

Standardising Takaful/Retakaful Provision

The role of the IFSB

23 February 2016



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Important information

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What is the Islamic Financial Services Board?

- ▶ Founded in 2002
- ▶ An international standard-setting body headquartered in Malaysia
- ▶ 189 members including 65 regulatory and supervisory authorities and eight inter-governmental organisations
- ▶ Aims to promote a prudent and transparent Islamic financial services industry by developing supervisory standards, recommending their adoption and facilitating their implementation through activities such as workshops
- ▶ Complements the work of BCBS, IAIS, IOSCO
- ▶ Does not seek to rule on Shari'ah - the focus is on supervision and on governance

How is a standard prepared?

- ▶ An identified issue is discussed by the Secretariat and the Council decides that a standard is needed
- ▶ Due process involves:
 - ▶ Formation of a Working Group whose members are nominated by IFSB member organisations (regulatory and supervisory authorities)
 - ▶ Research into the issues and drafting of a standard, including review by IFSB's Technical Committee and Shari'ah Advisory Committee
 - ▶ Publication as an Exposure Draft
 - ▶ Revision, re-review and finalisation for submission to the Council

Key points of the approach

- ▶ IFSB standards on Takaful try to concentrate on specificities of Takaful compared to conventional insurance - modification of IAIS standards to reflect the different nature of Takaful rather than starting with a blank sheet of paper
- ▶ Recognises that implementation will always be the responsibility of the regulatory and supervisory authorities concerned - IFSB standards tend to stay at the level of principles and recommendations rather than prescription
- ▶ Tries to encompass the Takaful universe, inclusively rather than exclusively, to avoid leaving some models outside scope (even if they are ones that are considered by others not to be valid)
- ▶ Does not make Shari'ah rulings itself - sometimes this involves tricky diplomatic wording around areas of disagreement

IFSB Standards specific to Takaful

Standards

IFSB-8 (December 2009)

Guiding Principles on Governance for Takâful (Islamic Insurance) Undertakings

IFSB-10 (December 2009)*

Guiding Principles on Sharîah Governance Systems for Institutions offering Islamic Financial Services

IFSB-11 (December 2010)

Standard on Solvency Requirements for Takâful (Islamic Insurance) Undertakings

IFSB-14 (December 2013)

Standard On Risk Management for Takâful (Islamic Insurance) Undertakings

Under preparation:

Standard on Retakaful

Guidance Notes

GN-5 (March 2011)

Guidance Note on the Recognition of Ratings by external Credit Assessment Institutions (ECAIS) on Takâful and ReTakâful Undertakings

* *Not specific to Takaful but relevant and applicable*

Standardisation

- ▶ Standardisation of Takaful practice may be desirable - but relies on sufficient practitioners agreeing, on the advice of scholars, on what is acceptable
- ▶ Even then 'not *haram*' does not necessarily mean standardised. Any industry needs to be able to innovate.
- ▶ The IFSB's contribution is to promote and facilitate high quality supervisory practice to help supervision of Takaful reflect developments in conventional insurance regulation, driven by the G20
- ▶ In particular, in mixed economies IFSB standards can guide regulatory and supervisory authorities in modifying and applying rules originally designed for conventional insurance, to refocus them for Takaful
- ▶ In this context, the IFSB's engagement with conventional regulators locally and globally helps keep Islamic finance in the spotlight, with the Secretary-General sitting on the IMF's External Advisory Group on Islamic finance and joint initiatives with the IMF and other bodies (e.g. Asian Development Bank)

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