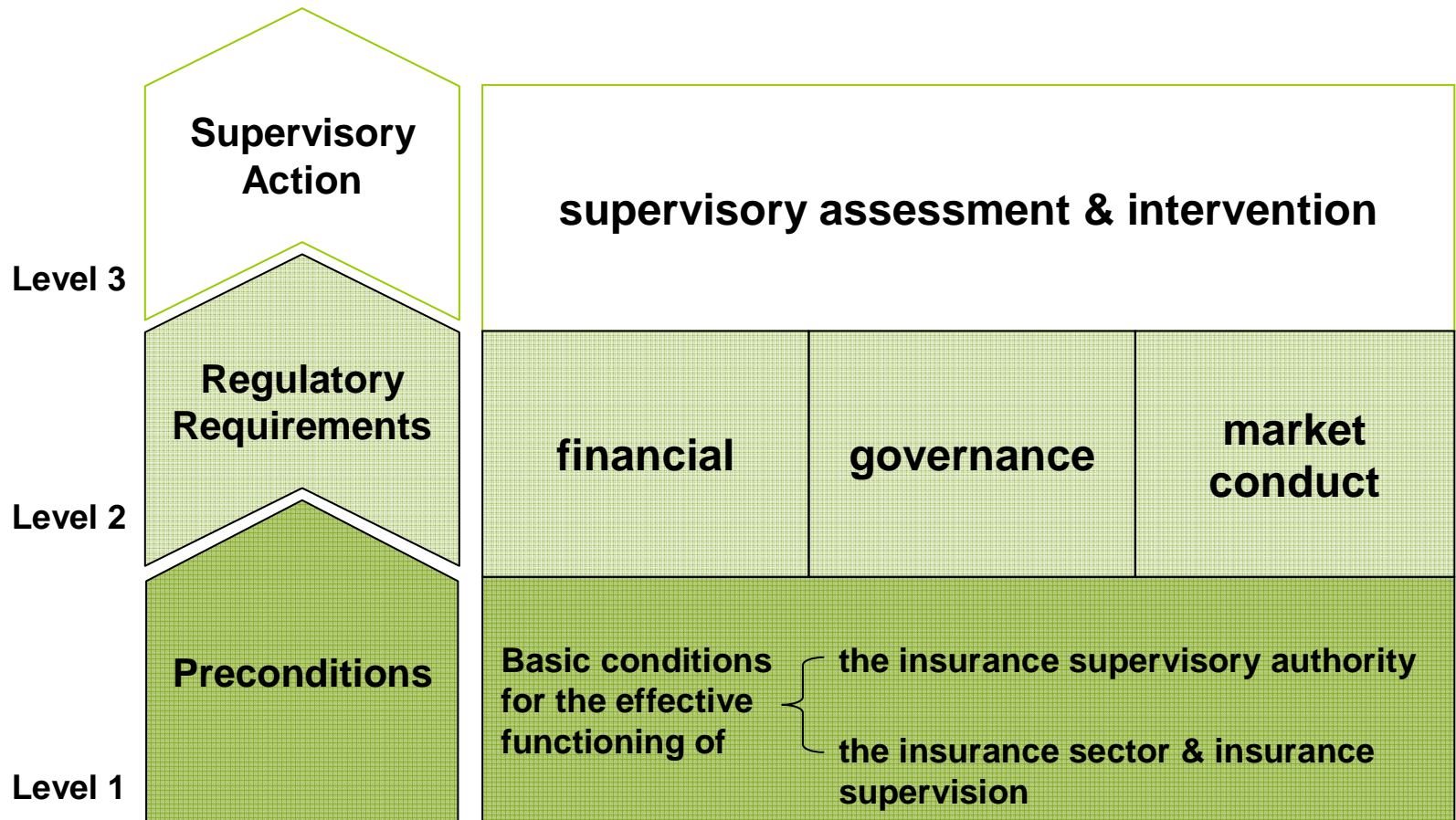


Establishing a robust legal and regulatory framework for Takaful

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How to Supervise



A framework for Islamic finance



- Integrated regulator
- Integrated approach to Islamic finance
- Conventional and Islamic finance
- Similar risks attract similar mitigations ...
- ... but need to know what risks are

A word on regulatory arbitrage



- Traditionally considered between sectors
- Can occur between conventional and Islamic
- Cannot rely on good intentions

A framework for Islamic finance



- Begin from international standards:
Basel, IOSCO, IAIS, FATF
- Need to recognise special features of Islamic finance
- IFSB and AAOIFI
- Much easier in risk and principle based framework

Role of the regulator in Shari'a



- Beyond our competence?
- We must rule?
- Shari'a systems?

What can work in non-Muslim countries?

IFSB work on Shari'a governance

A framework for Takaful



- Assumes a basic framework of insurance regulation
- IAIS Core Principles
- Assumes similar risks will be similarly treated

So what is special for Takaful?

A framework for Takaful – the issues



Takaful structures

- Where do they place the risks?
- What are the implications for capital?
- What are the incentives and conflicts?
- How can they be managed?
- What structures should be allowed?

A framework for Takaful – the issues



Takaful structures

- The name is not enough
- Need to map rights, obligations and money flows

A framework for Takaful – the issues



Prudential rules

- What is allowable as capital?
- Investments
- Is there displaced commercial risk?

A framework for Takaful – the issues



Disclosure

- What must be disclosed?
- How can disclosures be made understandable?

A framework for Takaful – the issues



The problem of Retakaful

- Possible Shari'a and governance issues
- Few new prudential issues

A framework for Takaful – the issues



The problem of Retakaful

- Possible Shari'a and governance issues
- Few new prudential issues

Approaching a solution



- A modern insurance framework
- Risks not prescription
- Effective supervision

Approaching a solution



This is a difficult problem

Approaching a solution



- Shari'a governance
- AAOIFI standards
- IFSB work under way

Approaching a solution



- Understand Islamic investment contracts
- Apply appropriate risk weights

Approaching a solution



- Either prescribe structures – in detail
- ... or analyse them and use modification powers
- Don't forget insolvency law

Approaching a solution



- Work on standards
- Need for business models to crystallise

Contacting Us



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