Statement of the Shariah Advisory Council of Bank Negara Malaysia (SAC) and Standards under Section 29(1) of the Islamic Financial Services Act 2013 (IFSA) and Section 33E(1) of the Development Financial Institutions Act 2002 (DFIA) on Corporate Insurance Coverage of Islamic Financial Institutions

Part I: SAC Statement pursuant to section 52(1)(a) of Central Bank Act 2009

The SAC in its 249th meeting dated 24 July 2025, ascertained that the following parameters shall be complied by Islamic financial institutions (IFIs) in obtaining corporate insurance coverage:

1. As a general principle, IFIs are permitted to use conventional products only in cases of clear hardship, provided that such circumstances meet the preconditions and parameters outlined in the Policy Document on *Hajah* and *Darurah*[1].

2. IFIs are permitted to obtain corporate insurance coverage to protect their risks provided that the following specific parameters are met:

   (i) Reasonable efforts have been made to ensure that no takaful operator (TO) is able, willing, or has the capacity to underwrite the specific risk, for each class of business requiring coverage;

   (ii) Reasonable efforts have been made by IFIs to secure a Shariah-compliant arrangement with their group or parent company, but is ascertained by IFI that such arrangement is impractical; and

   (iii) The price of insurance must be significantly lower compared to takaful, however:

      (a) The price of insurance alone shall not be the sole reason for choosing insurance over takaful; and

      (b) The Shariah Committee of the IFIs must deliberate and consider the affordability of the takaful price offered by the TOs.

The SAC has further ascertained that the application of corporate insurance coverage to protect IFIs' risks under the circumstances described, is categorised as *hajah* type 2 in accordance with the Policy Document on *Hajah* and *Darurah*.

[1] Issued by Bank Negara Malaysia on 3 January 2024 (BNM/RH/PD 028-129).

Part II: Legal Provision and Applicability

2.1 Part 1 of the SAC Statement is made pursuant to section 52(1)(a) and section 55(2)(a) of the Central Bank of Malaysia Act 2009 (CBA).

2.2 Bank Negara Malaysia specifies part 1 of the SAC Statement as standards under section 29(1) of the IFSA and section 33E(1) of the DFIA, effective on 2 January 2026, applicable to the following IFIs:

(i) licensed Islamic banks under the IFSA;
(ii) licensed takaful operators including professional retakaful operators under the IFSA;
(iii) licensed banks and licensed investment banks approved under section 15(1) of the Financial Services Act 2013 (FSA) to carry on Islamic banking business; and
(iv) prescribed institutions approved under section 33B(1) of the Development Financial Institutions Act 2002 (DFIA) to carry on Islamic financial business.

Part III: Background

3.1 Corporate insurance or takaful coverage refers to a range of insurance or takaful products that protect corporates from various risks and is obtained by IFIs as part of its risk management. This includes coverage for commercial crime, directors' and officers' liability and cyber security.

3.2 In the context of financial group, the group-wide corporate insurance or takaful coverage is typically procured at the parent or group level, covering all subsidiaries. Although efforts were exerted by IFIs in seeking a stand-alone takaful coverage, IFIs have ascertained this to be impractical, unavailable, insufficient coverage or result in additional costs.

3.3 The SAC is of the view that there is a need to set out parameters to be complied with by IFIs in determining the permissibility of corporate insurance coverage, taking into account the takaful market offerings on each class of business under the corporate takaful coverage.

Shariah Issues

3.4 The SAC deliberated on the need to provide Shariah clarity on the circumstances that may permit the IFIs to obtain corporate insurance coverage after IFIs has exhausted all efforts to obtain takaful coverage and the appropriateness of classifying the application as *hajah* type 2 in accordance with the Policy Document on *Hajah* and *Darurah*. The SAC also discussed whether the price differential between takaful and insurance products may constitute a valid consideration to apply *hajah*, provided it is not the sole basis for justification.

Part IV: Key Discussion

4.1 In principle, IFIs must ensure that all operations, affairs and activities are conducted in a Shariah compliant manner at all times. This includes the procurement of takaful coverage for corporate risk exposures, as part of their obligation to uphold Shariah principles in risk management.

4.2 However, hardship may arise where the takaful coverage is unavailable, inadequate or insufficient to fully protect IFIs against their corporate risks. In such cases, IFIs are allowed to obtain corporate insurance coverage on the basis of needs *(hajah)* after it has exerted all efforts in obtaining Shariah compliant solutions for each class of business under corporate insurance or takaful coverage. This also includes procurement activities that is arranged at the group level.

4.3 In evaluating the price differences between corporate insurance coverage and takaful offered by TOs, IFIs are to consider the adequacy of coverage as the primary consideration. Hence, price and its impact to profitability of the IFIs shall not be treated as the sole factor in the decision-making process and that the IFIs should discuss if it can afford to take on the higher price of takaful coverage. IFIs are to substantiate with market evidence to ensure robust deliberation in Shariah Committee meeting(s).

Part V: Basis of the SAC Statement

The principle of fulfilling Shariah obligations based on one's ability and best efforts (al-Istito`ah)

5.1 In principle, Shariah obligations are to be fulfilled to the extent of one's capacity and available means. Accordingly, IFIs may obtain insurance coverage only after exhausting all reasonable efforts to secure takaful coverage, including verifying the inability or unwillingness of TOs to accept the risk and assessing the impracticality of group-level Shariah-compliant arrangements. The concept is in line with hadith reported by Abu Hurairah `Abd al-Rahman bin Sakhr, as follows:

ما نهيتكم عنه فاجتنبوه، وما أمرتكم به فأتوا منه ما استطعتم

"*Avoid that which I forbid you to do and do that which I command you to do to the best of your capacity.*" [Sahih al-Bukhari: 7288]

5.2 It is also supported by one of the *fiqh* maxims, which states that anyone who is unable to perform a command perfectly must still fulfil part of it properly and not abandon it entirely:

من عجز عن بعض المأمور لا يسقط عنه المقدور [2]

"If someone is unable to fulfil part of what is commanded, they are not excused from fulfilling what they are capable of."

The concept of Hajah to be treated proportionately

5.3 The SAC permits the use of insurance coverage to protect corporate risks under specific circumstances as outlined in this SAC Statement. This allowance must be applied strictly and not extended beyond situations of genuine hardship. In such cases, IFIs must prioritise takaful coverage wherever it is available and offered by TOs for each class of business and may only resort to insurance where takaful is unavailable, inadequate or insufficient. Additionally, the use of insurance must not be justified solely on the basis of business convenience, such as maintaining IFI's existing business relationship or managing risk to profitability. In principle, this approach is based on the following *fiqh* maxim:

الضرورة تقدر بقدرها [3]

"*Necessity is to be assessed and treated proportionately*."

Part VI: Implication of the SAC Statement

6.1 The SAC Statement provides clarity regarding the implementation and categorisation of *hajah* for IFIs to obtain corporate insurance coverage for purposes of mitigating own risks. The clarity is also further provided as a response to the notifications received on *hajah* type 2 from IFIs under the Policy Document on *Hajah* and *Darurah* where there was no prior SAC Statement.

6.2 For the avoidance of doubt, this SAC Statement applies solely in the case of corporate insurance coverage and IFIs are to submit notification and referral to the SAC on *hajah* application on other use of conventional products that are not addressed by a prior SAC Statement.

[2] Al- 'Izz Abd al-Salam, *Qawaid al-Ahkam fi Masalih al-Anam*, p. 5.
[3] Ibn Nujaim, *Al-Ashbah wa Al-Naza'ir*, Dar Al-Kutub Al-`Ilmiyyah, 1999, p. 73.