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PART I - INTRODUCTION

These guidelines which sets out the rules relating to the appointment of directors and chief executives have been drawn up to ensure that takaful operators are governed by an effective board of directors. It also sets out the major duties and responsibilities which Bank Negara Malaysia (the Bank) expects the board of directors and chief executives of a takaful operator to perform diligently.

PART II - BOARD OF DIRECTORS

2. As custodians of public funds, a takaful operator should be governed by an active and dedicated board of directors who are sufficiently committed and fully responsive to the diverse interests of its shareholders and participants. Directors are placed in positions of trust by shareholders as they were elected by the shareholders and hence, the law places the responsibility for managing the affairs of takaful operators firmly on their board of directors. In this regard, a director of a takaful operator is required to fulfill the following criteria:-

- (a) Possesses minimum qualifications and experience which will enable him to effectively perform his duties. (See **Appendix 1** on “Minimum Qualification and Training Requirements for Directors”);
- (b) Has not acted in a manner which may cast doubt on his fitness to hold the position of a director;
- (c) Has not been a party to any action or decision of the board or management of the takaful operator which is detrimental to the interests of the takaful operator or its participants; and
- (d) Does not cause a conflict of interest situation with the takaful operator either by himself or through his spouse, parent, brother, sister, child (including adopted or step child) and the spouse of such brother, sister or child.

3. In their pursuit for profit, directors should not lose sight of their basic responsibility as trustees of financial assets of members of the public. They may delegate authority for day-to-day operations of takaful business to senior officers and employees, but not their responsibility for the consequences of unsound or imprudent policies and practices, whether these involve underwriting, claims processing, retakaful, investment, management control or any other takaful activities. The interests of participants and shareholders would be safeguarded, to a large extent, by trustworthy, prudent, efficient and proficient administration.

4. For these purposes, the following major responsibilities are placed on the board of directors of a takaful operator:-

- (a) Ensure that the day-to-day operations of the takaful operator are in the hands of qualified and competent management. In this regard, the directors must select and appoint senior officers who are qualified and competent to administer the affairs of the takaful operator effectively and soundly. The management team must be professional at all times in carrying out its duties, and the board of directors must be alert to the effectiveness and competence of their senior officers;
- (b) Safeguard the integrity and credibility of the takaful operator. The board of directors must ensure that the management team and all employees are seen to conduct business with the highest level of moral behaviour that instills public confidence;
- (c) Establish and ensure the effective functioning of various committees which should include the audit, nominating, remuneration and risk management committees;
- (d) Set up an effective internal audit department, staffed with qualified internal audit personnel to perform internal audit functions, covering the traditional function of financial audit as well as the function of management audit. Management audit, which contributes directly to the attainment of corporate goal, is an audit of management rather than an audit for management. In line with current audit trends, the internal audit department should incorporate risk based audit methodology in their overall audit governance. To enhance the

independence of the internal auditors in achieving their audit objectives, the board should ensure that the internal auditors have full access to all records, and are given an appropriate standing in the organization's hierarchy. In this regard, the internal auditors should be placed under the direct authority and supervision of the audit committee. Since the internal auditors are held accountable to the audit committee, their performance and remuneration package should be evaluated and decided by the audit committee;

- (e) Set up a Shariah committee and ensure that the advice of the Shariah committee on Shariah matters be complied with in the business operations of the takaful operator. The appointment of the Shariah committee member requires prior written approval of Bank Negara Malaysia;
- (f) Effectively supervise the affairs of the takaful operator to ensure sound management. As directors are entrusted with the handling and investment of public funds, the supervisory commitment required from them involves a higher degree of wisdom, prudence, good business judgement and competence than that of directors of ordinary companies. Directors must also ensure, at all times, that the assets of takaful operators are invested in the form and quantum as prescribed by law, the Bank's guidelines and directives. Directors should be well informed of the affairs of the takaful operator by spending sufficiently reasonable time in monitoring and supervising the management direction of the takaful operator. Although directors may delegate certain authority to senior officers, it is their responsibility to supervise the management and business operations of the takaful operator. Apart from retaining a record of the minutes of board meetings, a record of supervisory actions by directors should also be kept;
- (g) Adopt and follow sound objectives and policies which have been fully deliberated. Directors must provide a clear framework of objectives and policies within which senior officers are to operate. These should cover all areas, especially in the more important areas of solvency management, underwriting, claims processing, retakaful, investment,

financing, risk management, profit planning and budgeting. In respect of policies relating to personnel management, clear lines of authority (and limits to this authority) for all levels of staff should be set by the board of directors;

- (h) Act honestly for the benefit of the company and avoid self-serving practices and conflicts of interest. Once their appointments take effect, directors assume a fiduciary role and must display the utmost good faith towards the takaful operator in their dealings with it or on its behalf. The Companies Act, 1965 and the Act subject directors to disclosure requirements and prohibit the provision of any unsecured advance, loan, credit facility or financing facility to directors or director-interested firms and corporations. In addition, directors and officers of a takaful operator should not retain a commission on the participation by a participant in a takaful scheme;
- (i) Be regularly informed of the condition of business and management policies of the takaful operator. Directors should keep themselves informed of the business of the takaful operator, the direction the management are steering the takaful operator, and to apply immediate remedial measures when the need arises. The board of directors should meet regularly, preferably not less than once a month to deliberate on the policies and performance of the takaful operator, the direction of policies and to provide guidance to management;
- (j) Observe all laws, rules and regulations as part of statutory duties. Directors must be familiar with relevant laws, related regulations, notices, and must exercise due diligence to see that these are not violated. This duty may involve a personal financial responsibility for losses arising out of illegal actions. There are also laws pertaining to certain restrictions, prohibitions and liabilities of directors. They may also be penalized for any non-compliance with legal requirements and be removed from office if found to have acted against the interest of participants and the takaful operator concerned. In particular, a takaful operator must maintain the required surplus of assets over

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liabilities as required under section 4 (2) (b) of the Act at all times, and ensure that its assets are in safe custody;

- (k) Ensure that the takaful operator has a beneficial influence on the national economy. Takaful operators provide takaful services such as risk sharing, savings and investment plans for members of the public, and, therefore, play an important role in the national economy. Directors have a continuing responsibility to provide takaful services and facilities which are conducive for well-balanced economic growth which is consistent with the objectives of the relevant national policies of the country.

PART III - CHIEF EXECUTIVES

5. The sound operations of a takaful operator depend critically on the appointment of a suitable chief executive. To ensure that there is no conflict of responsibility and ambiguity in accountability, the chief executive of a takaful operator shall be the principal officer who is entrusted with the responsibility of managing the overall affairs of the takaful operator. The Bank holds the chief executive of a takaful operator directly responsible for the day-to-day operations of the takaful operator. The chief executive should be familiar with the performance of the takaful operator, the adequacy of internal controls and compliance with legal requirements as well as current matters and policies affecting the takaful industry in general.

6. The chief executives must, therefore, have the necessary knowledge and professional competence in the conduct of takaful business. They must devote full attention and time to their duties and responsibilities and be able to direct and supervise takaful operators effectively and responsibly. They must at all times exercise professional skills, due care and diligence when performing their function, exercising their powers or discharging their duties. It is imperative that chief executives have both the qualification and experience and preferably, with a proven record in the takaful or insurance industries at senior officers level. They must be persons of high professional caliber and unquestionable integrity.

7. In determining whether a person is fit to be a chief executive, regard must be given to his probity, competence, soundness of judgement, and previous conduct and activities in business or financial matters. Hence, a person to be appointed as a chief executive should fulfill the following criteria:-

- (a) Has not had a position of responsibility in the management of any company which has been convicted of an offence under any written law during his tenure of office unless he proves that such offence was committed without his knowledge or consent and he was not in a position to prevent the offence;
- (b) Has not held a position of responsibility in the management of any company which during his tenure of office:-
 - (i) has defaulted in payment of any judgement sum against it;
 - (ii) has suspended payment or has compounded with its creditors; or
 - (iii) has had a receiver or manager appointed in respect of its properties.
- (c) Has not acted in a manner which may cast doubt on his fitness to hold the position of chief executive or acted in blatant disregard for proper professional conduct, especially in dealings with participants, claimants and customers;
- (d) Has not been a party to any action or decision of the management of the takaful operator which is detrimental to the interests of the takaful operator or its participants.

8. The roles and responsibilities of the chief executive of the takaful operator among others include the following:-

- (a) Develops and recommends a medium and long-term strategy and vision for the takaful operator that leads to creation of shareholders' value;
- (b) Develops and recommends an annual business plan and budget that support medium and long-term strategy;
- (c) Ensures that the board of directors is fully informed on matters related to takaful operations and assist in performing its duties;

- (d) Formulates and oversees the implementation of major policies in line with the company's business strategies and mission;
- (e) Maintains a positive and ethical work climate that is conducive to attract, retain and motivate a diverse group of top quality employees;
- (f) Ensures that the company achieves and maintains a satisfactory competitive position within its industry;
- (g) Ensures that the company has an effective management team supporting the chief executive and has an active plan for its development and succession;
- (h) Ensures in cooperation with the board of directors that there is an effective succession plan in place for the chief executive's position;
- (i) Implementation of a well communicated organisational structure that shows lines of reporting responsibility, authority and effective channels of internal and external communication;
- (j) Identify and implement a sound risk management system;
- (k) Ensures that the technology and systems used are adequate in tandem with the size and complexity of the operation of the takaful operator.

9. In view of the necessity for the Bank to consult the chief executive of a takaful operator on matters of policy and day-to-day operations, it is important that the Bank be informed of the person who will be directly responsible for the overall management of the takaful operator in the absence of its chief executive. Such acting chief executive is expected to be fully acquainted with the affairs of the takaful operator. He should be able to act promptly and with authority on matters affecting the takaful operator. Therefore, the practice of delegating responsibilities of an absent chief executive to several persons, with no person coordinating the overall functions of the takaful operator, should be avoided.

10. In the event the position of Chief Executive is left vacant due to resignation or termination, takaful operators are allowed to appoint an acting Chief Executive to assume the responsibilities of a chief executive while identifying a suitable candidate for the position. However, takaful operators are required to submit an application to

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the Bank for approval to appoint any person to such position at least two weeks prior to the date of appointment or such shorter period as may be allowed by the Bank.

PART IV - APPOINTMENT AND RE-APPOINTMENT OF DIRECTORS AND CHIEF EXECUTIVES

11. The appointment of directors, including the chairman of the board of directors, and chief executives would only be effective when the takaful operators furnish the Bank with prior written notice of its intention to appoint a person to the specified position and the Bank has given written approval to the appointment. Therefore, no person nominated to be chief executive or director of a takaful operator should commence his executive functions and duties before receiving the approval from the Bank. The appointment of the chairman of the board of directors of takaful operators would only be effective when the takaful operators furnish Bank Negara Malaysia with prior written notice of its intention to appoint such person and the Bank has given written approval to the appointment.

12. The term of new appointment (including re-appointment) for directors and chief executive is only limited to two years effective from the date of these guidelines and upon expiry of the term of appointment, takaful operators are required to re-submit an application for reappointment to the Bank.

13. Pursuant to the Fourth Schedule of the Companies Act 1965 which provides that at the annual general meeting (AGM) of a company, one-third of the directors shall retire by rotation from office and shall be eligible for re-election, takaful operators which do not have a similar clause on the retirement of directors by rotation in their Memorandum and Articles of Associations (M&As) are required to amend the M&As accordingly to effect the above requirement before their next AGM. A copy of the amended M&A must be forwarded to the Bank within 30 days from effecting the amendment.

14. In this connection, all takaful operators are required to seek the prior approval of the Bank before a director who is retiring in compliance with the provision

of the M&As, or by age limit pursuant to section 129 (6) of the Companies Act 1965, may be re-elected to the board. Takaful operators are required to submit applications to the Bank for approval to re-elect retiring directors at least six months prior to the date of the AGM at which the directors will offer themselves for re-election. For takaful operators whose AGM will be held within six months of these guidelines, application for appointment of directors who are retiring at the AGM must be submitted to the Bank for approval soonest possible.

15. For directors whose two-year term of appointment (approved by the Bank) has not expired at the time of AGM but are required to retire by rotation from office and are eligible for re-election, takaful operators are not required to obtain the Bank's approval to re-elect them at the AGM. However, takaful operators are required to inform the Bank within two weeks from the date of the AGM of the directors' names, tenure of appointment and date of AGM at which they were re-elected. Applications for the subsequent re-appointment of these directors must be submitted to the Bank for approval at least three months before the expiry of the two-year term of appointment.

16. Directors should ensure that the articles of association of takaful operators provide for a director to be dismissed from his office by written resolution of at least 75% of his co-directors. In addition, provision for a director to be dismissed from office by his fellow directors for failure to attend at least 75% of the Board meetings a year should be included. This is to ensure that a director will discharge his duties and responsibilities effectively. At its AGM, each takaful operator is required to review the suitability of a director who has failed to comply with this 75% attendance rule without valid reason. A director who has breached the 75% attendance rule without valid reason for two consecutive years shall be removed.

17. The application forms for the appointment and re-appointment of directors and/or chief executives are attached in **Appendix 2**. Takaful operators are also required to submit the application for appointment or re-appointment of directors and/or chief executives through "Financial Institutions Corporate Profile System"

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FICPS. The procedures for appointment or re-appointment of directors and/or chief executives are applicable to both Malaysian and foreign candidates.

18. Takaful operators are required to submit, together with any application for the re-appointment of directors and/or chief executives, a written assessment by the nominating committee of the nominee to be reappointed. The written assessment should be as detailed as necessary to enable the Bank to form an opinion of the nominees' suitability to hold the position applied for, having particular regard to what has been laid down in **Appendix 3**.

PART V - RESTRICTIONS ON THE APPOINTMENT OF DIRECTORS

19. The following rules are applicable for the appointment of directors of takaful operators:-

(a) Appointment of Executive Director as a Chairman of the Board of Directors

Takaful operators are not allowed to appoint an executive director as the chairman of its board of directors. This is to ensure that there would not be any conflict of interest between the policy-making process and the day-to-day management of the takaful operator.

(b) Appointment of Alternate Directors

Directors of takaful operators are prohibited from appointing alternate directors, as a high level of commitment from board members is necessary to ensure the continuing effectiveness of the board of directors. Therefore, directors should be required to personally attend board meetings. Furthermore, with the advent of technology, foreign directors would be able to participate in board meetings via teleconferencing and video conferencing on the occasions where they are unable to be physically present.

(c) Appointment of Practising Lawyers and Accountants as Directors

To enable the takaful industry to tap the expertise of lawyers and accountants, practicing lawyers may be appointed as directors of a takaful operator provided that

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they are not employed by or are not partners in a legal firm which is on the panel of lawyers of that particular takaful operator. Similarly, practicing accountants may be directors provided they are not employed by or are not partners in an accounting firm which is engaged to conduct audit of or consultancy work for that particular takaful operator.

The practicing lawyers and accountants who are appointed as directors of a takaful operator are expected to exercise the highest degree of integrity and professionalism. They must always be mindful of the need to avoid being involved or seen to be involved in any self-serving practices and conflict of interest situations in the conduct of their profession while serving as directors of the takaful operator.

(d) Appointment of Active Politicians as Directors

Individuals who are active in politics may not be appointed as directors of a takaful operator. This is to avoid the risk of the politicians encountering conflict of interest situations in serving their constituencies. For this purpose, a person is considered to be politically active if he is a Member of Parliament, State Assemblyman, Supreme Council Member of a political party or member who holds a position at divisional level in a political party. In this regard, takaful operators are required to inform the Bank promptly upon the knowledge that any of their directors have become actively involved in politics.

In the case of a foreign citizen who is active in politics in his home country, the issue of conflict of interest does not arise if his constituency does not have dealings with takaful operators in Malaysia. Hence, a foreign citizen who is active in politics in his home country may be appointed to the board of a takaful operator in Malaysia. This policy is pertinent to foreign-controlled takaful operators and domestic takaful operators with significant foreign interests.

PART VI - DISQUALIFICATION OF DIRECTORS AND CHIEF EXECUTIVES

20. Pursuant to section 31 (1) of the Act, a director or chief executive of a takaful operator would be disqualified from holding his position if he:-

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- (a) becomes bankrupt;
- (b) assigns his estate for the benefit of his creditors or makes an arrangement with his creditors pursuant to any law relating to bankruptcy; and
- (c) has committed an offence involving dishonesty or fraud.

PART VII - COMPOSITION OF THE BOARD OF DIRECTORS

Directors

21. Each takaful operator shall have a **minimum of five** directors. This is to ensure that adequate number of directors is always present to provide direction and guidance to the management of the takaful operator. Where the M&A of a takaful operator limits the maximum number of directors to less than five, the M&A should be amended accordingly.

22. On the other hand, a takaful operator is discouraged from having more than eight directors. However, a maximum of 10 directors may be allowed, provided that the additional directors are independent non-executive directors¹. An independent director of the holding company of a takaful operator who is also on the board of the takaful operator will be considered to be an independent director, provided that he does not have a direct or indirect equity stake of more than 5% of the takaful operator.

Executive directors

23. In general, a takaful operator is allowed to appoint a **maximum of two** senior officers, including the chief executive, to be its executive directors. However, in exceptional cases and with the consent of the Bank, up to three senior officers may be on the board. However, directors with executive powers must not account for more than 40% of the total board members at anytime. This is to ensure

¹ Non-executive directors are persons who do not have an active role in the management of a company or who do not participate in the day-to-day running of a company's business.

independence of the board and help mitigate any possible conflict of interest between the policy-making process and the day-to-day management of the takaful operator.

Independent directors

24. Each takaful operator is required to appoint **at least two** independent directors to its board. The independent director would provide the necessary check and balance on the “controller” of the takaful operator to ensure that the interests of minority shareholders and general public are given due consideration in the decision-making process.

25. An independent director is a director who represents the interest of the general public or the minority shareholders. An independent director should also not:-

- (a) Hold more than 5% equity interest directly or indirectly in the takaful operator or in its related corporations;
- (b) Be employed in an executive position in the takaful operator or its related corporations at least two years prior to his appointment date;
- (c) Have an immediate family member who is, or has been in the past two years, employed by the takaful operator or any of its related companies as a key senior officer. For this purpose, an ‘immediate family member’ refers to the spouse, parent, brother, sister, child (including adopted or step child) and the spouse of such brother, sister or child, of the independent director;
- (d) Be engaged, or have been engaged in the past two years, as a professional adviser by the takaful operator or any related corporations of the takaful operator, either personally or through a firm or company in which he is a partner, director or major shareholder;
- (e) Engage in any transaction, or have been engaged in any transaction within the last two years with the takaful operator, whether with other persons or through a firm or a company of which he is a partner,

director or major shareholder, as the case may be, the value of which exceeds RM1 million. However, “transactions” as stated above shall exclude transactions entered into:-

- (i) For personal use of the said director; or
- (ii) For personal investment of the said director except for the purpose of carrying on a trade or business, provided that such transactions are on normal commercial terms.

26. The primary responsibility of independent directors is to protect the interest of minority shareholders, other stakeholders and the general public. Therefore, independent directors should provide an effective oversight and ensure a strong independent element on the board, for it to function effectively and exercise objective judgments independently. The effective participation of independent directors would enable a balanced and enhanced accountability in the board’s decision-making process. The responsibilities of an independent director should therefore, include the following:-

- (a) Provide and enhance the necessary independence and objectivity to the board from the executive arm of the takaful operator;
- (b) Mitigate any possible conflict of interests between the policy-making process and the day-to-day management of the takaful operator;
- (c) Constructively challenge and contribute to the development of strategy of the takaful operator;
- (d) Ensure that the board uses adequate systems and controls to safeguard the interests of the takaful operator;
- (e) Provide ‘check and balance’ function to the board;
- (f) Provide an objective view on the performance of executive directors and management in meeting the agreed goals and objectives, and monitor the reporting performance.

27. Given the vital role of the independent directors, all resignation or removal of independent directors from the board of directors of takaful operators can only take effect after the respective board has cleared the resignation or removal of the independent directors with Bank Negara Malaysia.

PART VIII - MAXIMUM NUMBER OF DIRECTORSHIPS

28. Chief Executive and Executive Directors

In line with the efforts to promote good governance in the takaful industry and to ensure that the chief executive and executive directors devote the necessary time and commitment to the affairs of the takaful operator, the directorships held by the chief executive and executive directors of a takaful operator are restricted as follows:-

- (a) The chief executive of a takaful operator is not allowed to hold any executive position in any other corporation;
- (b) The chief executive may only hold a position as non-executive director in the takaful operator's holding company and subsidiaries as well as sister companies that are financial institutions² having synergies with the takaful operator and he may only hold a maximum of five directorships at one time (including the directorship in the takaful operator). Directorships in family-owned companies are not permitted;
- (c) An executive director of a takaful operator may only hold a position as non-executive director in other companies and he may only hold a maximum of five directorships at one time (including the directorship in the takaful operator). For purposes of computing the maximum number of directorships held by the executive director, the following would apply:-
 - (i) Directorships held by the executive director in other companies within the same group and directorships in companies to represent the equity interest of the company concerned, should be aggregated and counted as one directorship; and
 - (ii) Directorships in the executive director's family-owned companies should be aggregated and counted as one directorship.

² Including but not limited to institutions licensed under the Takaful Act 1984, the Islamic Banking Act 1983, the Insurance Act 1996, the Banking and Financial Institutions Act 1989, the Development Financial Institutions Act 2002, the Securities Industry Act 1983 and the Futures Industry Act 1993.

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(d) Directorships or council position held by the chief executive or executive directors of a takaful operator in the following organisations are excluded from the computation of the limit:-

- (i) Organisations within the takaful and insurance industries, such as Islamic Banking and Finance Institute Malaysia, Malaysian Insurance Institute, ASEAN Retakaful International (L) Limited and Insurance Mediation Bureau, to which an individual is nominated by the respective associations of the takaful and insurance industries;
- (ii) Professional bodies and non-profit social organisations; and
- (iii) Government bodies and government-controlled companies.

However, the board of a takaful operator should establish a limit on the number of directorships that may be held by the chief executive in such organisations to ensure that he is able to devote the necessary time and attention to the affairs of the takaful operator.

29. Non-Executive Directors

No limit is imposed on the number of directorships that may be held by a non-executive director.

PART IX - NOTIFICATION TO THE BANK ON APPOINTMENT OF THE CHIEF EXECUTIVE TO MORE THAN ONE POSITION

30. Takaful operators are required to notify the Bank of any appointment of the chief executive to more than one position in a takaful operator that could potentially result in a conflict of interest. Such notification should include relevant justification for the appointment notwithstanding the potential conflict and mitigating controls/factors in place and/or actions by the takaful operator to deal with the conflict.

31. Takaful operators are also required to notify the Bank of any circumstances arising that may compromise the fitness and propriety of the chief executive in the management of a takaful operator. This may include the appointment of the chief executive to a position, or acquisition/possession of a

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property by the chief executive, which may directly/indirectly cause a conflict of interest with his responsibilities to the takaful operator. Such notification should be given to the Bank immediately upon becoming aware of the circumstances and should include information on the mitigating controls/factors in place and/or actions by the takaful operator to deal with the potential conflict.

PART X - AUDIT, NOMINATING, REMUNERATION AND RISK MANAGEMENT COMMITTEES

Audit Committee

32. The board is required to establish an audit committee to review the financial condition of the takaful operator, its internal controls, performance and findings of the internal auditors, and to recommend appropriate remedial action regularly, preferably at least once in three months.

33. The audit committee should consist of not less than three members, none of whom should be full-time executives of the takaful operator. The majority of the audit committee members should be independent non-executive directors. The audit committee members should elect a chairman among them who is an independent non-executive director. The external and internal auditors of the takaful operator should have free access to the audit committee. The auditors should be allowed to attend and be heard at any meeting of the audit committee. Upon the request of the auditors, the chairman of audit committee should convene a meeting to consider any matter that the auditors believe should be brought to the attention of the directors or shareholders.

34. As part of the on-going efforts to enhance corporate governance, takaful operators are required to set up the nominating, remuneration and risk management committees.

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Nominating Committee

35. The primary objective of the committee is to establish a documented, formal and transparent procedure for the appointment of directors, principal officer and key senior officers, and to assess the effectiveness of directors, the board as a whole and the various committees of the board, the principal officer and key senior officers.

36. The procedures for appointment and assessment must be approved by the full board and disclosed to the shareholders of the takaful operators. The committee should not be delegated with decision-making powers but should be obliged to report its recommendations to the full board for decision.

37. The nominating committee shall consist of at least five members, of which a minimum of four must be non-executive directors. The committee must be chaired by an independent non-executive director. In order to avoid conflict of interest, a member of the committee shall abstain from participating in discussions and decisions on matters directly involving him. The full committee should meet as and when required, at a minimum once a year to deliberate on the above responsibilities.

Remuneration Committee

38. The primary objective of the committee is to provide a formal and transparent procedure for developing a remuneration policy for directors, chief executives and key senior officers and ensuring that their compensation is competitive and consistent with the takaful operator's culture, objectives and strategy.

39. The remuneration committee shall consist of at least three members of non-executive directors and must be chaired by an independent non-executive director. In order to avoid conflict of interest, a member of the committee shall abstain from participating in discussions and decisions on matters directly involving him. The full

committee shall meet at least once a year to review the remuneration packages of the directors, principal officer and key senior officers.

Risk Management Committee

40. The primary objective of the committee is to oversee the senior management's activities in managing the key risk areas of the takaful operator and to ensure that the risk management process is in place and functioning effectively.

41. The risk management committee consists of at least three members of non-executive directors and must be chaired by an independent non-executive director. The committee should hold regular meetings, at a minimum once every quarter and should report regularly to the full board.

Responsibilities of Board Committees

42. The responsibilities of audit, nominating, remuneration and risk management committees are elaborated in **Appendix 4**.

Disclosure Requirements for Board Committees

43. The assessments of the nominating, remuneration and risk management committees must be made available to the full board. The activities of the committees and their assessments must be briefly disclosed in the Directors' Report of the takaful operator's annual reports under the heading "Corporate Governance" and the disclosure must include the following:

- (a) The membership of the committees;
- (b) The responsibilities of the committees;
- (c) The number of committee meetings held in a year. Takaful operators are encouraged to disclose information on the number of meetings attended by each member of the committees;
- (d) A statement on the assessment of the mix of skills, experience and other qualities of directors in the case of the nominating committee,

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- and a statement of the takaful operator's risk management framework, in the case of the risk management committee; and
- (e) Departures from the established terms of reference of the committees and circumstances justifying such departures.

PART XI - REMUNERATION FOR DIRECTORS AND CHIEF EXECUTIVES

44. The remuneration of directors and chief executive of a takaful operator should not be out of line with the scale of business operations and activities of the takaful operator. He should not avail himself of self-serving remuneration with excessive bonuses and fringe benefits relative to the profits and operations of the takaful operator concerned. Hence, non-executive chairman should not expect executive pay. The entitlement of the director or chief executive to receive directors' fees from subsidiary companies for which he is a director, should be nominal and not excessive. The remuneration level of an independent director should commensurate with the level of responsibilities undertaken and contribution to the effective functioning of the board. However, it should not create incentives for irresponsible behaviour and insider excesses.

PART XII - LIABILITY OF DIRECTOR OR SENIOR OFFICER

45. Section 60 (3) and (4) of the Act provides that where an offence under the Act is committed by any company or body corporate, penalties may be imposed on the director or senior officer of the company who fails to exercise all such diligence as he ought to have exercised to secure legal compliance by such company or body corporate. As the Bank is empowered to compound offences under the Act or any regulations made there under, the Bank will not hesitate to require such persons to pay the amount for which the offence may be compounded. In this connection, such persons pursuant to section 140(1) of the Companies Act, 1965 shall pay such fines personally. If an offer to compound the offence is not accepted or no such offer is made, such persons will be prosecuted in court and incur the relevant penalty personally. Except for liabilities incurred by such persons in successfully defending any proceedings, whether civil or criminal, in which judgement is given in his favour

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or in which he is acquitted, the takaful operator is not allowed to reimburse amounts paid for any expenses related to the proceedings.

Appendix I**MINIMUM QUALIFICATIONS AND TRAINING REQUIREMENTS FOR
DIRECTORS****Background**

1. This minimum qualifications and training requirements for directors (hereinafter referred to as minimum standard) aims to ensure that the board of directors of takaful operators possess the necessary qualifications and experience to enable them to effectively discharge their governance responsibilities. This minimum standard also aims to ensure that directors are regularly assessed so that they are not disqualified under the Takaful Act 1984 and to ascertain that the directors fulfil the criteria set out in these Guidelines..

2. Relevant training will enable directors of takaful operators to have a robust understanding on the nature of business and to keep abreast with current issues and regulatory changes in the industry. This minimum standard also stipulates the minimum training requirement for directors of takaful operators in view of the importance of training to further strengthen their ability to meet the governance responsibilities.

Applicability

3. The application of the minimum standard is achieved through prescriptive requirements and best practice standards. Prescriptive requirements are mandatory requirements that must be complied with by all takaful operators. Best practice applications are not mandatory but takaful operators are encouraged to adopt them as part of efforts to raise their corporate governance practices in line with the international best practices.

Minimum Qualification

4. (a) Prescriptive Requirement

- (i) To enable takaful operators to achieve their corporate objectives and fulfil fiduciary responsibilities, takaful operators are required to carry out an annual assessment to evaluate the effectiveness of each individual director in developing the takaful operator, and regular assessments to ascertain whether the director is not disqualified under the relevant law and fulfil the criteria set out in these Guidelines; and
- (ii) At least two members of the board of a takaful operator should be qualified in finance-related disciplines, which at a minimum should be at a university degree level, or have at a minimum five years of working experience at managerial level in these disciplines. For the purpose of the minimum standard, finance-related disciplines include banking, insurance, takaful and investment. In addition, at least one member of the board who sits in the audit committee of the takaful operator should have working experience or knowledge in accounting, auditing practices and financial reporting requirements.

(b) Best Practices

- (i) To ensure that the board of a takaful operator has the required mix of skills and experience to discharge its duties, the members of the board should be from diverse backgrounds, with knowledge and experience in relevant disciplines such as legal, accounting, marketing, information technology, business administration and investment management. All members of the board of a takaful operator should also have some form of educational qualification and/or working experience at managerial level in finance-related disciplines, in addition to the qualifications and experience in their respective disciplines. A

takaful operator should strive towards appointing board members with strategic thinking and leadership skills who are dynamic and responsive to the business environment;

- (ii) To ensure the committee is able to collectively discharge its duties, all members of the audit committee should be able to understand the financial reporting process and be financially literate³. In addition, in view of the important role of the committee in ensuring that there are checks and balances in the internal audit process, audit committee members should also be familiar with areas included in the scope of internal audit including risk management, underwriting, investments and claims management. At least one member of the audit committee should be a member of a recognised accounting professional body, such as the Malaysian Institute of Accountants; and
- (iii) As a good practice, takaful operator should require their directors to make a quarterly declaration, using a standard format, that they are not disqualified under the relevant law and fulfil the criteria set out in these Guidelines.

Training Requirements

5. (a) Prescriptive Requirement

- (i) The nominating committee of a takaful operator is required to ensure that the board appointees receive continuous training programmes. Further, a takaful operator is required to develop in-house orientation and education programmes for its newly appointed directors to familiarise them with the relevant industry and the institution within three months of the appointment. The orientation and education programmes should cover at a

³ Financial literacy is defined as the ability to read and understand fundamental financial statements, including a company's balance sheet, income statement and cash flow statement.

minimum the nature of business; the corporate strategy of the takaful operator; duties and responsibilities of a director and the board as a whole; an overview of risks of the business and the risk management strategy of the takaful operator; legal requirements and compliance controls of the takaful operator; and an overview of the financial health of the takaful operator. New directors or reappointed directors who have yet to attend the mandatory training programmes prescribed by the Bursa Malaysia for listed companies, or Suruhanjaya Syarikat Malaysia must attend the programme within six months of their appointment; and

- (ii) On an on-going basis, takaful operators should notify the board of all guidelines and circulars (excluding administrative circulars) issued by Bank Negara Malaysia within one month of the date of issuance of the guidelines or circular.

(b) Best Practices

Directors should attend training programmes to enable them to have robust understanding of the nature of the takaful operator's business and keep abreast with new regulatory and business developments.

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Appendix II

Application Forms for the Appointment and Re-Appointment of Directors and/or Chief Executives

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Appendix III

REAPPOINTMENT OF DIRECTORS/CHIEF EXECUTIVES OF TAKAFUL OPERATORS

Compliance with prescriptive requirements

The nominee should meet the following criteria:-

1. Attended not less than 75% of the takaful operator's board meetings held;
2. Has not been a party to any action or decision of the board or management which is detrimental to the interests of the takaful operator or its participants;
3. In the case of a nominee for reappointment as chief executive, the nominee has not acted in a manner which may cast doubt on his fitness to hold the position of chief executive, or acted in blatant disregard for proper professional conduct, especially in dealings with participants and customers; and
4. In the case of a nominee for reappointment as director, the nominee has the relevant qualifications and business experience, having regard to the collective skill sets required by the board of directors as a whole.

Participation on the Board of Directors and Board of Directors Committees (applicable to directors only)

1. The nominee demonstrated the capacity to participate constructively in the board of directors' deliberations in a manner that enhanced the board of directors' ability to provide strategic direction to the takaful operator;
2. The nominee demonstrated the ability to surface important issues, provide sound advice and make appropriate suggestions for improvements on matters brought before the board of directors;
3. The nominee accorded a sufficient level of importance to governance issues (including ensuring that adequate follow-up action is taken to address audit and inspection issues) to safeguard the integrity of the takaful operator's activities and operations;

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4. In cases where the nominee has served on board of directors committees, the nominee demonstrated the ability to critically evaluate policies & proposals, effectively support recommendations made to the board of directors and contribute towards achieving sound decisions on matters within the committee's purview; and
5. The nominee demonstrated the ability to communicate effectively with, and positively influence, shareholders to secure support for the board of directors' decisions and corporate strategies in the interest of the takaful operator.

Specific competencies relevant to Chief Executive/Executive Director

1. The nominee demonstrated the ability to communicate a clear corporate vision to employees, and generate enthusiasm and commitment towards achieving the vision;
2. The nominee demonstrated the ability to effectively optimise available resources to achieve the corporate objectives;
3. The nominee demonstrated the ability to monitor and drive performance improvements towards achieving specific performance targets set, by among other things, continuously encouraging innovation and creativity among employees, leveraging on opportunities to enhance the competitiveness of the takaful operator, and building and reinforcing alliances for the benefit of the takaful operator;
4. The nominee demonstrated the ability to ensure the effective management of internal and external risks of the takaful operator, including ensuring that appropriate contingency plans are in place;
5. The nominee directed sufficient attention and resources towards the development of internal technical expertise and capabilities needed to support the continuous growth and development of the takaful operator; and
6. The nominee demonstrated the ability to interact effectively with the board, participants and customers, particularly to resolve contentious issues/problems arising in connection with the takaful operator's business activities.

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Appendix IV

RESPONSIBILITIES OF AUDIT, NOMINATING, RMUNERATION AND RISK MANAGEMENT COMMITTEES

Audit Committee

1. Ensuring that the accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies, and bad and doubtful debts. Review the balance sheet and income statement for submission to the full board of directors and ensure the prompt publication of annual accounts;
2. Reviewing internal controls, including the scope of the internal audit programme, the internal audit findings, and recommend action to be taken by management. The reports of internal auditors and audit committee should not be subject to the clearance of the chief executive or executive directors. The audit committee should also evaluate the performance and decide on the remuneration package of the internal auditors;
3. Reviewing with the external auditors, the scope of their audit plan, the system of internal accounting controls, the audit reports, the assistance given by the management and its staff to the auditors and any findings and action to be taken. The audit committee should also select external auditors for appointment by the board each year; and
4. Reviewing any related party transactions that may arise within the group.

Nominating Committee

1. Establishing minimum requirements for the board and the principal officer to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the board in terms of the appropriate size and skills, the balance between executive directors, non-executive and independent directors, and mix of skills and other core competencies required, through annual reviews;
2. Recommending and assessing the nominees for directorship, the directors to fill board committees, as well as nominees for the principal officer position. This includes assessing directors and the principal officer proposed for

reappointment, before an application for approval is submitted to Bank Negara Malaysia;

3. Establishing a mechanism for formal assessment and assessing the effectiveness of the board as a whole, the contribution by each director to the effectiveness of the board, the contribution of the board's various committees and the performance of the principal officer;
4. Recommending to the board on removal of a director/principal officer if he is ineffective, errant or negligent in discharging his responsibilities;
5. Ensuring that all directors undergo appropriate induction programmes and receive continuous training; and
6. Overseeing appointment, management succession planning and performance evaluation of key senior officers, and recommending to the board the removal of key senior officers if they are ineffective, errant or negligent in discharging their responsibilities.

Remuneration Committee

1. Recommending a framework of remuneration for directors, principal officer and key senior officers. The remuneration policy should:
 - (a) Be documented and approved by the full board and any changes thereto should be subject to the endorsement of the full board;
 - (b) Reflect the experience and level of responsibility borne by individual directors, the principal officer and key senior officers;
 - (c) Be sufficient to attract and retain directors, principal officer and key senior officers of calibre needed to manage the company successfully; and
 - (d) Be balanced against the need to ensure that the funds of the takaful operator are not used to subsidise excessive remuneration packages.
2. Recommending specific remuneration packages for directors, principal officer and key senior officers. The remuneration packages should:
 - (a) Be based on an objective consideration and approved by the full board;
 - (b) Take due consideration of the assessments of the nominating committee of the effectiveness and contribution of the director, principal officer or key senior officer concerned;

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- (c) Not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
- (d) Be competitive and is consistent with the takaful operator's culture, objective and strategy.

Risk Management Committee

1. Reviewing and recommending risk management strategies, policies and risk tolerance for the board's approval;
2. Reviewing and assessing the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;
3. Ensuring adequate infrastructure, resources and systems are in place for an effective risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the takaful operator's risk taking activities; and
4. Reviewing the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.