

Essential Elements for Effective Supervision of Takful Operators

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Islamic Finance
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Central Bank of Bahrain (CBB)

29 Islamic banks
5 Investment Firms
19 Islamic windows
80 Islamic mutual funds
6 Supportive institution

Islamic Banking Infrastructure

- Comprehensive regulatory framework for Islamic banks including capital adequacy (PIRI) ✓
- Basle II Version for Islamic Banks ✓
- Accounting and Auditing Standards (AAOIFI) ✓
- Product /practice and money market development. (IIFM) ✓
- Islamic Research center (Waqf Fund). ✓
- Islamic Rating Agency. ✓
- General Council for Islamic banks and financial institutions (GCIBFI) ✓



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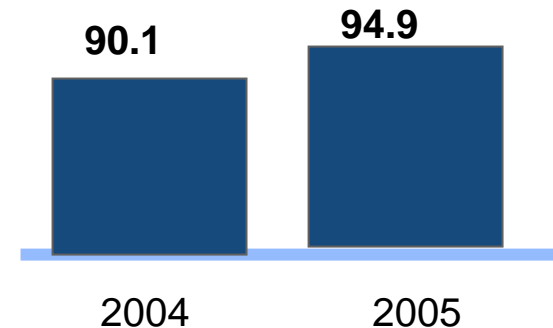


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- Insurance Penetration is 2.2% which is one of the highest in the region.
- Public awareness
- Highly coordination with Bahrain Insurance Association.
- Takaful sector has registered substantial growth during the last year.

Total Premiums written

BD Million



High Level standards

- Licensing
- Corporate Governance

Business Standards

- Capital
- Business conduct
- Financial crime

Reporting Requirements

- Reporting to CBB
- Public disclosure

Enforcement

Takaful and retakaful, Captive Insurers and insurance intermediaries

Risk Based Supervision

Risk Base Supervision

Where are the risks (idenfication)?

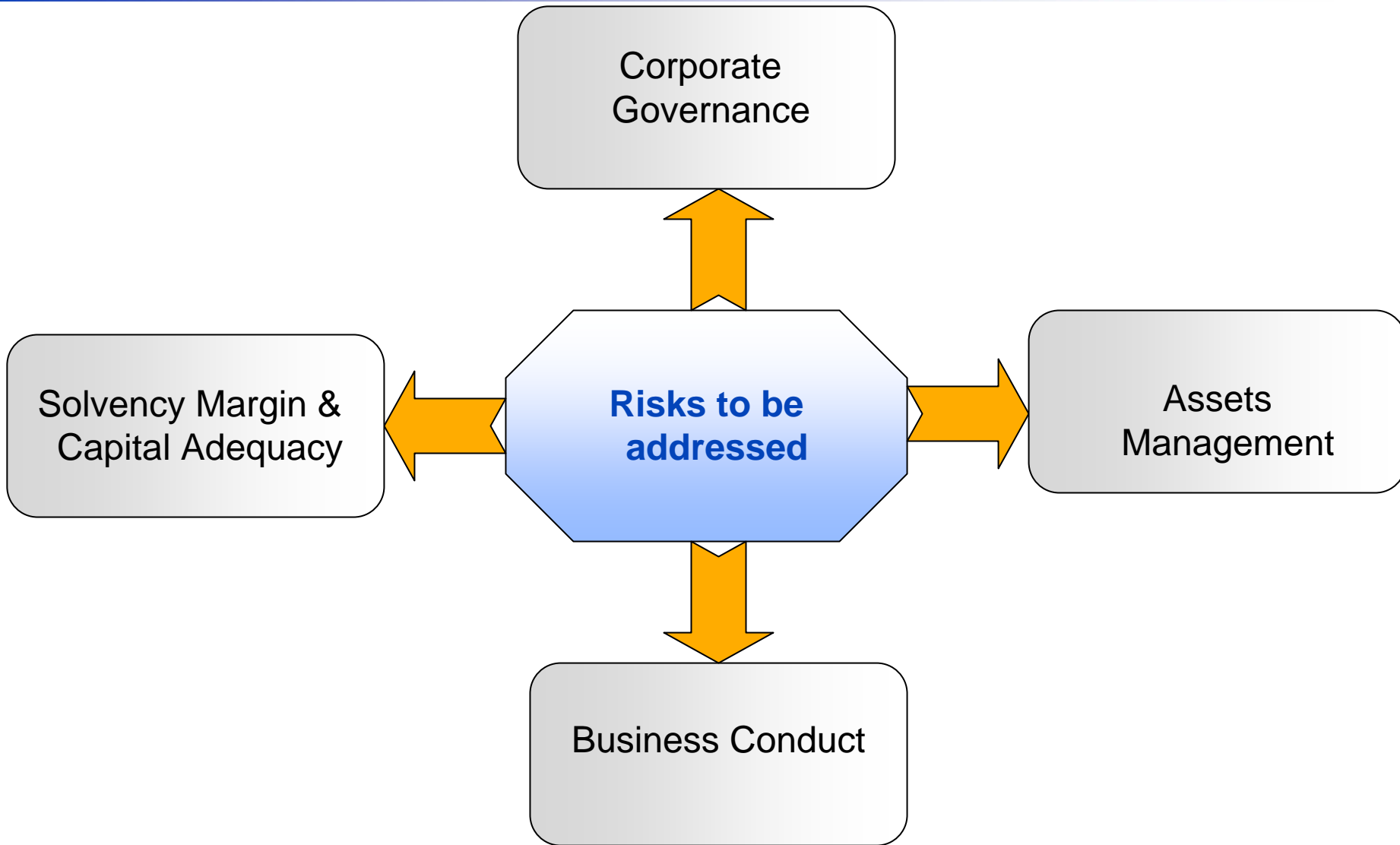
- Participants Interests
- Business conduct
- Solvency margin
- Assets Management.

Takaful companies have unqiue risks that should be address by the Regulators

High

Moderate

Low





- Solvency Margin

- Corporate Governance

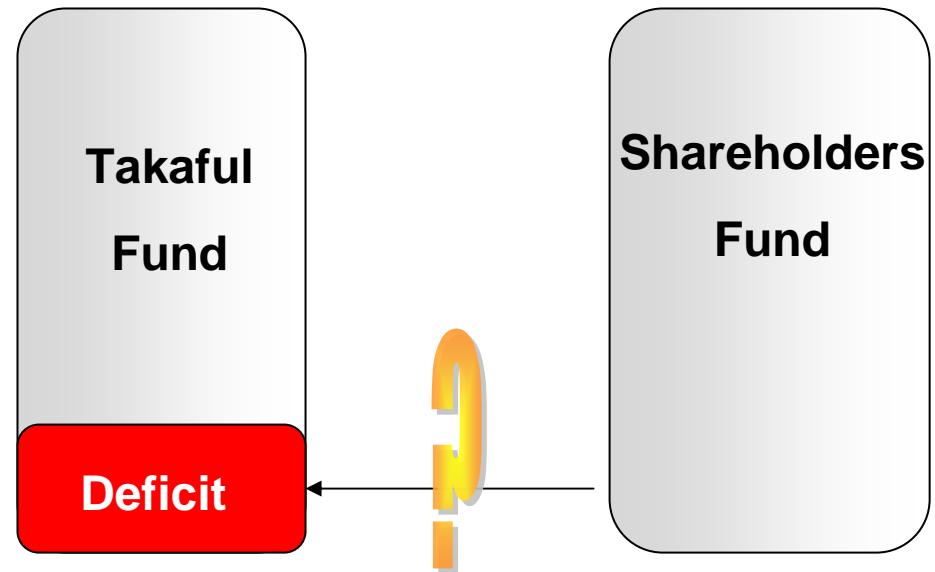
- Assets Management

- Business Conduct

There are two views regarding capital of takaful companies:

- ➔ Lender o Last resort
- ➔ Just to meet the Legal Requirements

How the regulators satisfy that all the times there are liquid assets to support takaful fund?



Does the shareholders fund need to be regulated ?

Reponses

Detail

1

Yes with same policyholders limits

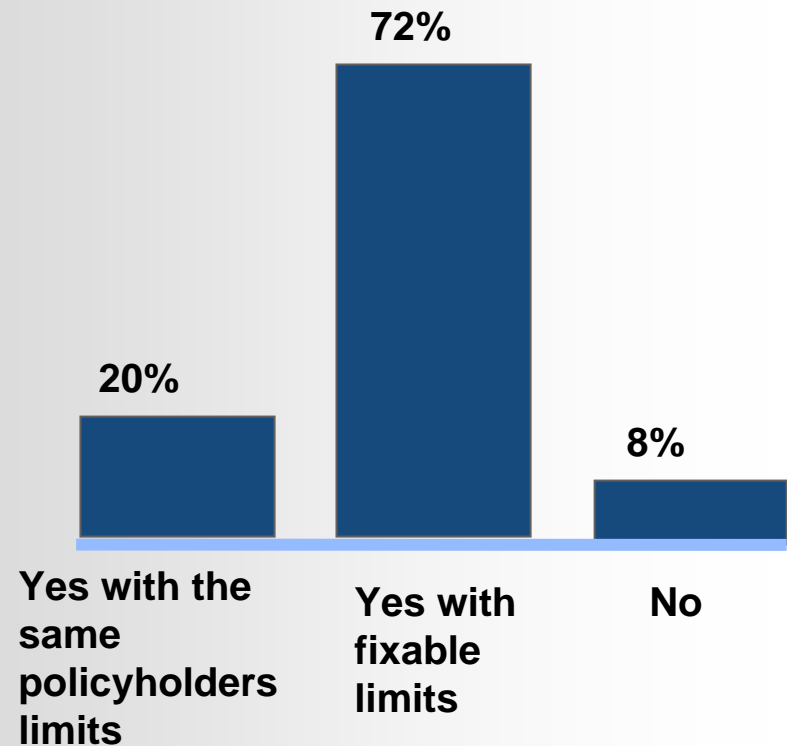
2

Yes with flexiable limits

3

No need to regulate fund

Regulation of Shareholders Fund



Capital adequacy and solvency

- Shareholders fund.
- Participants funds

Shareholders fund

- why there is a need for solvency requirements for shareholders fund:
 - Can make free loans (qard Hasan) to takaful fund (s) in case of deficit
- Simplified solvency requirements (**minimum fund**)

Type of Takaful	Amount in BD	Notes
General Takaful	300,000 up to 500,000	Based on insurance classes
Family Takaful	400,000	

Takaful fund (s)

- Calculate the solvency margin based on the following three tests:

- Premium test.
- Claims test.
- Minimum fund.

The highest results will be considered as solvency margin

Tier 1

- Paid-up ordinary shares
- Share premium reserve
- General reserve

Tier 2

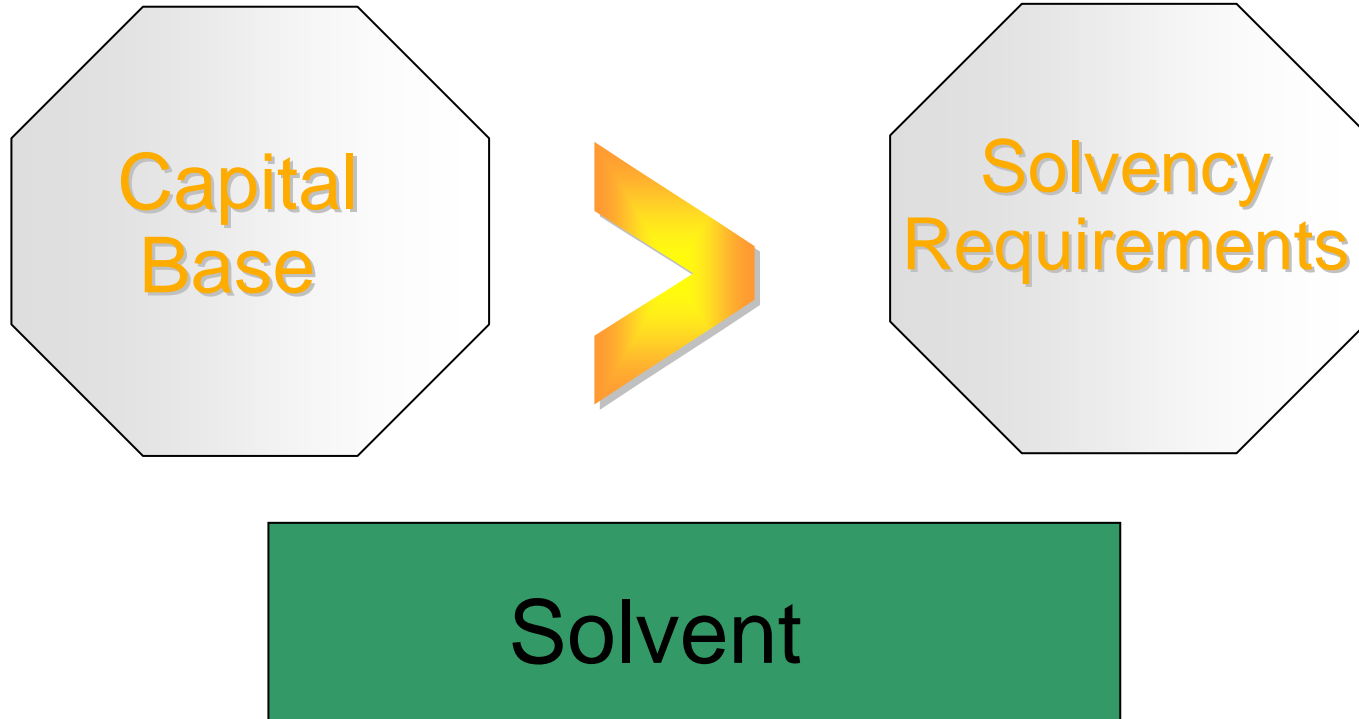
- Any hybrid capital instruments of a permanent nature

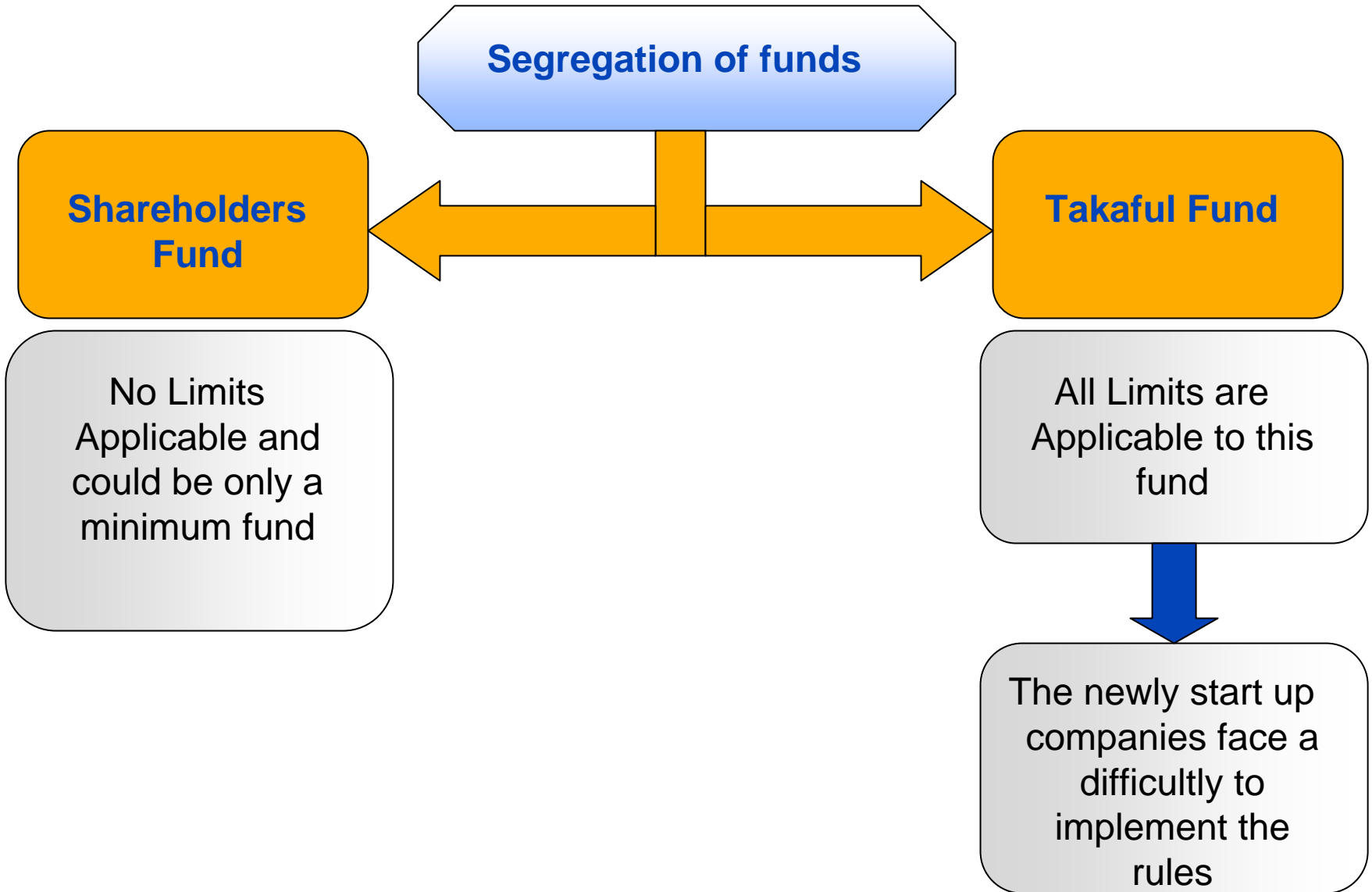
deduction

- Inadmissible assets
- Assets in excess of market and counterparty limits

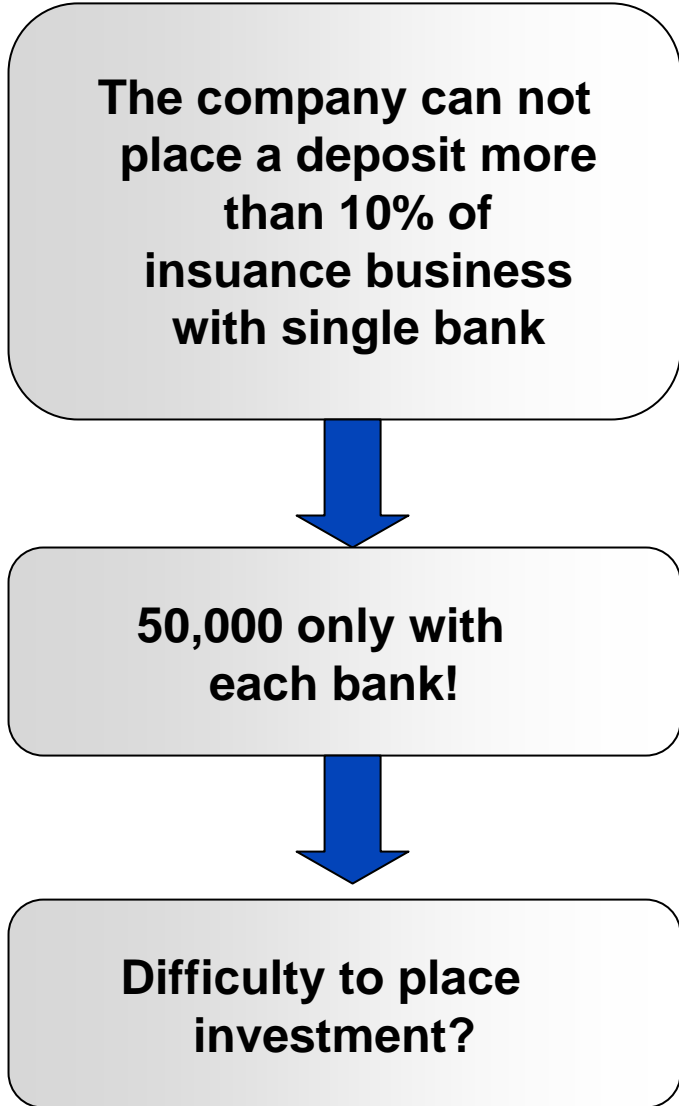
Capital Base

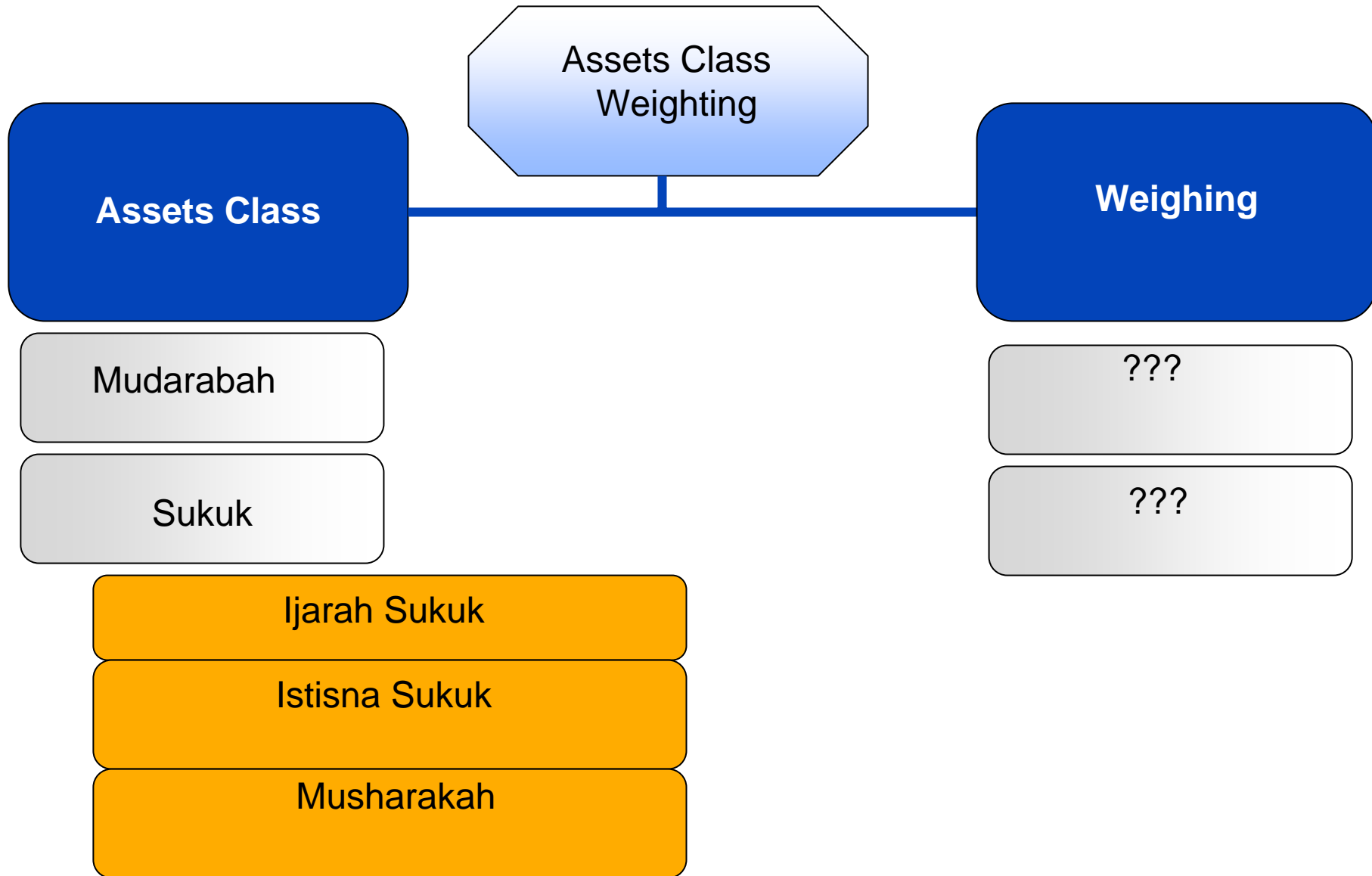
- The solvency margin:





Assets Class	Amount
Investment Accounts (Deposits)	500,000
Sukuk	200,000
Equities	150,000
Real Estate	150,000
Total	1,000,000







- Solvency Margin

- Corporate Governance

- Assets Management

- Business Conduct

Who is protecting the interests of Participants?

Currently



Is this enough ?!

- **There are two parties:**

- **Regulator-** thought the current regulations & supervision. (Corporate Governance and Business Conduct)
- **Shari'ah Board-** from the ethical prospective

- **Regulator:**

- The regulation need to be adopted to cater for unique characteristics of takaful.

- **Shari'ah Board:**

- The shari'ah Board has not the right competencies to perform this job.
- It is not stated in the Shari'ah Board Mandate.

Wakalah Fee

- The shareholders are in preference to charge higher fee.

Reserves

- Distribute profit to participants before take reserves.
- Charge incentive fee before take reserves or distribute anything to participants

Retakaful

- The company may choose reinsurer base on commission not on technical criteria.

Investment

- The company may place shareholders fund in better investment opportunities vis-à-vis takaful funds

Competition

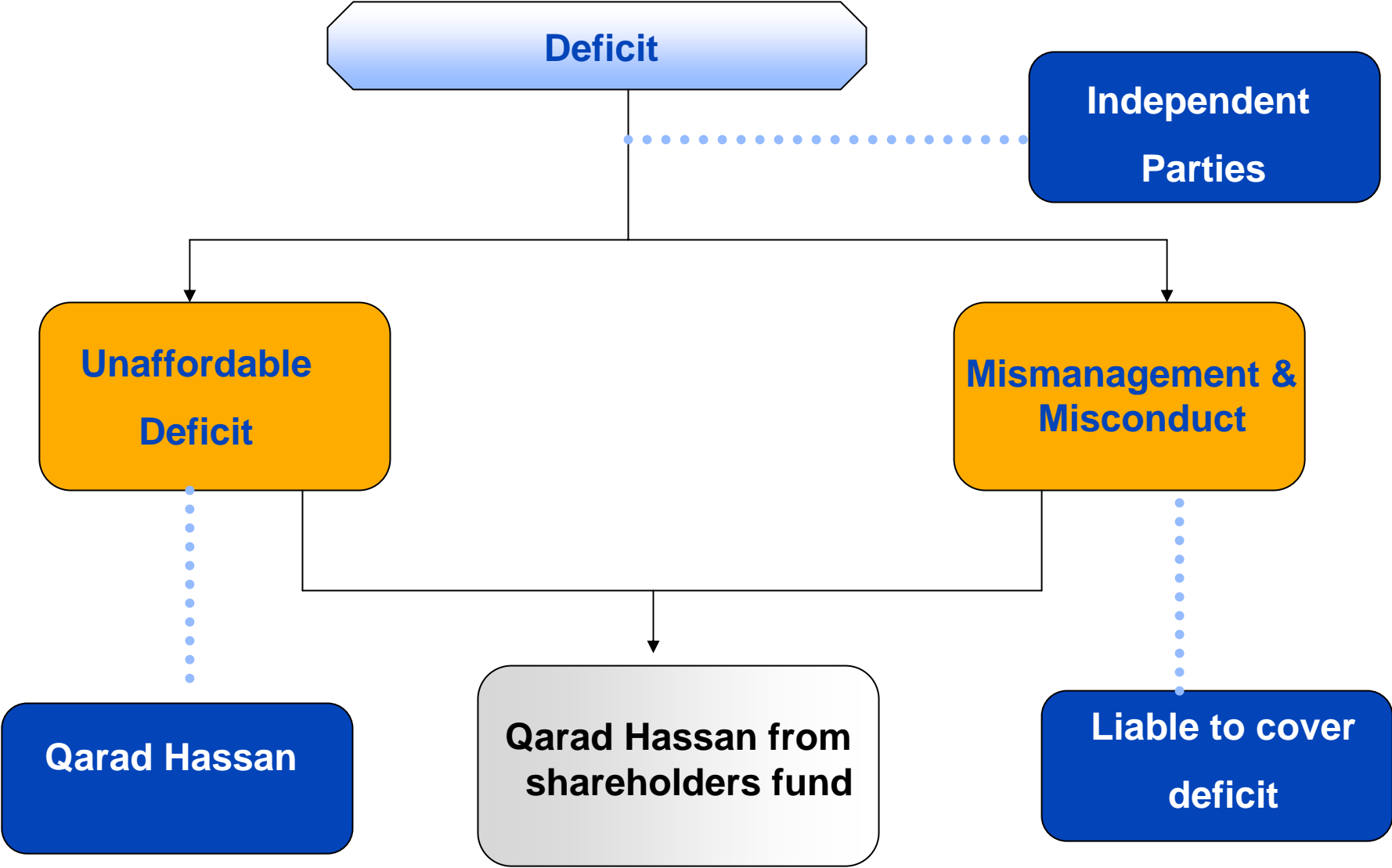
- The competition could lead the operator to pas the risk to takaful pool without proper pricing.

Deficit

- The deficit incurs in takaful fund could be resulted from mismanagement or misconduct by the operator.

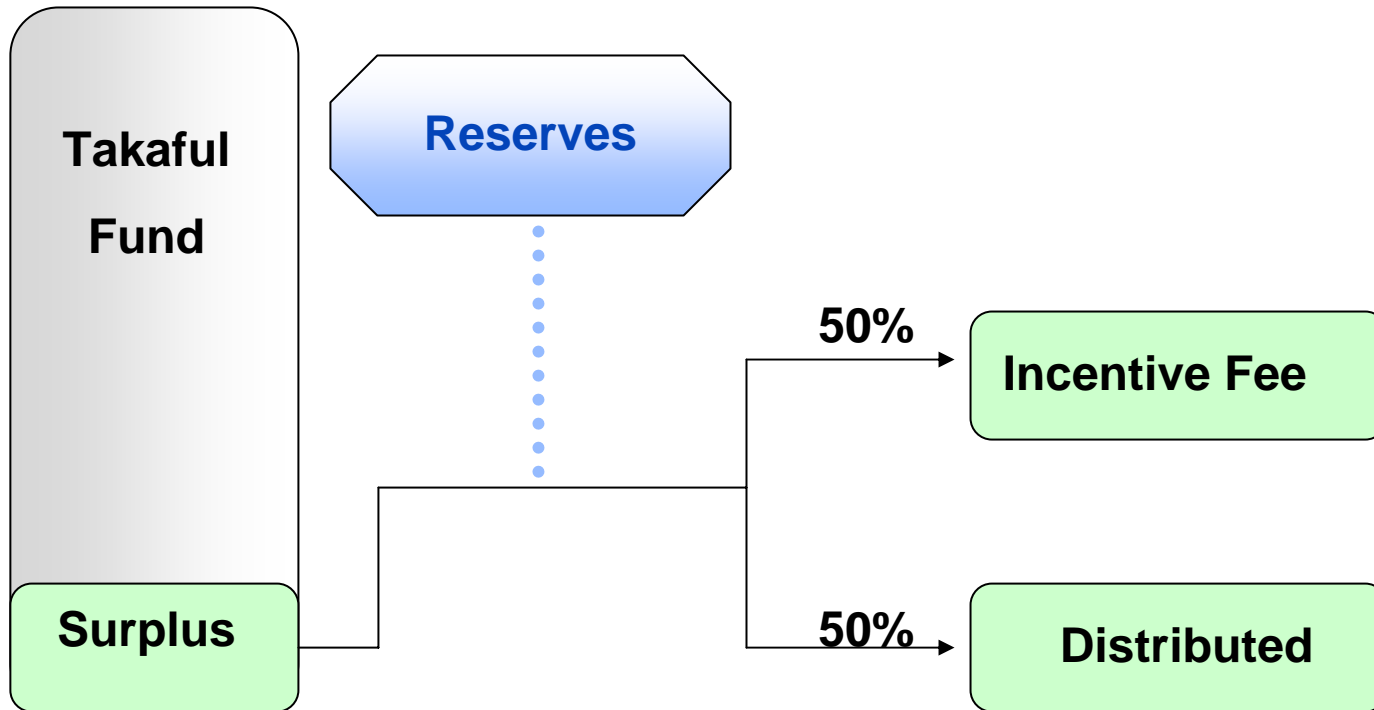
Family takaful

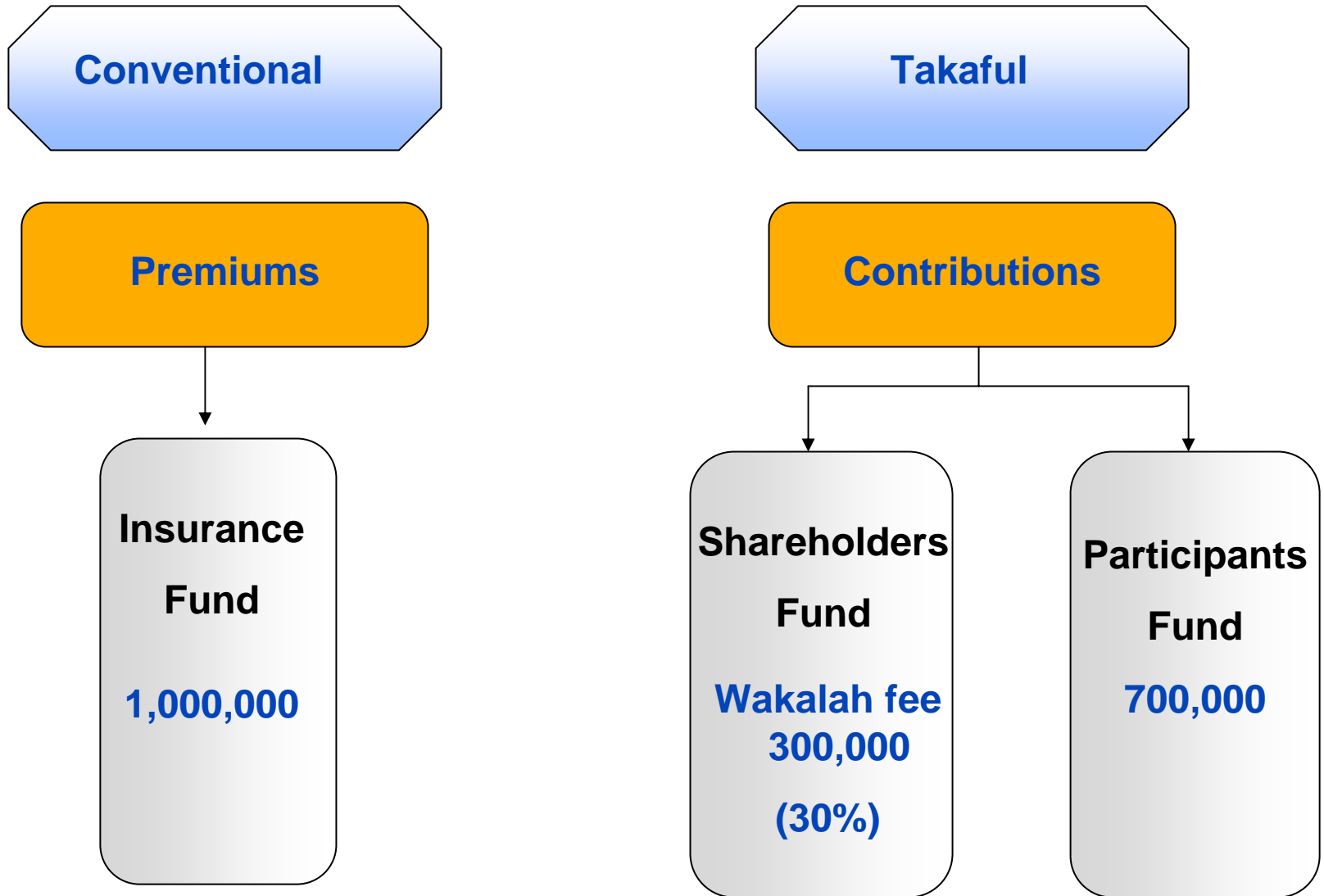
- The amount that goes to risk pool and the remaining amount which goes to saving pool.



Reserves

- Distribute profit to participants before take reserves.
- Charge incentive fee before take reserves or distribute anything to participants





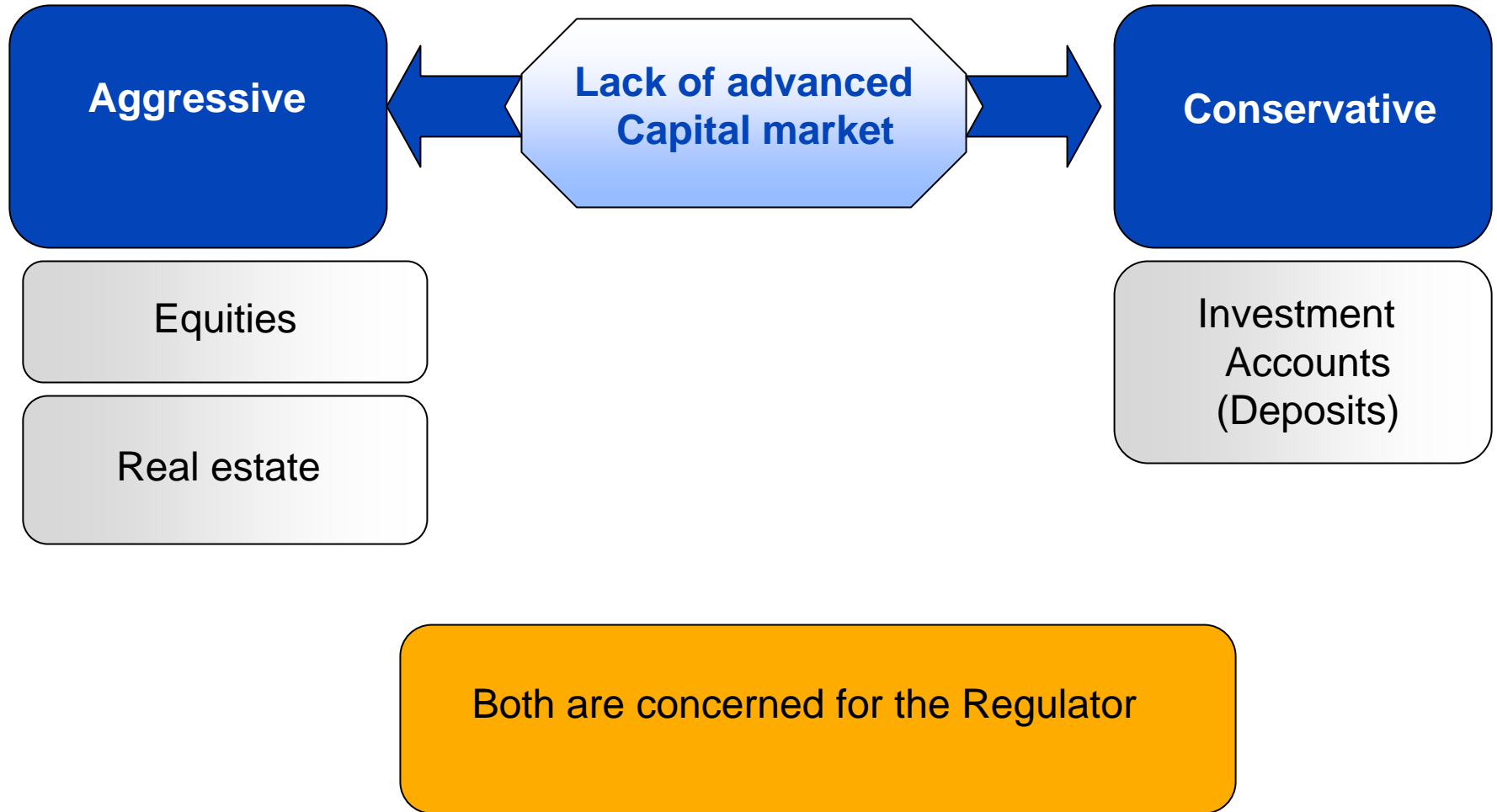


- Solvency Margin

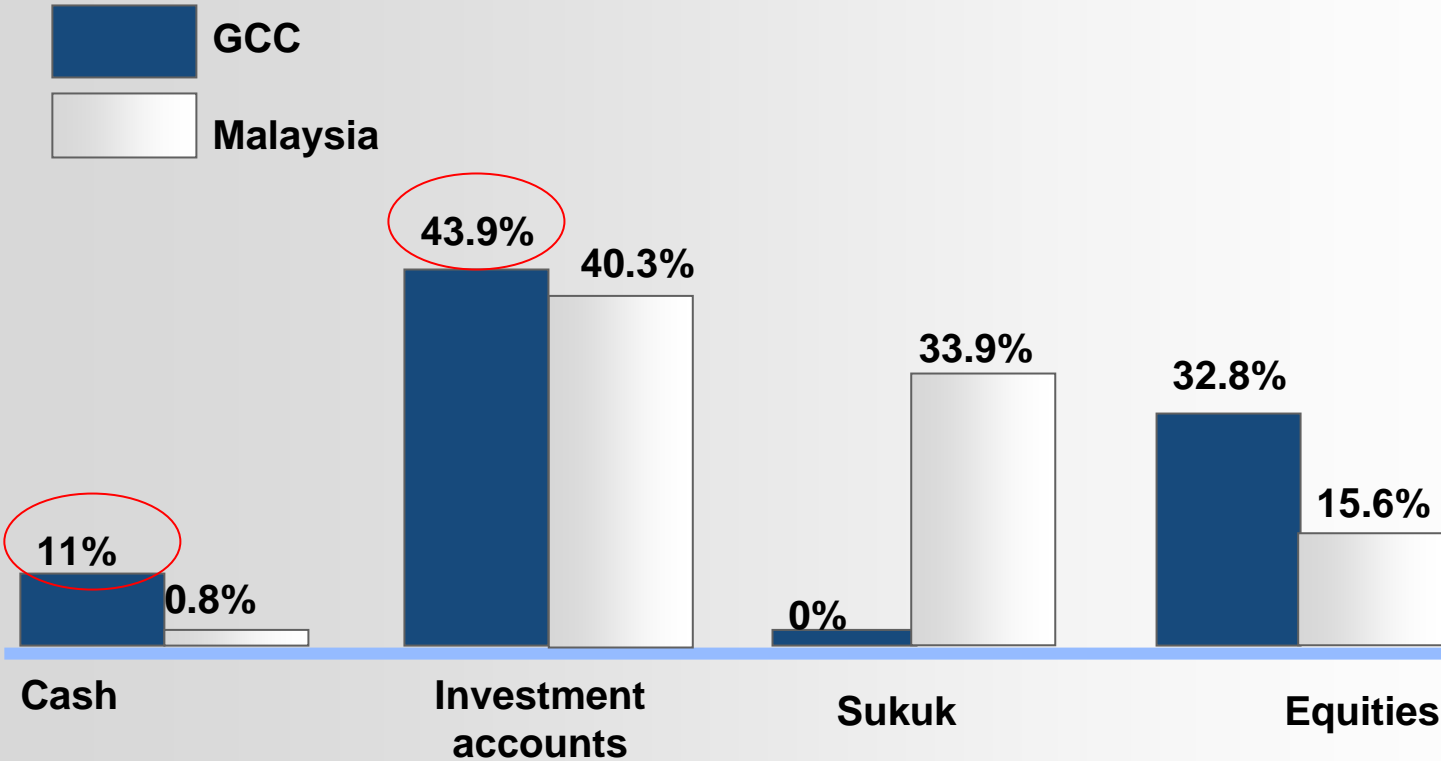
- Corporate Governance

- Assets Management

- Business Conduct



Portfolio composition for General Takaful Fund – GCC vs. Malaysia



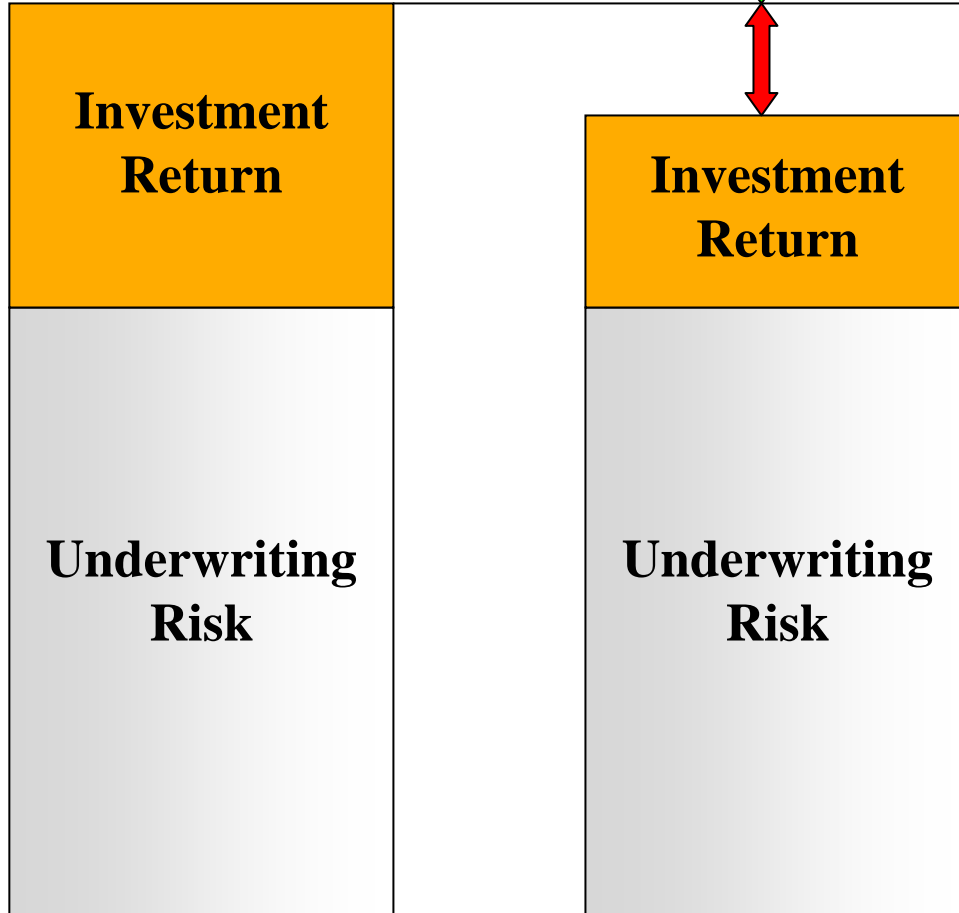
Source: PHD study form the presenter

Conventional

Takaful



Charge higher premiums



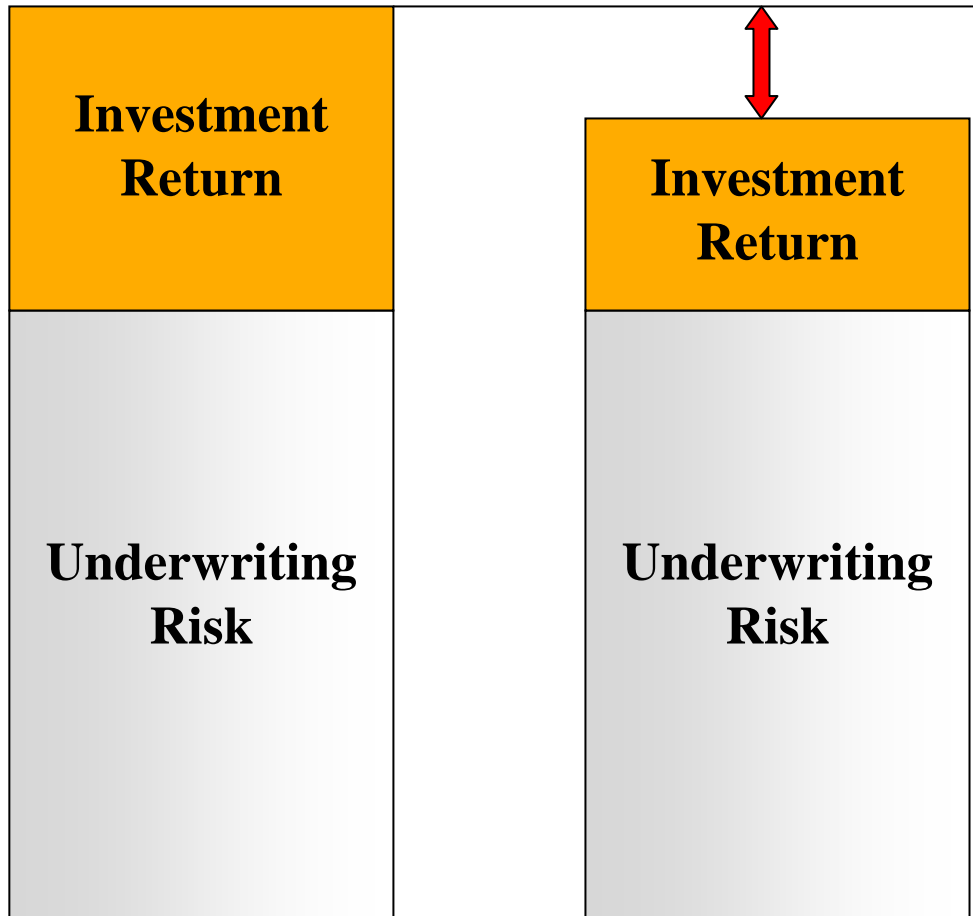
Charge higher premium which reduce the competitiveness

Conventional

Takaful

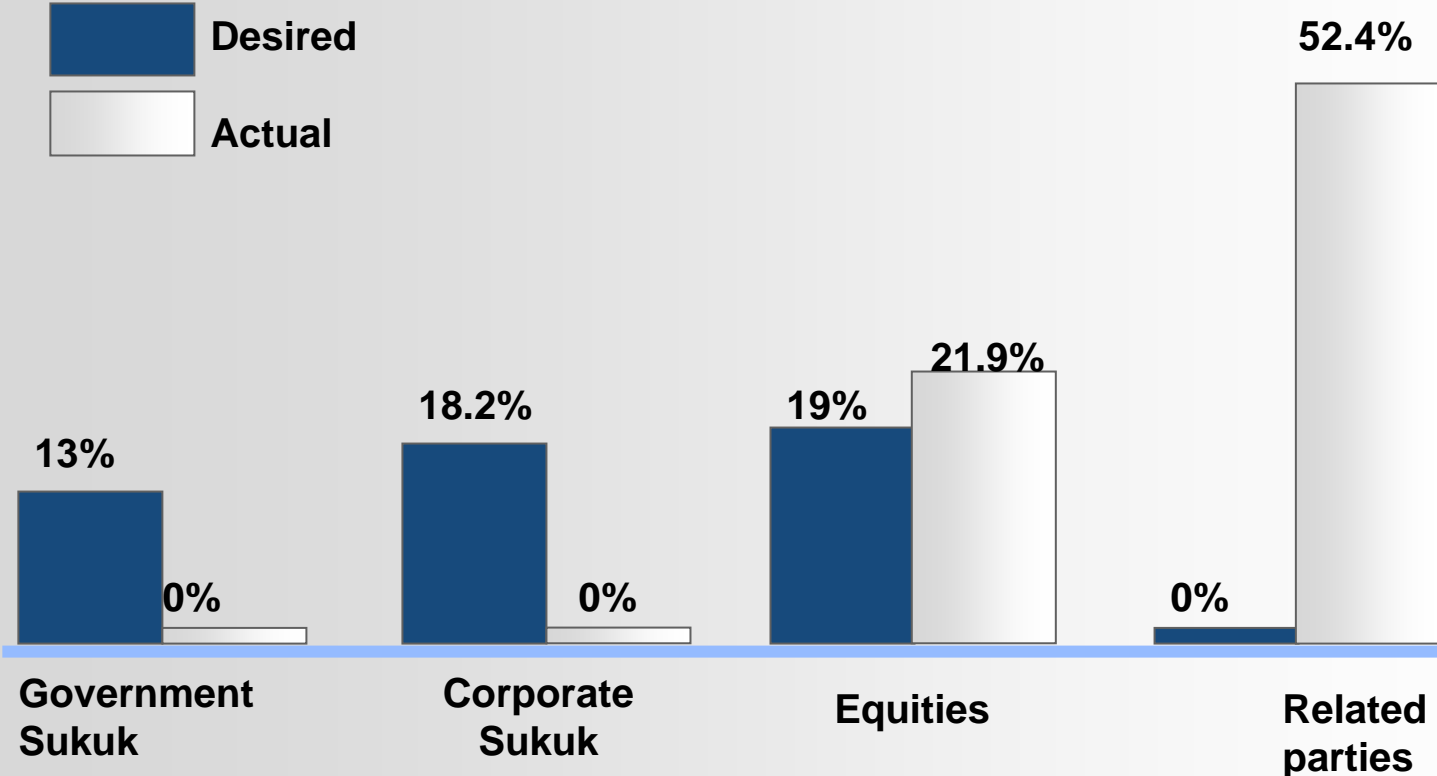


Charge same premiums



Increase Risk

Desired vs. Actual Portfolio composition for General Takaful Fund - GCC



Source: PHD study form the presenter



- Solvency Margin

- Corporate Governance

- Business Conduct

Business Conduct

- Importance of transparency and disclosure particularly as it relates to:
 - **Wakala Fees**
 - **Allocation and distribution surpluses**
 - **Future obligation that participants may incur.**
- Provide participants with clear information about performance of takaful funds (in accordance with AAOIFI).

- Corporate Governance
- Protecting the interests of participants
- Disclosure and Transparency
- Solvency Margin
- Standardize the Regulation.

Future Challenges

