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# Increasing Requirements for Risk Management for Takaful Operators

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# The meaning and purpose of risk management

“Risk management is the process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of failure.” **The Institute of Risk Management**

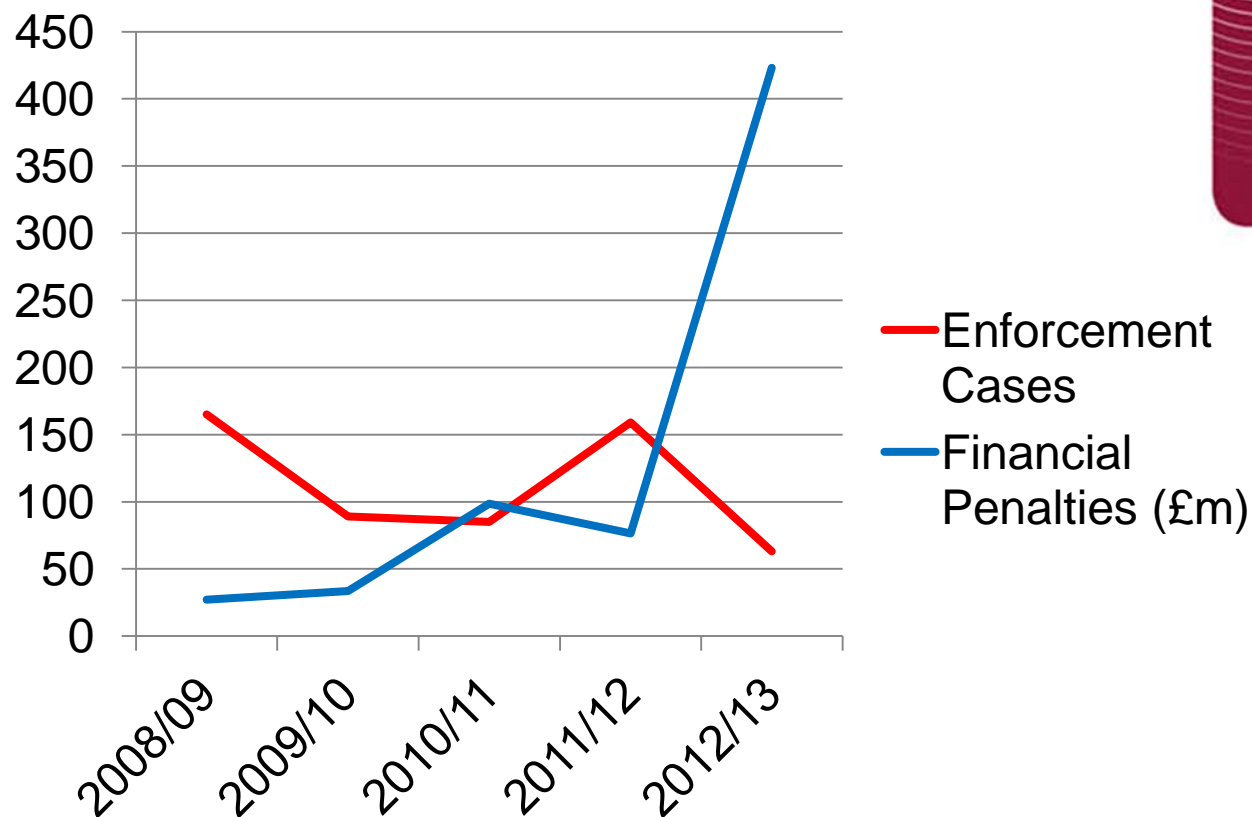
“All courses of action are risky, so prudence is not in avoiding danger (it’s impossible), but calculating risk and acting decisively. Make mistakes of ambition and not mistakes of sloth. Develop the strength to do bold things, not the strength to suffer.” **Niccolo Machiavelli, The Prince**

# Consequences of risk management failure



# Consequences of risk management failure

## UK Financial Conduct Authority Enforcement Activity



# Risk management standards in Takaful: IFSB-14

## General Principle

- Provides minimum standards to be applied to the Takaful industry in order to bring it into line with regulatory standards imposed on the conventional insurance industry, subject always to Shariah principles

## Objectives

- Identify and educate Takaful Operators on the risks to which they are exposed
- Provide guidance on the implementation of risk management and governance policies and procedures
- Create a safe and prudent environment for the growth and development of the Takaful industry

# Risk management standards in Takaful: IFSB-14

## General risks faced by Takaful Undertakings

- Operational risk
  - Risk of loss from inadequate or failed processes, people, systems or from external events
- Underwriting risk
  - Risk of loss due to underwriting activities
- Market risk
  - Risk of losses arising from movements in market prices



# Risk management standards in Takaful: IFSB-14

## General risks faced by Takaful Undertakings

- Credit risk
  - Risk of counterparty failure
- Liquidity risk
  - The TU's inability to meet its obligations or fund increases in assets
- Legal and compliance risk
  - Risk of legal or regulatory breaches arising from the TU's operations



# Risk management standards in Takaful: IFSB-14

## Specific risks faced by Takaful Undertakings

- Shariah non-compliance
- Maintaining segregation of participants' funds
- Retakaful



# Risk management standards in Takaful: IFSB-14

## IFSB Recommendations

- Risk policies and strategies
- Risk identification
- Risk assessment, response and control



# Risk management standards in Takaful: IFSB-14

## Risk Governance

- Internal control framework
  - “Three lines of defence” – systems and controls, compliance function, audit function
- Board of Directors and Shariah Board
  - Board of Directors has ultimate responsibility
  - Shariah Board’s role in risk management
- Regulators

The logo consists of a stylized, upward-pointing chevron or mountain shape in a gold color, positioned to the left of the text.

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