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Regulatory Developments and Implications for the Industry

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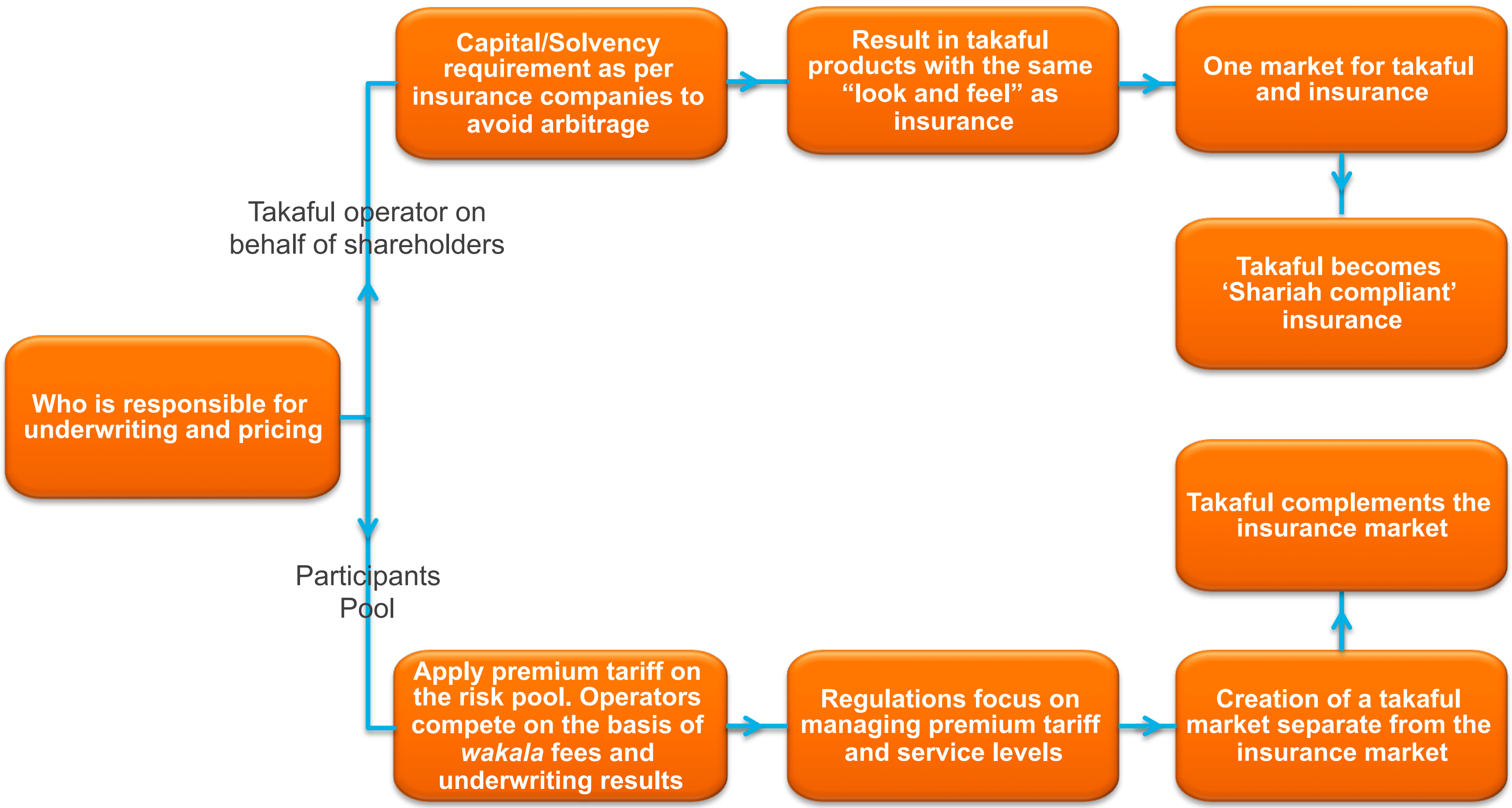
Options for developing takaful in a mixed economy



Simplifying the takaful market

- Consumers (who should be the principal stakeholder in takaful) cannot be expected to act in unison or indeed have the technical expertise to determine how best to protect their interest.

Apply a national standard

Takaful operating model
Shariah rulings
Product illustration
Contract wordings
Surplus distribution policy
Treatment of qard

What level of guarantees should takaful operators be allowed to promise the participants?

- Determined by the level of *qard* available for drawdowns
- Availability of matching shariah compliant assets to liabilities inherent in the takaful contracts

When is takaful deemed to be insolvent?

- For a stand alone takaful operation when is takaful deemed insolvent?
  - When participants risk pool is in deficit (assets less qard) < liabilities?
    - What about when there are multiple risk pools?
  - When the consolidated balance sheet (shareholders plus participants) is in deficit.
- How does it work for a takaful window which may be healthy financially but its “twin” (insurance) brother is insolvent?

How should takaful windows be treated in a resolution

Conclusion

- If takaful is to implement real risk sharing, regulations need to be in place to allow risk sharing to be actually practiced not just notionally practiced.
- If takaful is meant to compete with insurance then the same regulations that apply to insurance will apply to takaful.

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