IAIS

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Public Background Session:

Paper on Issues in Regulation and Supervision of Microtakaful (Islamic Microinsurance)

IAIS Secretariat

Basel, 24 June 2015

Overview

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Public Consultation and Public Background session

- Development of Supervisory and Supporting Material by IAIS is subject to Public Consultation
- Part of the consultation is a Public Background Session to provide background information, describe the subject matter and specific issues
- Comments to be submitted via the Consultation tool on the IAIS website (News / Consultations)
- Non-Members: http://iaisweb.org/index.cfm?event=getPage&nodeId=25319
- Members: https://extranet.iaisweb.org/index.cfm?event=getPage&nodeId=24399

Rationale for the development of the paper

- Microtakāful (Takāful or Islamic Insurance for the low-income population) is considered a type of insurance that could promote access to insurance in Islamic communities and regions

- Building on cooperation with Islamic Financial Services Board (IFSB)

About the Islamic Financial Services Board

- IFSB – plays an active and complementary role to the IAIS by issuing prudential and supervisory standards for Takāful to safeguard the interests of the consumers and the soundness and the stability of the financial system as a whole
- Working Agreement November 2008 for further cooperation
- "Issues in Regulation and Supervision of Takāful (Islamic Insurance)", issued in August 2006, providing a background to Takāful as well as an analysis of the applications of ICPs to the Takāful industry

About Takaful (1)

- Takāful is the Islamic counterpart of conventional insurance, and exists in both life (or “family”) and general forms.

- Takāful is derived from an Arabic word which means solidarity, whereby a group of participants agree among themselves to support one another jointly against a defined loss.

- In a Takāful arrangement; the participants contribute a sum of money as wholly or partially tabarru’ (donation) into a common fund, which will be used mutually to assist the members against a specified loss or damage.

About Takaful (2)

- Takaful = Islamic Insurance → Shariah compliant

- Conventional insurance is not allowed because it involves:
  - Gharar (uncertainty)
  - Maisir (gambling)
  - Riba (usury → prohibition of interest payments).

- Takaful is not a contract but a tabarru' commitment (donation / charity)

- Takaful is similar to mutual and cooperative structures

Objective of the draft Microtakaful paper

Enhance the understanding of particular issues among regulators and supervisors and other organisations and parties with an interest in this area by:

(a) identifying the current practices and models used for offering Microtakāful products, and the challenges and potential issues arising from Microtakāful transactions;

(b) reviewing the current regulatory framework for the Microtakāful sector in various jurisdictions and suggest initiatives to strengthen the framework and thus enhance financial inclusion through the Takāful sector; and

(c) providing guidance to the supervisors in putting in an enabling environment for the overall development and growth of the Microtakāful sector.

Structure of the draft paper

A. Introduction

B. About Microtakāful

C. Supervisory and Regulatory Framework for Microtakaful

I. Corporate Governance;

II. Financial and Prudential Regulation;

III. Transparency, Reporting and Market Conduct;

IV. Supervisory Review Process.

D. Proposals for future work

Conclusions & recommendations

- For Microtakāful to achieve inclusiveness concerted efforts needed by all the stakeholders.
- Areas of attention as a direction for future work on Microtakāful:
  - Identify cooperation mechanism between stakeholders and to understand their roles and responsibilities
  - delineate areas to be looked into by regulators and supervisors including corporate governance strategy and structure, underwriting requirements, licencing provisions, their fund management framework and regulatory reporting.

Next steps

1. Consultation open as of 22 June

2. Public background session on 24 June at 14:00 CEST (teleconference)

3. End of consultation (45 days): 6 August

4. Consideration of comments, revision of draft, final approval process: completed by end 2015

Consultation tool

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Questions?

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