit**

**11-12 July 2017, Millennium Gloucester Hotel London Kensington, UK.**

**Organized by: Afkar Consulting Ltd.**



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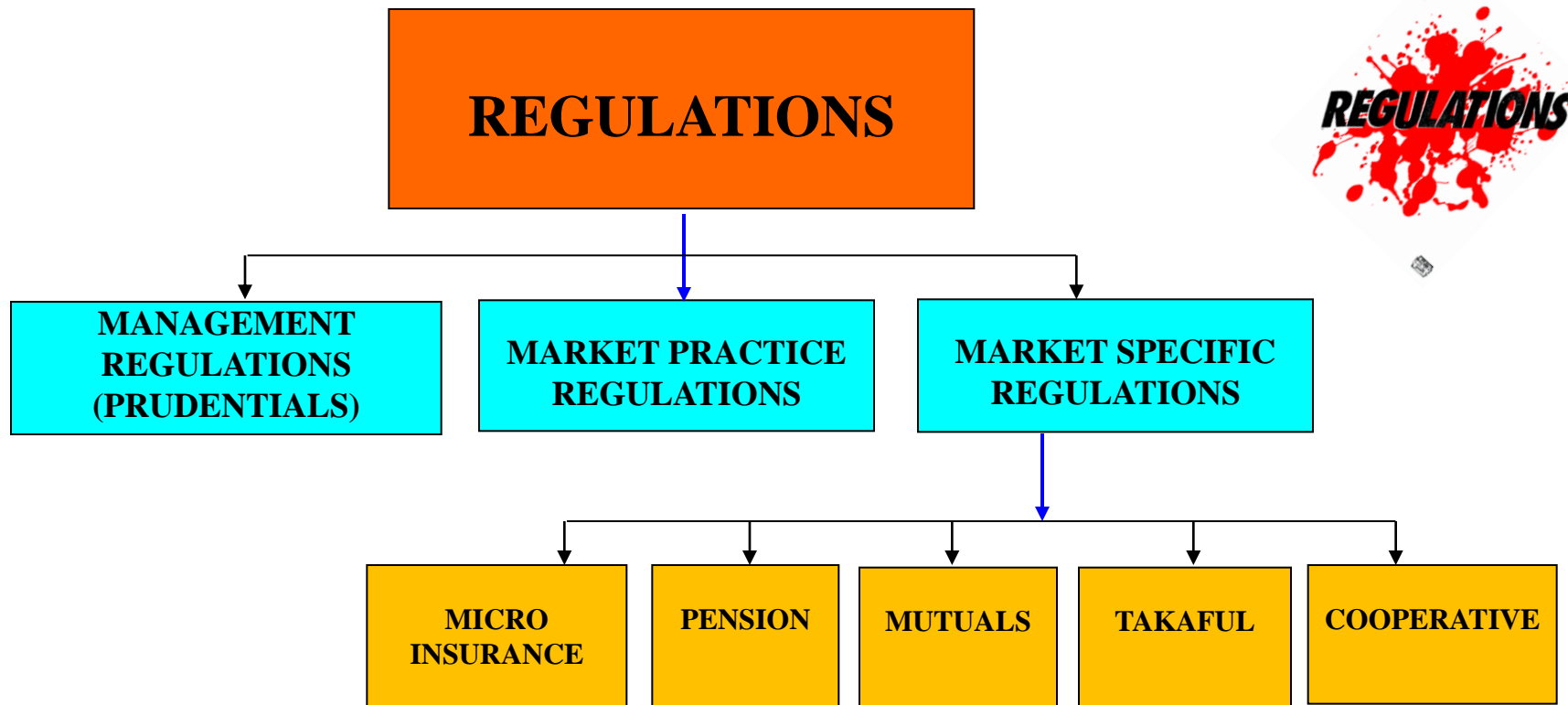
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**Prime Islami Life Insurance Limited**

**ISO : 9001: 2008**



**MARKET SPECIFIC REGULATION NEED  
TO BE EVALUATED ON A REGULAR BASIS**

## KEY AREAS OF REGULATION

- ❖ Ensuring adequate capitalization in the industry.
- ❖ Development of human capital of the industry.
- ❖ Promotion of risk management culture.
- ❖ Development of professionalism by adhering to code of conducts.
- ❖ Ensuring cooperation amongst all involved in the industry.
- ❖ Enhancing image of the industry.



PRUDENTIAL REGULATIONS CONTRIBUTE TOWARDS  
GROWTH OF TAKAFUL INDUSTRY

- In majority of the jurisdictions, the cart has been put before the horse.
- Takaful industry requires legal and the regulatory frame work, because they are expected to conduct operations in prudent and ethical manner as per Shariah law.
- To promote takaful, the regulator should provide guidelines, regulations and or rules if not separate law.
- The purpose of these rules/regulations is to promote uniformity in takaful business practice and to enhance operational efficiency to safeguard the interests of participants and other stakeholders.

- As per Shariah and regulatory guidelines, the takaful operators shall adopt appropriate investment and management strategies.
- It is the responsibility of the Regulatory Authority to ensure that takaful operators exercise diligence in product design and ensure that the products offered include adequate takaful coverage and are suitable and appropriate to the targeted market segment.



# RULES AND REGULATIONS BE FRAMED IN THE FOLLOWING AREAS OF TAKAFUL OPERATIONS

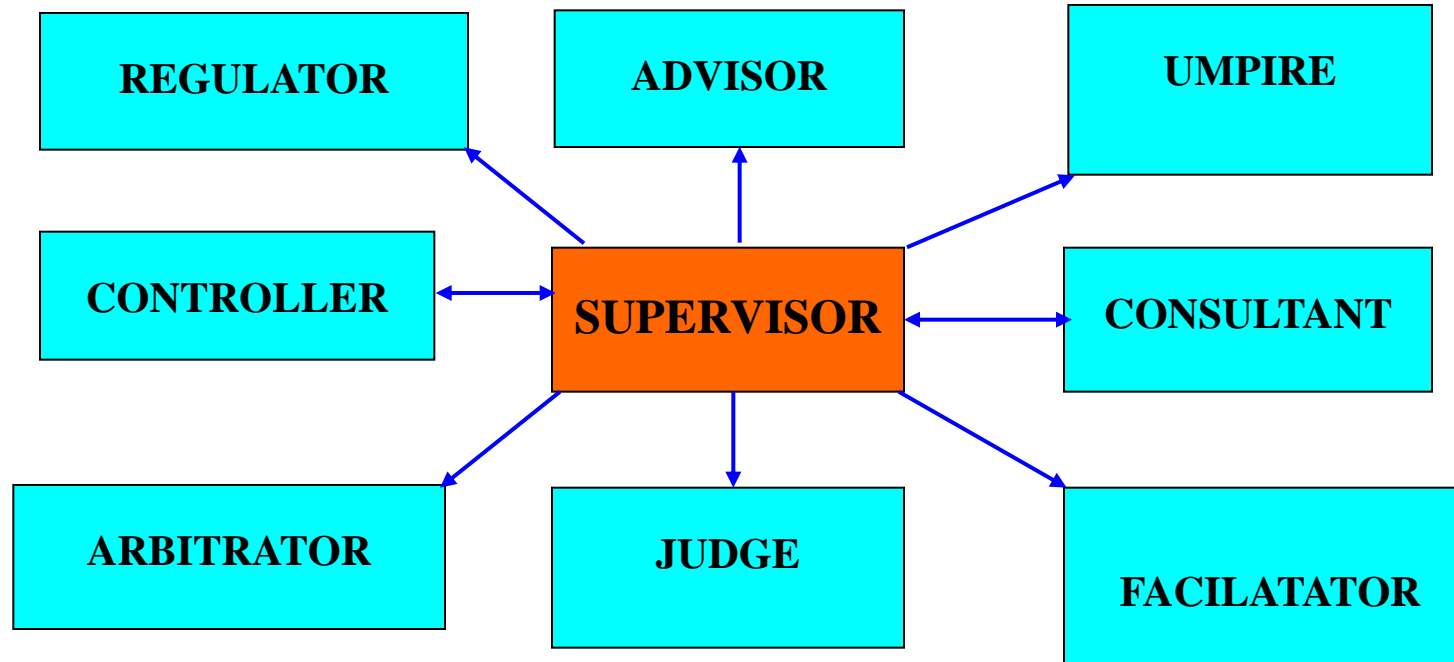
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- **Retakaful Policy.**
- **Sound investment management in line with Shariah.**
- **Appropriate and prudent valuation basis and methodologies.**
- **Payment of claims from the correct funds in line with the takaful contracts.**
- **Assessment of the strengths of takaful funds.**
- **Effective management of operating cost.**

TAKAFUL – Islamic Insurance



# DIFFERENT ROLES OF SUPERVISOR



**SUPERVISORY AUTHORITY ACTS AS FRIEND,  
PHILOSOPHER AND VALUABLE GUIDE TO THE INDUSTRY**

# SHARIAH GOVERNANCE SYSTEM AND ROLE OF SHARIAH COUNCIL

- Takaful operators need to observe fundamental obligations toward participants.
- Takaful operators need to ensure that there is effective independent oversight of Sharia compliance.
- Islamic Financial Services Board (IFSB) has prescribed certain guiding principles on Shariah Governance.
- Takaful operators should fully understand the legal and regulatory framework for issuance of Shariah pronouncements/resolutions.





- A Shariah pronouncement/resolution shall be issued only through appropriate due process.
- Each takaful operator should have Shariah compliance review/audit department for verifying that Shariah compliance has been satisfied.
- Shariah council ought to be transparent and its independent character be maintained.
- Each member of the Shariah council should exercise rational and logical reasoning, demonstrate willingness to learn from others and strive to be in achieving qualities.

Islamic Sharia Council  
*Resources*



# STANDARDS FOR QUALITY ACCOUNTING

## Accounting Standards

- ❖ Financial statements of takaful company should be prepared on the basis of high quality accounting standards and financial accounting process which in turn lead to high quality financial reporting information that is useful for making decisions.



**ACCOUNTING & AUDITING ORGANIZATION FOR ISLAMIC FINANCIAL INSTITUTIONS (AAOIFI), HAS DEVELOPED SEVERAL STANDARDS IN THE FOLLOWING RELEVANT AREAS**



- ❖ **Presentation and disclosure.**
- ❖ **Mudarabah and Musharaka.**
- ❖ **Provisions and reserves.**
- ❖ **Investment of funds.**
- ❖ **Investment guidelines along with investment in sukuk.**

**THE REGULATORY BODY APRT FORM EXAMINING THE REQUIRED  
AND AVAILABLE SURPLUS CAPITAL, IT SHOULD ASSES THE FOLLOWING**

- a) The technical and other risks a company is exposed to;**
- b) The operating performance of recent business years;**
- c) The liquidity position as reflected in positive underwriting or operating cash flow;**
- d) Present and future investment performance and**
- e) Easy availability of capital to meet future emergency needs.**

# SOLVENCY REGULATION FOR TAKAFUL OPERATORS

- ❖ The purpose of formulation of appropriate solvency regulation is to maintain efficient, fair, safe and stable takaful market for the benefit and protection of participants.
- ❖ The capital adequacy and solvency regimes have to be sensitive to risk. Therefore, this has to be related to the risks faced by takaful operator and should remain adequate at all times as the risk changes over time.

# SOLVENCY REGULATION FOR TAKAFUL OPERATORS

- ❖ It is imperative that the regulatory authority imposes obligations on takaful companies, requiring to have efficient risk management systems in place and to provide for more transparency of their operations.
- ❖ The regulatory body needs to examine the technical and others risks a company are exposed to, its operating performance, investment strategy and financial flexibility.



## SUMMARY AND CONCLUDING REMARKS

- **Regulations and supervision of takaful industry is a practical necessity.**
- **The establishment of dynamic takaful industry is the main responsibility of regulators and supervisors.**
- **The mere existence of complex laws and regulations does not necessarily bring about effective supervision.**
- **The regulatory supervisory authority play a prime role in managing crises situation and preventing takaful insurance market as a whole being unduly shaken by the default of one or few operators.**
- **A properly performing takaful industry is not only beneficial to consumers but also the economy as a whole.**



*Thank you all*

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