

## **Takaful insurance and the role of guiding principles of the Financial Services Board in strengthening its durability**

التأمين التكافلي ودور المبادئ التوجيهية لمجلس الخدمات المالية في تعزيز متانتها

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### **Abstract:**

Takaful insurance is the Islamic alternative for commercial insurance, since the Takaful insurance contract is free of any contract cancellations in the Islamic Sharia. The investments of Takaful insurance companies must be in accordance with the provisions of the Islamic sharia and refrain from making any investment that conflicts with it.

Takaful insurance is the embodiment of the principle of participation and cooperation among the participants, as each participant provides the premium in favor of the total subscribers to collect these contributions to redress the damage that may affect one of them.

The Takaful industry has witnessed a remarkable development not only at the Arab level but also globally, which indicates positive expectations for the development of this industry. However, the Takaful insurance market faces some challenges is the need to access high quality compared to services The traditional insurance market.

**Key words:** Takaful insurance, the Islamic Financial Services Council, Guidelines.

## الملخص:

ان التأمين التكافلي هو البديل الإسلامي للتأمين التجاري حيث ان عقد التأمين التكافلي يخلو من أي من مبطلات العقود في الشريعة الاسلامية كذلك فإن استثمارات شركات التأمين التكافلي يجب أن تكون متوافقة مع أحكام الشريعة الاسلامية و يمتنع القيام بأي استثمار يتعارض معها .

والتأمين التكافلي هو تجسيد لمبدأ المشاركة و التعاون بين المشتركين فيه حيث ان كل مشترك يقدم القسط لصالح مجموع المشتركين بحيث تُجمع هذه الاشتراكات لجبر الضرر الذي قد يصيب أحدهم.

اما بالنسبة للمبادئ الإرشادية التي جاء بها مجلس الخدمات المالية الاسلامية المتعلقة بالتأمين التكافلي فانها تهدف إلى توفير مجموعة من الإرشادات المكملة للإطار العام للتأمين التكافلي المعمول به حالياً على الصعيد العالمي، بالإضافة إلى الدروس المستفادة من الأزمات المالية التي بدورها ان تساهم في تعزيز قوة هذه الصناعة واستقرارها على وجه الخصوص والصناعة المالية الإسلامية عموماً وتهدف هذه المبادئ الإرشادية إلى إرشاد العاملين بهذه الصناعة في عملية تقييم نقاط الضعف والوقوف عليها .

## **Introduction:**

The insurance, which is in line with the provisions of the Islamic Sharia "Takaful insurance", is based on the foundations aimed at cooperation and social solidarity between the insured. , As it is not based on the principle of profit in the first place, but on the face of the risks and bear the physical effects of any risk or damage to the insured or his property.

As the policyholders are the owners of the insurance process, they have the right to recover the surplus of the insurance operations in cash both according to the value of the installment after deducting the provisions and the necessary expenses, without retaining or obtaining the company or its shareholders any proportion of this surplus.

### **Problematic:**

The question is whether Takaful insurance is a substitute for conventional insurance and is it in line with the principles of Islamic Sharia? Is the guiding principles of the Financial Services Council a role in the renaissance and prosperity of Takaful insurance.

### **Thread:**

The research plan includes a summary, an introduction, a conclusion, and three topics. The first is the introduction of Takaful insurance. The second section is devoted to shed light on the definition of the Islamic Financial Services Council. The third is devoted to studying the guidelines of the Financial Services Board regarding takaful insurance.

## **The first topic**

### **Introduction to Takaful Insurance**

In this section, we discuss the definition of takaful insurance and the definition of the objectives it seeks in addition to the formulas underlying it in the following requirements:

#### **First requirement**

##### **Definition of Takaful Insurance**

Islamic Takaful Insurance defined several definitions, such as a system intended to mean that a group of persons, in solidarity with one another, bear the damage caused by one or more persons to pay adequate compensation to the injured person through their contributions.

Here Takaful insurance means the participation of a group of people for the purpose of establishing a fund to pay a specific installment and take in return a certain share if a insured accident <sup>1</sup>.

Therefore, cooperation between this group called the "body of the participants" who are at particular risk to avoid the effects of this risk through compensation by committing each of them to pay a certain amount called installment or subscription and determined by the insurance policy or the subscription contract.

There are those who define it as "an agreement of persons who are at risk of similar risks to avoid harm arising from such risks by paying contributions to an insurance fund with an independent financial

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<sup>1</sup> - Faisal Mawlawi, The Insurance System and the Position of Sharia from it, Dar al-Rashad Islamic, Beirut, 1988, p5.

liability, in order to compensate for damages suffered by the participants as a result of the insured risks. Selected by the policyholders, or an independent company and the management takes a wage for managing the insurance business, and takes a wage or share of profits in exchange for investment to the mother The Fund as a paid agent or speculator ".

Takaful insurance agreement between a group of persons who are exposed to similar risks through the payment of contributions to the insurance fund and avoid the effects of this notification through compensation from the Fund.

However, this definition referred to the management of the insurance fund, pointing out that this is done through the documents campaign or a company independent of the fund, indicating the way the latter gets the fee from that administration <sup>1</sup> .

It is also defined as the agreement of a group of participants to bear the losses resulting from certain risks, in support of each other by paying money in a common fund as a commitment to a donation and using the proceeds of the Fund to assist them as members against certain types of losses or damages <sup>2</sup> .

It is also defined in the Shari'a standards of the Accounting and Auditing Organization (ASA), stating that it is the agreement of persons who are subject to certain notification to avoid damages

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<sup>1</sup>- Al-Saeed Bo Harawah, The Islamic Adaptation of Takaful Insurance, Research Paper published at the International Symposium on "Traditional Insurance Company and Takaful Insurance Institutions between Theory and Practice", 25-26 April 2011, p. 2.

<sup>2</sup> - Brian Ketll Introduction to Islamic Banking and Finance, John Wiley & Sons, 2011, p128.

arising from such notification by paying contributions on the basis of the obligation to donate. This includes an insurance fund with a legal personality, It shall be compensated for the damage caused by one of the participants due to the occurrence of the insured notification, in accordance with the regulations and documents. The fund is managed by a select group of policyholders, or managed by a paid shareholding We find that this definition is no different from the previous that

company that manages the insurance business and invests the assets of the fund<sup>1</sup> .

## **The second requirement**

### **Objectives of Takaful Insurance**

Islamic Takaful Insurance is designed primarily to provide safety for the participants in the insurance fund and to prevent future risks through cooperation between the participants in alleviating the effects of the damage that is on any of these participants as a donation without any profit destination.

Takaful insurance is also intended to contribute to the development process by investing the funds of these participants in a manner that enables them to achieve profits that contribute to avoiding the effects of the risks that occur and also to preserve their money.

In addition, Takaful insurance aims to support banking operations and all Islamic financial institutions that need insurance as an element to employ their funds and manage their institutions.

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<sup>1</sup> - ulian Burling, Julian M. Burling, Kevin Lazarus, Research Handbook on International Insurance Law Edward Elgar Publishing, 2012, p538.

It should be noted that Takaful insurance provides a legitimate alternative to insurance for the masses of Muslims away from commercial insurance.<sup>1</sup>

### **Third requirement**

#### **Formulas under which Takaful insurance**

Takaful insurance can be established on one of the following formulas:

First: Establishment of Takaful insurance on the basis of the Agency and speculation together<sup>2</sup> .:

A collection of modern scholars has found that the common conditioning of Takaful insurance is that the holder of the insurance policy donates to the group of the insured owner of the insurance portfolio and what the affected tenant receives. It is also a commitment to donate from the insurance portfolio, which is a pending obligation on the occurrence of the insured damage. Affected tenant.

An insurance portfolio is created and the insured is required to contribute the insurance premiums to this portfolio according to the regulations and instructions that are announced by the company, and it is this portfolio that pays the compensation to the insured according to the conditions stated in these regulations.

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<sup>1</sup> - Shafiel A. Karim, The Islamic Moral Economy: A Study of Islamic Money and Financial Instruments, Universal-Publishers, 2010,p62.

<sup>2</sup> - Abdulrahman Khalil Tolefat, Mehmet Asuta, Takaful Investment Portfolios: A Study of the Composition, John Wiley & Sons, 2013, p33.

The company manages the insurance portfolio technically and creates a separate account for its funds and returns, expenses and compensations paid from them, and surpluses. This account is separate from the account of the company and the company receives a fee from the portfolio for these services. This fee is determined as a percentage of installments in advance with The beginning of each fiscal year, and a means to ensure the knowledge of the participants, as some companies explicitly state this percentage in their documents.

The company also invests the funds of the portfolio on the basis of Mudarabah Shariah, where it is speculative, and the body of the participants capital of the money, and determine the distribution of profits at the beginning of each fiscal year in a way to ensure the knowledge of subscribers, and some companies to explicitly state these percentages in their documents.

Moreover, the insurance portfolio is increasing in amounts due to the increase in the insured, and the returns that it earns from investing its money on the basis of speculation with the company, there is nothing left after the payment of compensation to the insured according to the conditions, which is called the insurance surplus, part of it distributed by the company to the insured according to the regulations .

Second: Takaful insurance can be established on the basis of speculative and part of the surplus:

This approach is no different from the previous one in one respect, namely, that the company does not charge the Agency's wages



in advance of the installments, but take a proportion of surplus insurance, if it is achieved <sup>1</sup> .

### III - Establishment of Takaful Insurance on the basis of Waqf <sup>2</sup>:

According to the majority of fuqaha 'scholars, it is permissible to stop them, and they pay a speculative payment. The profit derived from it is transferred to the person who is arrested according to the conditions of the waqf. It was narrated by that imam, and Muhammad ibn Abdullah al-Ansari is a disciple of Zafar. They can also be stopped for lending.

It is also permissible for a waqeeef to use his waqf if the waqf is general, or to stipulate for himself to benefit from others. They quoted this as saying that Uthman (may Allaah be pleased with him) stopped him from his well and made his bucket like the Muslim's.

This can be implemented by the Islamic insurance company establishing a fund for the waqf, and isolating a known part of its capital which will be a moratorium on those affected by the participants in the fund according to the regulations of the fund, and Charitable organizations in the end and it is a way to stop the money as a project remains this part of the money is speculative investment, and the profit in the Fund for the purposes of the stay.

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<sup>1</sup> -Dr. Musa Mustafa Al-Qudah, The Truth of Takaful Insurance, a research presented at the symposium "Takaful Insurance and Traditional Insurance Institutions", Islamic International University, Jordan, 2011, p33.

<sup>2</sup> - Abdul Sattar Abu Ghada considered a working paper entitled "The basis of Takaful Insurance" presented to the Second Conference of Islamic Summit, held in Damascus in March 2007,p23.

The Waqf Fund is not owned by anyone, and has a moral personality to be able to own, invest and own the funds in accordance with the regulations governing that.

Moreover, what is donated by the participants comes out of their property and enters into the ownership of the endowment fund. Since it is not a waqf, it is owned by the waqf as in the third principle of the waqf principles. Its profits to pay compensation and other endowments.

The Regulations of the Fund stipulate the terms of entitlement of the participants to compensation and the amounts of the contribution in which each type of insurance is made. This may be determined on the actuarial account of the conventional insurance companies.<sup>1</sup> And that the compensation received by the participants is not in place of what they have donated, but is a separate bid from the Endowment Fund for their entry into the total of those arrested under the terms of the stay, as has been the case.

## **The second topic**

### **Definition of the Islamic Financial Services Board**

In this section, we discuss the origins, objectives and structure of this Council in addition to the standards it has issued in the following demands:

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<sup>1</sup> -Simon Archer, Rifaat Ahmed Abdel Karim, Volker Nienhau, Takaful Islamic Insurance: Concepts and Regulatory Issues, John Wiley & Sons, 2011,p33.

## First requirement

### The establishment of the Islamic Financial Services Council

The Board is an international body, among which is the development of standards for the development and enhancement of the Islamic financial services industry through the issuance of regulatory standards and guidelines for the industry, covering various sectors such as banking, money market and Islamic Takaful insurance.

The Board of Directors of the Board of Directors of the Islamic Financial Services Council (IFSB) was established on November 3, 2002 in Kuala Lumpur, Malaysia, Saudi Arabia, Indonesia, Iran, Kuwait, Pakistan, Sudan and the Islamic Development Bank. .

The IFSB is a consortium of central banks, financial authorities and other institutions responsible for overseeing and regulating Islamic banking transactions<sup>1</sup> .

The establishment of this council came in response to the successive developments of the Islamic financial services industry in addition to its importance. It was established after two years of continuous work by the founding members, which also helped to establish the support of the International Monetary Fund and the Accounting and Auditing Organization for Islamic Financial Institutions.

The establishment of this board has been a strong boost to Islamic banking transactions and financing operations worldwide, as this board can be a tool for creating a consistent and Shari'a-compliant interpretation of banking operations, financing patterns, etc.

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<sup>1</sup> - - Mervyn Lewis, Kabir Hassan, Handbook of Islamic Banking, Edward Elgar Publishing, 2009, p378.

This board provides Islamic banking professionals with greater credibility and transparency to compete with conventional banks both locally and globally. The inauguration of the Islamic Financial Services Board timely, as it is expected to focus on product development, particularly globally traded securities or Islamic sukuk, which are accepted as by other Shariah boards.

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The increasing Islamic investments, estimated at billions of dollars, are evidence of the increasing demand for Shariah-compliant financial products, not only in the Arab countries, but also in various countries. Experts estimate the wealth of Islamic peoples between \$ 800 billion and \$ 1 trillion.<sup>1</sup>

As mentioned above, the Islamic Financial Services Board (IFSB) is an international organization that considers supervisory organizations with a special interest in ensuring the stability and stability of the Islamic financial services industry through the preparation of reports and research related to this industry. Which are increasingly spreading to include banking, capital market, insurance and others.

The Islamic Financial Services Council therefore seeks to promote the development of a robust and transparent Islamic financial services industry by introducing new standards or adapting existing international standards that are compliant with Islamic Shari'a principles and recommending their adoption.

It should be noted that the work of the Islamic Financial Services Council complements the work of the Basel Committee on Banking

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<sup>1</sup> - Abdul Karim Aldohni, The Legal and Regulatory Aspects of Islamic Banking: A Comparative Look at the United Kingdom and Malaysia, Routledge, 2012,p200.

## Supervision, the International Securities Organization and the International Association of Insurance Supervisors .

As of October 2018, 176 members of the Islamic Financial Services Board, representing 75 regulatory and supervisory authorities, 8 intergovernmental organizations and 93 active market organizations (financial institutions, professional companies and trade union federations), operate in 57 countries.

Malaysia, the host country of the Islamic Financial Services Council (IFSF), has enacted a law, the Islamic Financial Services Council Act 2002, which gives the Islamic Financial Services Council the immunities and privileges normally granted to international organizations and diplomatic missions <sup>1</sup>.

### **The second requirement**

#### **Objectives of the Islamic Financial Services Council**

Since its inception, the Council has aimed at achieving a set of objectives that it seeks to achieve in an attempt to find an integrated Islamic banking entity. These objectives can be summarized as follows:

Which aims to promote the Islamic financial services industry by introducing new standards or adopting existing standards at international levels that are Shari'ah compliant and recommending them.

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<sup>1</sup> - Oxford University Press, Islamic Finance: Oxford Bibliography Online Research, Oxford University Press, USA, 2010, p13.

In addition, the Board aims to provide general guidance on effective supervision mechanisms and their application in institutions offering Islamic financial products and to develop standards for the Islamic financial services industry as well as assist in the identification, measurement and management of exposure to risks and take into account the international requirements for evaluation, expense of income and disclosure .

The Council also aims to cooperate with international financial organizations that have a role in setting standards that stabilize the international monetary system and financial systems in general.

In addition to improving and coordinating initiatives to develop mechanisms and procedures for financial operations and risk management and encourage cooperation among member countries in the development of the Islamic financial services industry.<sup>1</sup>

To develop and train employees and develop their skills in effective control in the Islamic financial services industry as well as to establish a database of Islamic banks, financial institutions and Islamic banking industry experts.

The Council also aims to enhance cooperation between the members of the Council and similar institutions in the areas that serve the common objectives<sup>2</sup>.

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<sup>1</sup> - Rifaat Ahmed Abdel Karim, Simon Archer, Islamic Finance: The Regulatory Challenge, John Wiley & Sons, 2011,p22.

<sup>2</sup> - the Islamic Financial Services Board ,11/8/2018,  
[https://www.ifsb.org/ar\\_background.php](https://www.ifsb.org/ar_background.php).

## **Third requirement**

### **Structure of the Islamic Financial Services Board**

The Financial Services Board is structured as follows:

#### **1- The General Assembly:**

It is the entity that represents all members of the Islamic Financial Services Board, ie full members, associate members and members.

#### **2- Supreme Council:**

Which is the supreme executive body responsible for setting the policies of the Islamic Financial Services Board. The membership of the Supreme Council shall be one representative for each full member, who shall be the highest executive officer of that full member, or any other senior person nominated from time to time.

#### **3- Executive Committee:**

Which is responsible for advising the Supreme Council on operational and administrative issues related to the Islamic Financial Services Board (as defined by the Supreme Council). The Executive Committee shall consist of at least five members selected by the Supreme Council and shall serve for two years.

#### **4-Technical Committee:**

It is the entity responsible for advising the Supreme Council on technical issues under the terms of reference (as defined by the Supreme Council). The Technical Committee shall consist of a maximum of thirty members selected by the Supreme Council. The term of office of the Committee shall be three years.

#### **5- Working Group:**

A committee is formed to be responsible for drafting standards and / or guidelines.

#### 6- Task Group:

The committee is formed to be responsible for specific tasks.

#### 7- Committee for drafting the Arabic version:

The committee was formed to be responsible for drafting and editing the Islamic Financial Services Board documents translated from English into Arabic.

#### 8- Secretariat:

The permanent administrative entity of the Islamic Financial Services Council. Headed by a full-time Secretary General appointed by the Supreme Council, in accordance with terms and conditions determined by the Supreme Council. The Secretariat is based in Kuala Lumpur, Malaysia<sup>1</sup>.

### **Fourth requirement**

#### **Standards issued by the Islamic Financial Services Board**

The Islamic Financial Services Board (IFSB) since its inception 27 has a standard, guiding principle and technical observation relating to the Islamic financial services industry, as follows:

1. Risk management (Standard No. 1)
2. Capital adequacy (Standard No. 2)
3. Institutional setting (Standard No. 3).

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<sup>1</sup> - the Islamic Financial Services Board ,11/8/2018,  
[https://www.ifsb.org/ar\\_background.php](https://www.ifsb.org/ar_background.php).



4. Transparency and market discipline (Standard No. 4).
5. Supervisory review process (Standard No. 5)
6. Institutional setting of collective investment programs (Standard No. 6).
7. Special issues in capital adequacy (Standard No. 7).
8. Guidelines for Takaful Control Regulations (Standard No. 8).
9. Business behavior of institutions providing Islamic financial services (Standard No. 9).
10. Guidelines for the Shariah Control System (Standard No. 10).
11. Standard for Takaful Requirements for Takaful Insurance (Standard No. 11).
12. Liquidity Risk Management Guidelines (Standard No. 12).
13. Guidelines for stress testing (Standard No. 13).
14. Risk Management Standard for Takaful Companies (Islamic Insurance) (Standard No. 14).
15. Revised Standard for Capital Adequacy (Standard No. 15)
16. Revised guidance on the key elements of the supervisory review process (Standard No. 16).
17. Basic Principles for the Regulation of Islamic Finance (Banking Sector) (Standard No. 17)
18. Principles for re-takaful (Islamic reinsurance) (Standard No. 18).
19. Recognition of classifications of Shariah-compliant financial instruments and principles (Guideline No. 1).
20. Guidelines on risk management and capital adequacy standards: Murabaha transactions in commodities (Guideline No. 2).

21. Guidelines on the practice of supporting payment of profits to investment account holders (Guiding Principles No. 3).
22. Guidelines on Capital Adequacy Standard: Determination of the Alpha Factor in Capital Adequacy Ratio (Guideline No. 4)
23. Guidelines for the recognition of ratings issued by external credit rating institutions of Takaful and Re-Takaful companies (Guiding Principles No. 5)
24. Quantitative measures for liquidity risk management (Guideline No. 6)
25. Development of Islamic Capital Markets (Technical Note No. 1).
26. Pressure tests (Technical Note 2).
27. Guidelines on Disclosure Requirements for Islamic Capital Market Products (Standard No. 19)<sup>1</sup> .

### **The third topic**

## **Islamic Financial Services Board Guidelines for Takaful Control Regulations<sup>2</sup>**

The Islamic Financial Services Council (IFSB), which is keen to enhance the soundness of Islamic financial services and its interest in the field of Takaful insurance, which has attracted the interest of many financial institutions, has established a joint working group with insurance representatives and the Takaful Supervisory Authority And

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<sup>1</sup> - the Islamic Financial Services Board ,10/8/2018,  
[https://www.ifsb.org/ar\\_background.php](https://www.ifsb.org/ar_background.php).

<sup>2</sup> - the Islamic Financial Services Board, Takaful insurance guidelines ,11/9/2018,  
[https://www.ifsb.org/ar\\_background.php](https://www.ifsb.org/ar_background.php).

future guidance in the Takaful sector in Islamic financial services institutions.

**Part I: Promote appropriate practices for good controls as defined or recommended by the internationally recognized standards of insurance companies, while addressing the specificities of Takaful insurance institutions.**

The Council agrees with the majority of international organizations, including the Organization for Economic Co-operation and Development (OECD) and the International Organization of Insurance Supervisors, that it is not possible to have a single model of corporate governance that can be applied to each country in respect of these institutions.

Each organization must issue its own model of controls that meets its specific needs and achieves its own objectives.

The guidelines on takaful insurance should be viewed as a work to encourage and contribute to the issuance of controls that go beyond the completion of compliance checklists by Takaful institutions. The emphasis should be placed on the content through which the objectives of good regulation can be achieved by Takaful institutions. Which was made by the Council with respect to takaful insurance:

This principle emphasizes that the takaful institutions in Takaful Insurance, which works on its management, must provide comprehensive and appropriate controls for their models of Takaful. The independence and integrity of each element of the controls shall be well defined and safeguarded.

In accordance with this principle, the Takaful Institution assumes that a speculator or agent manages the Takaful Fund for the total number of its participants and is compensated for this by the Takaful

Fund through fees in the model of the Agency or participation in the surplus in the Mudaraba model.

It is worth mentioning that the Takaful Foundation is not responsible for any losses or losses suffered by the Fund as it is not the owner of the Takaful Fund, but only if it is proved that such loss or deficit was due to misconduct or negligence by the Fund.<sup>1</sup>

The fact that the Takaful Corporation is an agent or speculator given by the competent authorities as an independent ownership entity is the basis for the establishment and management of the Takaful Program, including the determination of the product range, pricing, terms and conditions of each contract.

There is also no clear mechanism to enable Takaful partners to monitor Takaful's business because the appointment of the management was made by the senior management of the shareholders' equity of the institution rather than by the participants. The shareholders also have commercial interests that may conflict with the takaful participants.

It should be noted that the separation of rights and obligations between the Takaful Institution and the Subscribers requires a clear distinction between the Takaful Fund and the Shareholders' Fund.

The separation between ownership and control of the fund can result in what is known in the economy as (agency problems) such as irregular distribution of information or unequal incentives of the client and the agent.

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<sup>1</sup> -Muhammad Al-Bashir, Volume 1 of Brill's Arab and Islamic laws series, BRILL, 2008,p23.

Receiving Takaful by shareholders rather than Takaful partners leads to a conflict of interest because Takaful management has commitments to two groups of clients.

The Takaful Foundation should avoid preferring the interests of the shareholders to the participants when there are conflicts of interest. Such cases cover potential conflicts of interest between management and shareholders, which are a more traditional interest in management controls.<sup>1</sup>

This principle stressed that the Takaful institutions must adopt the Code of Ethics and the proper behavior that the employees of the Foundation commit to at all levels.

As the commitment to professional ethics and work behavior of Takaful officials in the performance of their trust duties, these institutions must ensure that their employees are well aware of the importance of the principles of Takaful.

The guidelines on the behavior of employees of Islamic financial services institutions issued by the Islamic Financial Services Council also apply to Takaful institutions.

Takaful organizations are sure to want their representatives and employees to be able to attract as many subscribers as possible and obtain information about subscribers to assess their insurance needs before concluding the contract, but Takaful institutions must first ensure that these employees are committed to the subscribers Who believe in the principle of ethics and appropriate behavior and

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<sup>1</sup> -El-Din Seif Ibrahim , Maqasid Foundations of Market Economics, Edinburgh University Press, 2013,p24.

transparency towards them and not mislead them by convincing them that the interdependence is no different from conventional insurance.<sup>1</sup>

If the Takaful institutions refer some of their activities to external parties such as technical information system to maintain the data of the participants and their programs of mutual and investment management or issues related to the controls of the legitimacy of the Takaful institutions are responsible for the ethical aspects and behaviors appropriate to service providers from the external parties mentioned and this responsibility includes the selection Provide assigned service providers and follow up their performance to ensure that the ethical and trust aspects are as they are required.

## **Part Two: A balanced approach that takes into account the interests of all stakeholders and demands fair treatment among them.**

This standard seeks to adopt a balanced approach by Takaful institutions to create the largest returns for shareholders, taking into account also the interests of the participants in Takaful.

Takaful institutions must have controls that adequately represent stakeholder interests and provide an environment of information that enables stakeholders to access information in a fair manner according to the nature and importance of information.

Takaful institutions must have an appropriate structure of controls that represents the rights and interests of those involved in Takaful .

As mentioned previously, the participants in the Takaful Fund are separated from those who control the company's management in

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<sup>1</sup> -Hennie van Greuning, Zamir Iqbal, Risk Analysis for Islamic Banks, World Bank, 2008,p45.

Takaful institutions which in turn lead to problems in the Agency. Therefore, the challenge of good controls is to ensure that the participants in Takaful or certain elements of the controls to act on behalf of They can influence Takaful institutions to act in accordance with their interests and those of shareholders as well.<sup>1</sup>

Because of the broad powers of takaful institutions in takaful management, including the discretionary powers of seeking greater returns for shareholders, effective internal systems and controls are essential to the integrity and robustness of the takaful process.

Therefore, the Board of Directors should establish a strong system of internal control and risk management in institutions so that one of its functions is to establish effective communication systems and appropriate information across all levels of management.

It is expected that there are cases of conflict of interest between the main stakeholders, ie shareholders and subscribers and Takaful funds belong to the participants and not the property of the Takaful Foundation and the Takaful Foundation is rewarded, whether in the form of agency fees or participation in the share of the investment profit for its management Takaful and the activities of the investment fund Takaful.

Thus, the challenge for good controls is to try to reconcile the interests of shareholders and subscribers and provide them with incentives so that shareholders can continue to make a reasonable profit from the Takaful institution they invest in while continuing to take into account the goal of cooperative assistance by subscribers and achieve their goals.

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<sup>1</sup> -Hari Sunarto, Understanding the role of bank relationships, relationships marketing, Rozenberg Publishers, 2007,p56.

Takaful institutions must adopt appropriate disclosure procedures that provide Takaful participants with fair access to relevant material information.

The best practices for good controls also are adequate disclosures for all stakeholders in order to create the appropriate environment and transparent information.

An environment in which substantial and accessible information is accessible to all necessarily results in more effective third-party liability and thus helps to achieve the desired integrity and also instructs potential Takaful subscribers.

Insufficient disclosure is easy to understand for potential and current participants in Takaful as well as other market participants for the purpose of assessing the financial condition of Takaful and the risks to which they are exposed.

Such disclosure should clarify the extent to which the Takaful Fund has access to a loan facility from Takaful to deal with insolvency cases and related terms .

### **Part 3: Motivation for a more comprehensive precautionary framework.**

The guidelines on Takaful insurance will not be the only standard for the Islamic Financial Services Board for Takaful Insurance but should be taken into account and taken in conjunction with other relevant standards that may follow the recommendation of the Joint Working Group mentioned above. Besides good controls there are other areas that may be addressed by the Council Islamic financial services through appropriate standards and guidelines on best practices in the takaful industry, which include the ability to pay, financial and precautionary controls, transparency, disclosure and



work conduct, as well as supervisory control procedures. These standards and additional guidelines on best practices are expected to be developed in a timely manner.<sup>1</sup>

An appropriate mechanism to counteract the ability of Takaful insurance to pay and to commit to sound risk management should therefore be an integral part of the good controls of Takaful institutions and given their extreme importance and, in particular, their impact on systemic stability.

Takaful institutions must always take these considerations into account when planning and laying down the main lines of the control strategy, which is necessary, no matter how powerful the system of payment capacity imposed by the supervisory authority.

Takaful institutions must ensure that they have the appropriate mechanisms to meet the ability to pay effectively.

Stability of Takaful insurance by providing adequate provisions to meet estimated potential claims and how to maintain reserve surplus reserves can play a crucial role in repayment.

It was emphasized that the Takaful Institutions must establish the appropriate mechanisms to cover any deficit suffered by the Risk Fund for the participants whenever the contributions they give besides the income from the assets of the Takaful Fund is unable to cover the total amount of compensation, although it is assumed from the beginning of the participants in the Takaful Bear the risk of insolvency that may be incurred by the Risk Fund for the participants.

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<sup>1</sup> -Hossein Askari, Zamir Iqbal, Abbas Mirakhor, Globalization and Islamic Finance: Convergence, Prospects and Challenges, John Wiley & Sons, 2010,p66.

The discretionary powers enjoyed by Takaful institutions necessarily encourage them to adopt policies of mutual benefit and investment that maximize the costs of fees and expenses without taking into consideration the risk expectations in the eyes of the participants in the Takaful and Takaful Fund or to lead to the creation of large unnecessary redundancies in order to maximize the reward of the Takaful Foundation To the highest degree through the Mudarib profit share. In the event that the Risk Fund faces financial difficulties, the Takaful Foundation may, in the absence of a verification and balance mechanism, establish a new fund and continue to work in a way that increases the risk fund problems for the initial subscribers.

Since the risk fund's inability to pay subscribers does not necessarily mean that the Takaful can not pay because the latter can ignore the risk fund's solvency of the participants. From a prudential perspective, such a situation is unacceptable because it puts the interests of the participants at risk and harms the Takaful market on the face of Especially the financial system in general and this should not be allowed by any supervisory authority.

Takaful institutions must adopt and implement a reasonable investment strategy and prudently manage Takaful assets and liabilities.

Takaful institutions must take into consideration the income of Takaful Fund investments by setting the ceiling for contributions related to the Takaful program. Takaful institutions are companies owned by shareholders. Its main objective is to maximize returns for shareholders.

It is worth mentioning that Takaful institutions can mix the funds of Takaful with shareholders' funds. Thus, the objectives of investment and the return of the acquired may be identical to the

parties. However, it should be noted that this action can lead to a conflict of interests between them. For example, Low-risk investment and lower returns on reserve and savings components, while Takaful shareholders want a bolder investment strategy that could yield higher returns.<sup>1</sup>

The investment policy of the Takaful Fund and its strategy is important in facilitating the fulfillment of claims. Therefore, the investment of funds belonging to the Takaful Fund and the Shareholders' Fund respectively should remain separate from each other unless the Fund's investment strategy is in accordance with the requirements of the Takaful Fund. It is worth noting that many countries have different regulations on the assets of Takaful funds and the assets of the shareholders' funds.

The participants in Takaful bear the risks of investment and other related risks by virtue of their ownership of the Takaful Fund and the investment activities are expected to generate returns added to the available amounts paid for Takaful or retained as reserves in takaful funds.

As Takaful shareholders do not interfere in the management of the Fund as mentioned above and therefore are unable to exercise their rights as owners of funds and without appropriate and appropriate supervision of Takaful investment activities financially, there will be no mitigation of potential conflicts of interest

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<sup>1</sup> -Aly Khorshid, Euromoney encyclopedia of Islamic finance, Euromoney Books, 2009,p78.

## **Conclusion:**

Our research ended with a set of conclusions and recommendations, as follows:

### **1-Results:**

1- Takaful insurance means the participation of a group of people for the purpose of establishing a fund to pay a specific installment and take in return a certain share if a insured accident .

2- Takaful insurance intended to contribute to the development process by investing the funds of these participants in a manner that enables them to achieve profits that contribute to avoiding the effects of the risks that occur and also to preserve their money.

3- The Board is an international body, among which is the development of standards for the development and enhancement of the Islamic financial services industry through the issuance of regulatory standards and guidelines for the industry, covering various sectors such as banking, money market and Islamic Takaful insurance.

4- the Board aims to provide general guidance on effective supervision mechanisms and their application in institutions offering Islamic financial products and to develop standards for the Islamic financial services industry as well as assist in the identification, measurement and management of exposure to risks and take into account the international requirements for evaluation, expense of income and disclosure .

5- The Islamic Financial Services Council (IFSB), which is keen to enhance the soundness of Islamic financial services and its interest in the field of Takaful insurance, which has attracted the interest of many financial institutions, has established a joint working group with

insurance representatives and the Takaful Supervisory Authority And future guidance in the Takaful sector in Islamic financial services institutions.

## 2-Recommendations:

- 1 - It is necessary to work to raise the technical, financial and legal level of workers in the field of takaful insurance, which contributes to the development of this industry.
- 2 - Utilizing the expertise related to Takaful insurance among insurance institutions worldwide.
- 3 - Establishing specialized research centers in the field of Takaful insurance to upgrade this industry to meet the challenges of conventional insurance.
- 4 - Serious attention to the issuance of the Islamic Financial Services Board of guidelines and standards related to raising the efficiency of the Takaful insurance market.

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