



# **“Regulatory Standards for Islamic Finance: Implementation Issues and Challenges”**

**Presented By**

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**at**

**Financial Regulators Forum in Islamic Finance**

**Organized by Bank Negara Malaysia**

**Kuala Lumpur, Malaysia**

**March 26-29, 2007**



# OUTLINE

- Development of Takaful**
- Challenges Facing Takaful**
- Concluding Remarks**



# Development of Takaful

- ❑ **Islamic financial services industry is emerging as a major component of the global financial system**
- ❑ **Takaful is witnessing rapid expansion with significant potential worldwide**
- ❑ **Growing awareness of Shariah concepts and principles**



## **Development of Takaful (cont.)**

- Ability to mobilize long-term funds and capability in providing a risk management tool based on mutuality**
- Untapped Islamic markets can be introduced to Takaful concept**
- In most Islamic countries insurance penetration does not exceed 1% of GDP**
- Islamic countries with low insurance penetration can jump directly to a Takaful concept**



# Challenges Facing Takaful

- A regulatory framework is needed for Takaful to thrive in an orderly and proper manner**
- This framework should ensure a level playing field for Takaful business**
- Establishing standards to solve the key aspects of differences between Takaful and conventional insurance**



## **Challenges Facing Takaful (cont.)**

- ❑ First Seminar on Regulation of Takaful co-organized by the Insurance Commission of Jordan and the Islamic Financial Services Board (IFSB) in 2005**
- ❑ Establishment of a joint working group from representatives of the two standard setting bodies (IAIS & IFSB)**
- ❑ Assessing the applicability of the existing IAIS Insurance Core Principles to the supervisory and regulatory standards for Takaful**



## **Challenges Facing Takaful (cont.)**

- ❑ Some of the IAIS Core Principles require adaptation to cater for Takaful**
- ❑ Main issues that require further work are Corporate governance, Financial and prudential regulation, Transparency, reporting and market conduct, and Supervisory review process**



# Challenges Facing Takaful (cont.)

- ❑ **The establishment of international standards for Takaful would allow conformity in regulation across the different jurisdictions**
  
- ❑ **Lack of uniformity in Shariah decisions**
  - **National efforts to establish National Shariah Board**
  - **Shariah rules should be harmonized to promote market development**



# Challenges Facing Takaful (cont.)

- ❑ **Competition as a result of liberalized and open markets**
  - **Takaful operators should compete to raise performance standards**
  
- ❑ **Product awareness should be strongly developed**



## **Challenges Facing Takaful (cont.)**

- ❑ Re-Takaful is inadequate to meet the needs of Takaful operators**
- ❑ Avenues of investment in accordance with Shariah principles are relatively limited**
- ❑ Strengthen technical, actuarial, IT, financial, and marketing skills within Takaful operators**



# Development in Jordan

- Offer Jordan as an opportunistic and efficient market for conventional and Takaful insurance
- The Jordanian insurance market stands in a good position to promote Takaful as a parallel system to conventional insurance
- New Takaful operators are expected to enter the market this year



# Concluding Remarks

- The performance of Takaful operators is growing rapidly**
- The potential for Takaful to penetrate deeper into the market is tremendous**
- Concerted efforts should be exerted on developing Takaful regulations that drive the business forward**
- Practical translation of the commitment of all, at the individual, community, national and international levels is essential**



**Thank You**