

CONSULTATION DRAFT

**ISSUES IN REGULATION AND SUPERVISION OF
MICROTAKĀFUL (ISLAMIC MICROINSURANCE)**

**COMMENTS RECEIVED DURING PUBLIC CONSULTATION
PERIOD (22 JUNE 2015 TO 6 AUGUST 2015) AND THE IFSB
RESPONSE**

10 September 2015

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INSTITUTIONS WITH WRITTEN COMMENTS

S. No.	Name of Institution/Body	Type of IFSB Membership, if any
1.	Bank Negara Malaysia	Full Member
2.	Bank of Mauritius	Full Member
3.	Banque Centrale De Djibouti	Full Member
4.	Central Bank of Bahrain	Full Member
5.	Central Bank of Nigeria	Full Member
6.	Central Bank of Republic of Turkey	Full Member
7.	Dubai Financial Services Authority, UAE	Full Member
8.	Islamic Development Bank	Full Member
9.	Securities Commission Malaysia	Full Member
10.	Saudi Arabian Monetary Agency	Full Member
11.	State Bank of Pakistan	Full Member
12.	Banque Du Liban, Lebanon	Associate Member
13.	Capital Market Authority, Oman	Associate Member
14.	Malaysia Deposit Insurance Corporation	Associate Member
15.	Qatar Financial Centre Regulatory Authority	Associate Member
16.	The International Monetary Fund	Associate Member
17.	The Bank of Korea	Associate Member
18.	Al Jazeera Sudanese Jordanian Bank, Sudan	Observer Member
19.	Bank Muamalat Malaysia Berhad	Observer Member
20.	Borsa Istanbul, Turkey	Observer Member
21.	Central Bank of Oman	Observer Member
22.	CIMB Group Holdings Berhad, Malaysia	Observer Member
23.	Hong Leong Islamic Bank, Malaysia	Observer Member
24.	International Center for Education in Islamic Finance (INCEIF), Malaysia	Observer Member

25.	National Commercial Bank, Saudi Arabia	Observer Member
26.	Prudential BSN <i>Takāful</i> Berhad, Malaysia	Observer Member
27.	Qatar International Islamic Bank, Qatar	Observer Member
28.	Syarikat <i>Takāful</i> Malaysia Berhad	Observer Member
29.	Chase Assurance, Kenya	-
30.	Global Federation on Insurance Associations, Belgium	-
31.	Munich Re, Germany	-
32.	National Association of Insurance Commissioners, USA	-
33.	Zurich Insurance Group, Switzerland	-
34.	Dr Osman Babiker Ahmed (IRTI)	-

List of Comments and IFSB Response

Note: All the paragraph numbers in the table refer to the Consultation Draft: *Issues in Regulation and Supervision of Microtakāful (Islamic Microinsurance)*, issued on 22 June 2015

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
General Comments			
1.	General Comment	<i>Microtakāful</i> is very important for Islamic Finance to introduce social policies to the society. Existing products mentioned in the study and the new related products which can be developed within the coming years will enable Islamic Finance to appeal to more people. <i>Microtakāful</i> products will contribute to the financial inclusion of the low-income and under-privileged segment of the population which is usually excluded from the general Takāful terms and conditions. As <i>Microtakāful</i> models and practices have similarities with Takāful models and practices, combining every possible practices under common regulatory and supervisory policies will provide an integrated structure. As a result, the development of the <i>Microtakāful</i> market will be accelerated, providing vital benefits on behalf of the formation of joint policies and social mechanisms, and the reduction of inequity in income distribution. Considering the young population, fast economic growth, government support for Islamic Finance and the rising market share of	Noted.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		Islamic Finance, it can be assumed that there are important opportunities for the development of the <i>Takāful</i> market in our country. It is expected that the regulations on <i>Takāful</i> sector and the existing and the upcoming newly established companies will accelerate the development of the <i>Takāful</i> sector. Thanks to the improvements on the market, growing <i>Takāful</i> sector may provide opportunities on the developments of <i>Microtakāful</i> market. Turkiye Finans	
2.	General Comment	The IAIS's recent paper, Regulation and Supervision of <i>Microtakāful</i>, identifies a very important segment of the world's population that, due to idiosyncratic and religious subjects, does not profit from the benefits that a risk transfer tool, such as microinsurance, can bring. As identified in the paper, many important countries with significant Muslim populations, such as India, Pakistan and Malaysia, have very low insurance penetration rates. This is explained by <i>Shari'ah</i> principles that forbid usury, gambling and uncertainty. It is, therefore, necessary to develop a comprehensive regulatory framework that, while protecting consumers' legitimate interests, enhances financial inclusion through regulation that empowers religious groups to enter into <i>Takāful</i> practices, in order to generate an insurance culture in these countries.	Noted.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		Many Muslim countries face several risks that could cause an important increase in poverty rates. This population is subject to perils derived from extreme weather, lack of appropriate sanitary infrastructure, increased urbanization, wars and other social conflicts, as well as all the traumatic risks related with poverty. It is, therefore, important to incentivize this kind of initiatives, which aim to design a special regulation that respects local market conditions and peoples' beliefs. Given that there are not many <i>Microtakāful</i> regulation and supervisory papers, GFIA welcomes the work done by the IAIS to identify the most prominent problems regarding these issues. This paper also provides a useful overview of the particularities of <i>Microtakāful</i>, as well as its differences with microinsurance. GFIA believes that this paper is a good starting point for establishing discussions to identify, with all the relevant stakeholders' participation, the best regulatory framework for increasing financial inclusion in Muslim countries. Global Federation on Insurance Associations	
3.	General Comment	Proper Guidance to the Regulatory and Supervisory authorities will help them to develop the required regulatory framework and promote <i>Takāful/Microtakāful</i> in their respective jurisdictions.	Noted.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		Central Bank of Oman	
4.	General Comment	Coordination among relevant regulatory and other authorities and governments' direct involvement in supporting/providing a favorable atmosphere and enabling environment for growth of <i>Takāful</i> industry are essential. Central Bank of Oman	Noted
5.	General Comment	We have no additional comments on Consultation Draft regarding issues in regulation and supervision of <i>Microtakāful</i>. AlBaraka Turk Participation Bank	Noted.
6.	General Comment	The draft "Paper on Issues in Regulation and Supervision of <i>Microtakāful</i>" is carefully crafted with due consideration of how key ICPs could be applied to <i>Microtakāful</i> and we have no further comments. International Monetary Fund	Noted.
7.	General Comment	It is my great pleasure to inform you that we at the Bank of Korea believe the exposure draft paper will be highly useful for the prudent development and regulation of Islamic insurance. In particular, it seems to us that <i>Microtakāful</i>, which is based on principles of reciprocity and financial inclusion, contributes to the	Noted.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		advancement of Islamic economies. In addition, we would like to express our appreciation for the hard work of both the IFSB and IAIS in preparing and disseminating the paper. As you probably know, we do not have many occasions to encounter and learn about Islamic insurance in our country. This was an excellent opportunity to deepen our understanding of Islamic insurance and the related regulatory framework. The Bank of Korea	
8.	General Comment	We thank you for your interest and keenness to receive any feedback CMA-Oman may have on the Exposure Draft (IFSB) – (IAIS) Paper on Issues in Regulation and Supervision of <i>Microtakāful</i> (Islamic Insurance). We have reached out to our colleagues from the Directorate of Insurance Supervision for guidance and they have advised us that the draft is an excellent source of information. More especially that <i>Takāful</i> Insurance has only recently been growing in Oman and the <i>Takāful</i> law has not yet been issued. Therefore, and at this stage we are un-able to actively provide comments of the attached draft. We take this opportunity to assure you of our feelings of highest respect to the IFSB. Capital Market Authority, Oman	Noted.
9.	General Comment	Kindly be informed that the Bank of Mauritius does not have any feedback to submit on the	Noted.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		Exposure Draft as regulation of the insurance sector in Mauritius does not fall under the purview of the central bank. We nevertheless hope that insightful comments have been provided by other members. Bank of Mauritius	
10.	General Comment	We don't have any additional comment regarding the Draft IFSB-IAIS paper on Issues in Regulation and Supervision of <i>Microtakāful</i> (Islamic Insurance). With this we would like to express our greetings to the people for their efforts to prepare such an enlightening document regarding <i>Microtakāful</i>. Central Bank of Republic of Turkey	Noted.
11.	General Comment	Unfortunately we don't have any <i>Takāful</i>, <i>Retakāful</i> or <i>Microtakāful</i> in Lebanon. Banque Du Liban, Lebanon	Noted.
12.	General Comment	We would to inform you that we do not have any comments on the document you had sent us. Central Bank of Djibouti	Noted.
13.	General Comment	The Central Bank of Bahrain ('CBB') thanks you for providing it with the opportunity to comment on the exposure draft dealing with	Noted.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		issues in regulation and supervision of <i>Microtakāful</i>. As Bahrain does not have any <i>Microtakāful</i> companies, nor does it anticipate any such company to be established in the future, it has no comments to offer on the exposure draft being presented. Central Bank of Bahrain	
14.	General Comment	We would like to inform that there is no comment from BMMB as the Paper was not applicable to the Bank Bank Muamalat Malaysia Berhad	Noted.
15.	General Comment	We do not have any feedback on the paper on Issues in Regulation and Supervision of <i>Microtakāful</i> (Islamic Insurance). Nonetheless, we do look forward to the further developments of the Exposure Draft/paper, and will continue support such Qatar International Islamic Bank	Noted.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
16.	General Comment	The paper makes extensive use of abbreviations, which are largely defined on page iii in the introduction. However, these tend to make an otherwise well written paper hard to follow. Replacing many of the abbreviations with the full abbreviated term, especially with non-standards might make the paper easier to read. Saudi Arabian Monetary Agency	The abbreviations used in this document have been used widely in all IFSB documents on <i>Takāful</i>. The intention is to simplify the wordings since repeating phrases such as <i>Takāful</i> Operators, <i>Microtakāful</i> Operators, <i>Microtakāful</i> Operations Risk Fund may lead to confusion as to whether the sentence is referring to just one word, or the entire phrase.
17.	General Comment	Recognizing this is a joint paper with the IFSB, the IAIS is usually careful to ensure that papers it publishes fall into its established categories which help indicate to IAIS Members and stakeholders the purpose and weight of the material. Section A mentions this as a Research Paper which is not part of the IAIS classification - is this an IFSB classification or just a description? Either way, it would be helpful to note in this section the classification of this paper in the IAIS hierarchy as well (i.e., an Issues Paper). National Association of Insurance Commissioners	In the nomenclature of the IFSB this paper is to be considered a Research Paper and in that of the IAIS an Issues Paper. Footnote 2 has been added to give clarity.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
18.	General Comment	Chapter A in the Paper can be expandable with an analysis of funding options of <i>Microtakāful</i> such as Pension Funds. Borsa Istanbul	Pension funds are usually created and contributed by employed citizens of every jurisdiction, with the intention to provide for their retirement years. While it may be an option for any jurisdiction to use Pension Fund to create <i>Microtakāful</i> products, survey result did not show the existence of any jurisdiction that has done so. This paper intends to include examples or models that have been successfully implemented.
19.	General Comment	Generally the Paper seems to discuss more on family <i>Takāful</i> . As such, the Paper may also want to discuss the issues from general <i>Microtakāful</i> business perspective, such as suitable <i>Microtakāful</i> products e.g. fire and PA, underwriting of risks, and others. Malaysia Insurance Deposit Corporation	The examples provided are based on the actual products offered by respondents of the survey as well as the ones cited in the research papers. This by no means indicates that the paper favours Family <i>Takāful</i> more than General <i>Takāful</i> . It merely reports the current standing of the <i>Microtakāful</i> products in the industry.
20.	General Comment	To ensure <i>Microtakāful</i> follows the <i>Sharī'ah</i> compliance requirements which are acceptable to <i>Sharī'ah</i> Scholars in the country. Islamic Development Bank	This responsibility to ensure <i>Sharī'ah</i> compliance lies with the RSAs of every jurisdiction. This has already been highlighted in new paragraphs 108 – 110.
21.	General Comment	To add discussion on the segregation of participants and shareholders Islamic Development Bank	This has been addressed in paragraph 112.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
22.	General Comment	MP is at infancy stage; therefore, strict regulation can hamper the growth of this evolving sector. Balance between regulation and growth need to be strictly monitored in supervision of the sector. At present regulations applicable to TOs may also be applied to MPs. State Bank of Pakistan	This may not necessarily be true, as shown in the example cited in Sri Lanka (para 152). The regulator decided to deregulate in their initiative to expand the <i>Microtakāful</i> sector. Different jurisdictions have different treatment of <i>Microtakāful</i>.
23.	General Comment	Special funds budgeted by the Government/IFIs/International Agencies may be established for development of the sector of <i>Microtakāful</i> (MT). State Bank of Pakistan	Noted. Various examples have been cited.
24.	General Comment	MT contract may also be prepared in local languages enabling the participants to understand the terms and conditions of the contract. Opening of local offices having skilled and trained personal would be added value for the plan. State Bank of Pakistan	Noted. This has been highlighted in paragraph 141.
25.	General Comment	Corporate Governance - TOs must ensure greater transparency and plain language on <i>Microtakāful</i> products to enable participants if <i>Microtakāful</i> understand the product features and coverage Hong Leong Islamic Bank	Noted. This has been addressed in paragraph 141.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
26.	General Comment	A table containing MT models/products currently being offered and prevalent related regulatory/supervisory framework etc across different jurisdictions can be a valuable addition to the document. State Bank of Pakistan	The survey result indicated that <i>Microtakāful</i> is still not as widespread as normal <i>Takāful</i> products. Out of the 64 institutions/RSAs that the Survey was sent to, only 15 reverted with limited information, while 10 respondents stated “non-offerings” as their main reason for not participating in the survey. Based on the number of respondents, there is a big gap between the product offerings and available supervisory framework. The guidelines that are available are not many and have been cited in the paper for reference.
27.	General Comment	Association of MPs may be established to function as a liaison organ and coordinate the due role of these institutions making the product successful and productive. Each member of MPs must be responsible and accountable to the Association. State Bank of Pakistan	Noted. Comments relating to what is ideal to specific jurisdiction are usually not reflected since it may not necessarily be easily applicable for other jurisdictions.
28.	General Comment	- Figures, schemas and info-graphics can be added to the Paper to enhance fluency in the text. - Number of practical examples should be increased. - It would be great to add more numbering and bullets to read the Paper in an easier way.	- The <i>Microtakāful</i> sector is still very much at its nascent stage where limited examples on effective regulation of <i>Microtakāful</i> are available. - An executive summary has been incorporated into the document as suggested

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		- An executive summary or abstract would be placed at the beginning of the Paper. - There should be more case studies in Appendix E. Borsa Istanbul	Copy-editing will be done to ensure legibility of the document
29.	General Comment	If detailed information about the current statistics of the market (i.e., size, number of operators, supply and demand) is represented in the Paper, it can help audience to understand what the market is. Borsa Istanbul	Statistics may only be gathered if there is initiative to collect the numbers. The survey result however indicated that <i>Microtakāful</i> is still not as widespread as normal <i>Takāful</i> products and hence no formal initiative has been undertaken to collect the data.
30.	General Comment	In order for the <i>Microtakāful</i> to grow fast, it has to be supported by a large number of the professional human resources which focus in this particular sector, otherwise, the growth will be slow. Though the awareness and education of consumers are presented in Chapter C, it is also important to provide answers for the question of how <i>Takāful</i> and <i>Microtakāful</i> operators' human resources can be enhanced in terms of both quality and quantity. Borsa Istanbul	The question on how <i>Takāful</i> and <i>Microtakāful</i> Operators' human resources may be enhanced is not included in the scope of this paper.
31.	General Comment	Financial and Prudential Regulation Imperative for the regulatory bodies to consider the importance of outreach and take up rate in developing the prudential guidelines for <i>Microtakāful</i>. Market driven guidelines rather than too much focus on regulatory and supervisory approach. This will help to build in the economics of scale and base for <i>Microtakāful</i> to grow.	Noted. Comments of this nature are useful for future projects. They shall be taken into consideration when the IFSB starts drafting standards for <i>Microtakāful</i>.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		Growing <i>Microtakāful</i> will help increase the penetration rate. Hong Leong Islamic Bank	
32.	General Comment	Transparency, reporting, and market conduct: - Proper guidelines and frameworks needed to ensure relevant information are being disclosed and TOs and its intermediaries are responsible right information are being informed to the participants - Must strike the right balance between consumer protection and TOs providing the products and services. Hong Leong Islamic Bank	Noted. Comments of this nature are useful for future projects. They shall be taken into consideration when the IFSB starts drafting standards for <i>Microtakāful</i> .
33.	General Comment	Legal framework and control mechanism should be established by Central Banks and <i>Takāful</i> regulating agencies, to protect the interests of <i>Microtakāful</i> providers and prevent their misuse National Commerce Bank	Noted. These have been highlighted in paragraphs 137 – 145.
34.	General Comment	At the higher level we can group the bank customer into 3 categories: Category A) : Individual Customer without any Financing Facility To design a very low contribution <i>Microtakāful</i> products with a low contribution/profit/wakalah element being priced into the product could be a challenge for <i>Bancatakāful</i> Channel. This is because there are few main distribution approach for <i>Bancatakāful</i> product such as	The categories for <i>Microtakāful</i> products do not differ much from <i>Takāful</i> products hence there really are no need to categorize these products specifically for this paper. However, these categories may be useful when further work is done for regulations of <i>Microtakāful</i>.

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		Direct Sales by sales staff at the branch, Online Insurance and Direct Marketing/TeleMarketing by the call centre. The channel will incur certain minimal cost such as sales staff incentive, telemarketing cost centre, campaign cost, marketing and promotion cost and other relevant cost. Besides, the <i>Takāful</i> Operator also would need to price in their required and relevant operating expenses into the product during the pricing/product development stage. Category B) Customer with the Bank Financing Facility For customer with bank financing facility, the bank would be able to promote a <i>Microtakāful</i> product as the sale of this product can be bundled together with the bank facility products. In a nutshell, the selling cost will incur one time. However, the process in designing the product have to be discussed and agreed accordingly by the <i>Takāful</i> Operator of the bank. To Support the <i>Microtakāful</i>, the bank can explore to design <i>Microtakāful</i> products in the future when there is a microfinancing products design to low income group of customers. Category C) : Online Banking Customers The Bank can also promote <i>Microtakāful</i> product via the bank website and the customer can purchase the product online. However, some of the low income group of customers	

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		might not be IT savy and might not be able to access to the product in the bank website. In conclusion, from <i>Bancatakāful</i> point of view as distribution channel and by considering all the relevant factors such as distribution cost and accessibility to customer it will be more feasible for the bank to approach customer in Category B and Category C as mentioned above. CIMB Group	
35.	General Comment	• Suggest to provide broad summary identifying the key regulatory themes and operational aspects of <i>Microtakāful</i> vs <i>Takāful</i> and <i>Microtakāful</i> vs microinsurance where they overlap, depart or converge • Suggest to provide details on the peculiarities of <i>Takāful</i> model/product such as: – <i>Microtakāful</i> product development (e.g. what types of features that low-income households may need? Any product features not permissible under <i>Shari'ah</i>?) – More examples illustrating policyholder's expectation, other than difficulty of explaining surplus sharing – Any specific requirements on transparency and disclosure which it is differentiated for microinsurance vs <i>Microtakāful</i> Bank Negara Malaysia	It is pertinent for the IFSB to reiterate that the objective of this paper is to highlight issues engulfing the <i>Microtakāful</i> sector. There is currently no comprehensive regulation done on <i>Microtakāful</i> since the sector is still at its nascent stage. Section C of the document is drafted for this purpose, which is to provide direction for regulators wishing to initiate regulating MPs. In the future, when regulators of various jurisdictions have started regulating MPs more effectively and efficiently and data on MPs are easier to be gathered, clearer classification may be made on the differences between <i>Microtakāful</i> and <i>Takāful</i>.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
36.	General Comment	It is a comprehensive paper that touches upon many pertinent issues. However, this paper does not address what would be the unique issues around MRF in run-off. And at what point an MP or an RSA should make an MRF to be in run off. Particularly those which are subject to lower solvency requirement, how are they managing the run-off? Dubai Financial Services Authority	Noted. Reflected in new Para 121.
37.	General Comment	A few examples of fraud by participants making fraudulent claim, as well as MPs fraudulently siphoning funds should be set out in the paper. Dubai Financial Services Authority	Although the risk of fraud exists in <i>Microtakāful</i> the way it exists in <i>Takāful</i> , real life examples have not be cited. This is especially difficult since the <i>Microtakāful</i> sector is still at nascent stage and reports of fraudulence have not been effectively recorded.
38.	General Comment	Can this paper also clarify if the existing MPs all mono-line business? Could there ever be MPs offering mixed line of business? Dubai Financial Services Authority	There is currently limited data to provide such clarification.
39.	General Comment	Several times, statements are made about the target segment being "high risk." This is not supported by evidence. It is a similar observation to that which held back micro-credit adoption in the 1970s and 1980s, namely that that the working poor are inherently riskier for financial services. Zurich Insurance Group	The term "high risk" is used in this paper since MPs may be new in operation and may not possess the necessary skills to ensure that higher frequencies are offset by lower severity and underwriting conditions. It is hence identified as high-risk to ensure that regulators intending to regulate MPs may wish to provide certain guidelines to the TOs/MPs.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
40.	General Comment	It is important when dealing with low-income segments of society to ensure that profit-driven interests do not overcome the interests of the people it was meant to serve. This emphasis the role the regulator must play, in addition to careful attention given to the corporate governance structure of providers. This is especially important since the segment served is mainly low-income, and perhaps largely illiterate. Therefore extra emphasis should be given to the methods in which recipients are adequately protected and not merely considered a market to profit from. Saudi Arabian Monetary Agency	Noted. This issue has been highlighted in various sections of the document, namely in Section C.
41.	General Comment	Premium under <i>Microtakāful</i> should be paid monthly instead of annually. This will help attract low-income people to participate. Saudi Arabian Monetary Agency	Practices which may seem doable in certain jurisdictions may not necessarily be doable in other jurisdictions. Hence this paper does not attempt to deal with jurisdiction-specific issues.
42.	General Comment	Advertising needs. The advertisements are for the purpose of introducing the policies, attracting new customers and generating more business. These steps are purely for development and expansion. However, who is going to bear the advertisement cost? Saudi Arabian Monetary Agency	This should be left to the creativity of each MP, to which the decision should be approved by the regulators.
43.	General Comment	One of the challenges that faces <i>Microtakāful</i> is that focuses on low-income segments of the society. It is likely that such segments live in areas that lack infrastructure and health services. Given the level of awareness of low-income segments of the society, it is important	The type of products, services, distribution channels for <i>Microtakāful</i> participants have been provided in various sections of this paper. In addition, examples are also provided for easy reference of the reader on how efficiency

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		to cover the issue of services available to them included in this study. This is to ensure that such <i>Microtakāful</i> policies are not offered to those who cannot practically benefit from them. Furthermore, it is important to suggest who will be performing such a function. Saudi Arabian Monetary Agency	may be improved for MPs' outreach attempt to the participants.
44.	General comment	The lack of information and understanding of both <i>Takāful</i> , and <i>Microtakāful</i> alike, is considered a challenge for both the regulator and the industry. For instance, the lack of actuarial data in some type of converges would make the provision of <i>Microtakāful</i> riskier. Covering such risks to ensure obligations are adequately met will clearly result in regulations that may be challenging to adhere to Saudi Arabian Monetary Agency	The IFSB-11, IFSB-14 and GN-5 provide detail explanation on <i>Takāful</i> with the intention to provide understanding to industry players. This paper has also made reference to all the related documents to ensure clear understanding of <i>Takāful</i> and <i>Microtakāful</i> .
45.	General Comment	Since profitability is a challenge for some products that target the poor. Is the low-income should support the total cost for fees to take advantage of a decent cover, or Is the government should provide some support. Saudi Arabian Monetary Agency	The question on who should bear the cost for product fees is usually determined during the product development process by the MP. The decision will also be determined based on who the stakeholders are; hence it falls outside the scope of the document.
46.	General Comment	There should be strict requirement and high expectation for the underwriting management, for example, a <i>Microtakāful</i> provider should ensure that management is qualified enough. This will ensure that the insurance Policy underwriting terms and conditions meet international standards. Furthermore, since simplicity is a key factor on wordings and	Noted. These expectations have been spelled out in Section C.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		claims administration, terms and conditions should be kept to the basics, with minimal exclusions. Furthermore, since illiteracy is widespread among low-income segments of society, it is essential to know what percentage of participants is illiterate. This is to ensure that basic terms and conditions are delivered properly and do not simply function as disclaimers that merely protect the providers. Saudi Arabian Monetary Agency	
47.	General Comment	To ensure transparency, expense deductions and commissions must be clearly set out. Especially agency or Wakala fees which are paid to the <i>Microtakāful</i> operator to meet distribution and management expenses. Saudi Arabian Monetary Agency	Noted. The requirements on disclosure for easy understanding of the <i>Microtakāful</i> participants have been reflected in Section C of the paper. This paper however does not cover the detail disclosure requirements especially on the agency or Wakalah fees since different jurisdictions may have different disclosure requirements which to date has yet to be micro-studied by the IFSB.
48.	General Comment	While we appreciate the wish to encourage provision of <i>Microtakāful</i> (MT) - our view is that this sector needs to be properly regulated to protect participants interests. Hence, non financial companies that provide MT must be properly regulated. Alternatively, provision of <i>Microtakāful</i> may be confined to regulated IFIs but requirements for solvency would need to be applied on the basis of proportionality as described in the draft guidelines. Prudential BSN <i>Takāful</i>	Noted. Section C is drafted for reference of RSAs and entities (other than RSAs) regulating MPs. While ideally MPs should be regulated by RSAs, legislation of different jurisdictions may not allow this to be done effectively. Hence, this issues paper highlight the issues if non-stringent regulation is imposed on MPs.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
49.	General Comment	- What are Business, Operational and Market Strategies in <i>Microtakāful</i> Market? - What are the Investment Opportunities and Growth Strategies in the <i>Microtakāful</i> Market? - What are the Product and Service Offerings and what is the status-quo' of Transparency of <i>Microtakāful</i> Market? Osman Ahmed, IRTI, Islamic Development Bank	These questions may serve as part of the future project for <i>Microtakāful</i> , to gauge an understanding of the sector through gathering of data from MPs that have successfully been regulated.
Section A: Introduction			
Section B: About <i>Microtakāful</i>			
50.	General Comment	In order to rid the existing system of elements of Maisir, Gharar, and Riba there is need to find out true alternatives to conventional insurance. Since there are several models used to develop <i>Takāful/Microtakāful</i> products, while developing products under any of them, replica (of conventional insurance) approach needs to be avoided, along with ensuring its general acceptability by the users. No doubt, models mentioned in the paper, may be viable and acceptable from Sharia compliance perspective. Cooperative Model and Mutual model, however, seems to be	Noted. The paper does not take any position on any issue as it only highlight pertinent regulatory issues.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		nearer to original concept of <i>Takāful</i> from Islamic perspective Central Bank of Oman	
51.	General Comment	Use of funds in Wakala-Waqf Model (being a trust) needs careful review by Sharia authorities. Central Bank of Oman	Noted. Responsibilities of Shariah Board have been highlighted in paragraphs 108 – 111.
52.	General Comment	To add a comparative discussion on payment of premium by conventional insurance and <i>Takāful</i> , by highlighting the <i>Sharī'ah</i> issues on conventional insurance such as maysir, and gharar. And explain how the <i>Takāful</i> premium works. Islamic Development Bank	Paragraph 14 provides the definition of <i>Microtakāful</i> which differentiates it from the definition of microinsurance. In addition, reference has also been made to IFSB-8 for further understanding of the differences between <i>Takāful</i> and Insurance.
53.	General Comment	The form of <i>Microtakāful</i> organization it can such as a Trust, Mutual Society, etc. INCEIF	As observed in the paper, there are various types of institutions providing <i>Microtakāful</i> products. The difference is whether they are formal or informal entities.
54.	General Comment	To look into other processes like contribution collection, benefit payments and other administrative matters. INCEIF	Reference on contribution collection, benefit payments and other administrative matters have been made throughout the document, where related.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
55.	General Comment	To add a discussion on current position of MPs in the world, where are they established, what is the market share and what are the products. Islamic Development Bank	The survey conducted in the 3 rd quarter of 2014 showed that many jurisdictions stated “non-offerings of <i>Microtakāful</i> products” as the main reason for their non-participation in the survey. In addition, the survey result also indicated that currently there is no specific regulation of <i>Microtakāful</i> in place for many jurisdictions. With the limited information to date, the current position of MPs and the market share may not be easily obtained.
56.	General Comments Models/Types of <i>Microtakāful</i>	In addition, this paper should clarify what the ranges of Wakala, Waqif, Mudharaba fees are to be charged to <i>Microtakāful</i>. Dubai Financial Services Authority	Charges relating to Wakala, Waqif, Mudharaba fees differ between various jurisdictions. Even the methods on how they are calculated and terminologies used may differ. Hence the paper does not attempt to suggest any range for fee structure.
57.	General Comments Models/Types of <i>Microtakāful</i>	It could be helpful if the different models were analysed in a bit more depth according to their actual financial impact with a view to concrete peculiarities of Micro-Insurance (relation of fee and cost structure, actuarial reserves) Munich Re	An in-depth analysis of this nature is usually done at the MP level when they consider which model fits their regulatory requirement most. This kind of extensive analysis falls outside the scope of this research since this paper intends to highlight only issues facing the <i>Microtakāful</i> sector.
58.	General Comments (f) Sharing of Surplus	Section B (1) (f) “Sharing of Surplus” can be made as separate section instead of including this as part of Models /types of <i>Microtakāful</i> (MT) State Bank of Pakistan	Noted. This section has been placed under Section C II as item (c).

	Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
59.	General Comment (f) Sharing of Surplus	To add a discussion on distributing <i>Takāful</i> underwriting surplus. There are numerous methods of allocating <i>Takāful</i> surplus. AAOIFI identifies a number of methods: • Allocation of surplus to all policyholders, regardless of whether or not they have made claims on the policy during the financial period; • Allocation of surplus only among policyholders who have not made any claims during the financial period; • Allocation of surplus among those who have not made any claims and among those who have made claims of amounts less than their insurance contributions, provided that the latter category of policyholders should receive only the difference between their insurance contributions and their claims during the financial period; • Allocation of surplus between policyholders and shareholders; • Allocation of surplus using other methods Islamic Development Bank	Noted. These various methods have been reflected in Item C Sharing of Surplus
60.	Para 8 Research conducted in 2010 suggests that in countries populated by Muslims	Should read, "...in Muslim populated countries..." National Association of Insurance Commissioners	Noted. Change has been reflected as suggested.

Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
61. Para 9 <i>Microtakāful</i> is widely known in the industry as <i>Takāful</i> for low-income populations. In general <i>Takāful</i> terms, “low-income” means that section of the population that is customarily not eligible and not invited to participate in any of the <i>Takāful</i> plans of any <i>Takāful</i> Operator (TO).	Suggest to adopt <i>Microtakāful</i> definition of target market to be consistent with 2007 IAIS paper “Issues in Regulation and Supervision of Microinsurance” , where the focus of microinsurance is on the poor/low-income: In IAIS paper, para 20 states “In summary, microinsurance is servicing a specific income segment, i.e. the low-income earning segment of the population.” Where “the concept of low income varies from jurisdiction to jurisdiction based on its state of development” (Footnote 1). Bank Negara Malaysia	This paper takes note of the IAIS’ definition on microinsurance (as highlighted in footnote 5 of the document. In addition, it is pertinent to ensure that specificities of Islamic Finance is not compromised in the process of complementing the work of the IFSB’s conventional counterpart for <i>Takāful</i>, i.e. IAIS.
62. Para 10 The industry sees the need for this low-income group to be enabled to participate in the various products and plans offered by banks and insurance/<i>Takāful</i> companies, as well as any other facilities offered by these financial institutions. The condition of this segment of society makes it more vulnerable to financial losses...	The needs and demands of <i>Microtakāful</i>. Who actually wants to make contributions and be covered by the same scheme if benefits are limited or small? INCEIF	Noted. The outcome of various researches, as quoted in the paper proved that there are high demands for <i>Microtakāful</i> products.
63. Para 11 more TOs have started shifting their focus to include the low-income segment via <i>Microtakāful</i> products. In 2014, under the Malaysian Government Bantuan Rakyat 1	The joint paper suggested that <i>Takāful</i> coverage sponsored by third party can be considered as the <i>Microtakāful</i>. However, this may not be the universal definition. The <i>Microtakāful</i> working committee for Malaysia <i>Takāful</i> Association, for example, has defined <i>Microtakāful</i> as the product design with the	We take note of the suggestion. Reference has been made to definition of Social Microinsurance in Munich Re Foundation’s “The Landscape of Microinsurance in Asia and Oceania 2013” in footnote 4.

Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
Malaysia (“BR1M”) or 1 Malaysia Public Relief programme...	contribution is entirely paid by individual (or only partly subsidized by third party). Therefore, we reckon to have a further breakdown on the definition of <i>Microtakāful</i> for easy reference to potential <i>Microtakāful</i> Providers in the future. The joint paper could make reference to the following extraction from a report called “The Landscape of Microinsurance in Asia and Oceania 2013” published by Munich Re Foundation : • No insurance: The individual underwrites her/his own risk • Informal insurance: The community underwrites insurance for its members in such arrangements, individuals form small informal groups within the community to establish insurance mechanisms. Community-based funeral insurance are examples of such schemes. • Microinsurance: The risk is underwritten either by a community-based organisation, member-based semi-formal institution or by the insurer, while the premium is entirely paid by individuals (contributory schemes) or co-contributed by the managing institution or government (co-contributed schemes). Schemes that are partially subsidised by the government (operational support) also qualify as microinsurance.	

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		- Social microinsurance: The government pays the full (or large part of the) premium, while the risk is underwritten and borne by the insurance companies. Ties also include programmes where government also fully subsidises the operations of the scheme. - Social security: No insurance mechanism is in place so that the government bears the risk. Syarikat <i>Takāful</i> Malaysia	
64.	Para 14 <i>Microtakāful is generally offered to [the] low-income and under-privileged segment of the population (which is usually excluded from the general Takāful terms and conditions) by various entities which are regulated and supervised by regulatory and supervisory authorities of Takāful/insurance or any other competent regulatory and supervisory authority under the national laws of any jurisdiction.</i>	The clear definition of <i>Microtakāful</i>. Is it for under-privileged or poor or for those who cannot obtain <i>Takāful</i> cover? It is just a social scheme and financial sustainability is secondary? Various definitions should be listed down to show there are no conflicts and the definitions should be more uniformed. It is important that <i>Microtakāful</i> be part of financial inclusion strategy of a country. INCEIF	Paragraphs 12 – 16 acknowledge the existence of various definitions for <i>Microtakāful</i>. The definition provided in this research paper is referenced to the definition of “<i>Takāful</i>” as highlighted in IFSB-8 for consistency purposes.
65.		Suggest to adopt <i>Microtakāful</i> definition of target market to be consistent with 2007 IAIS paper “Issues in Regulation and Supervision of Microinsurance” , where the focus of microinsurance is on the poor/low-income: In IAIS paper, para 20 states “In summary, microinsurance is servicing a specific income	This paper takes note of the IAIS’ definition on microinsurance (as highlighted in footnote 5 of the document. In addition, it is pertinent to ensure that specificities of Islamic Finance is not compromised in the process of complementing the work of the IFSB’s conventional counterpart for <i>Takāful</i>, IAIS.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		segment, i.e. the low-income earning segment of the population.” Where “the concept of low income varies from jurisdiction to jurisdiction based on its state of development” (Footnote 1). Bank Negara Malaysia	
66.	Para 20 In return for the service rendered by the MP as <i>Wakīl</i>, the MP receives a management fee, called a <i>Wakālah</i> fee, which is usually a percentage of the contributions paid. Para 22 The MP receives a <i>Wakālah</i> fee, which is usually a percentage of the contributions paid, as described above, and may (where the contract permits it) receive a performance fee based on the underwriting result. In addition, the MP is remunerated by a predetermined percentage share in the investment profit.	Wakalah fee in the percentage rate might be controversial from <i>Sharī'ah</i> perspective, kindly refer and clarify with <i>Sharī'ah</i> scholars on this matter. Islamic Development Bank	The same description has been used in the <i>Retakāful</i> Standards which will be presented to the IDB <i>Sharī'ah</i> Board for its review on 7 September 2015. Any change can be reflected in this document.
67.	Para 20 The MP receives a management fee, called a <i>Wakālah</i> fee, which is usually a percentage of the contributions paid.	The regulator of each market must provide guidelines on the limit of Wakala fees that can be charged. Currently the Wakala fees charged by operators is expressed as a percentage of the contribution (i.e. premium) and is, unlike traditional life insurance policies, independent of the size of the contribution. Thus, the percentage of contribution paid out as benefits is independent of the size of the contribution.	The paper does not intend to dwell on the detail mechanism of how Wakalah fee is derived. It should be left to each individual jurisdiction's regulators on whether they wish to provide guidelines on Wakalah fee.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		Saudi Arabian Monetary Agency	
68.	Para 20 The MP receives a management fee, called a <i>Wakālah</i> fee, which is usually a percentage of the contributions paid.	On wakalah fee, it should spell out the management expenses also include distribution cost which consist of commission paid to distributor that form the big chunk of the management expense. For MT products, the distributor may be an NGO or a community bank whereby the distribution or commissions should be less than regular <i>Takāful</i> products distributed via an agency channel Prudential BSN <i>Takāful</i>	The paper does not intend to dwell on the detail mechanism of how Wakalah fee is derived. It should be left to each individual jurisdiction's regulators on whether they wish to provide guidelines on Wakalah fee.
69.	Para 22 The MP receives a <i>Wakālah</i> fee, which is usually a percentage of the contributions paid, as described above, and may (where the contract permits it) receive a performance fee based on the underwriting result	Performance related fee in the mudharabah contract referred to in wakalah-mudharabah is not related to profit sharing. Alot of confusion in understanding the surplus sharing in the risk fund by attributing it to Mudharabah. Surplus sharing in risk fund is not about mudharabah as relationship between participants and TO is not in the form of mudharib and rabbul maal as normally the case in the management of investment fund. Prudential BSN <i>Takāful</i>	This section of the document is consistent with the similar section written on the Standard on <i>Retakāful</i> Undertakings. The models are based on the best practices of the industry, which may or may not conform to the <i>Shari'ah</i> resolution of each individual jurisdiction.
70.	Para 27	Consider beginning the 4th sentence with "In contrast" instead of "In the former	Noted. Suggestion has been reflected.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
	In the former, the MP applies the <i>Wakālah</i> contract to its <i>Takāful</i> scheme, hence entitling itself to a <i>Wakālah</i> fee	Zurich Insurance Group	
71.	Para 28 Usually, the mutual model is a not-for-profit model applied by the MP. In this model, the MP's shareholders who are also participants establish a Mutual MRF.	Unlike the models quoted under para 20-27 there is to our knowledge no shari'a regulation on mutuals. This fact should be stressed and the RSA should be encouraged to create one. Mutuals are fundamentally different from the other models in that they do not have shareholders and thus the experience a dichotomy of shareholders and participants. Since the alignment of interest between the two groups is a major issue in the other models and the impact of this question on micro-insurance techniques is crucial, it may make sense to structure the models for regulation purposes that way: A Models with shareholders (para 20-27) B Mutuals (without the necessity to align interests, to separate funds etc.)	The objective of the paper is not to take any position on any particular issue. However, the paragraph on Mutuals has been turned into footnote 9 and amended to reflect its practice in microinsurance. Currently the Mutual model is not being adopted in the industry.
72.	Para 34 (New Para 30) It is usually at the end of the certificate term that any surplus generated from the Participants' Risk Fund (PRF) will be shared between the participants and the shareholders of the TOs.	Should spell out "TOs" since this is the first time it is used (rather than spell it out later in paragraph 34). National Association of Insurance Commissioners	It has been spelt out in Para 9

Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
73. Para 35 (New Para 31) <i>Microtakāful</i>, on the other hand, exists in an environment that is not as yet strictly regulated in many jurisdictions.	A <i>Takāful</i> operator conducts the insurance functions for a <i>Takāful</i> fund as wakeel or mudharib. It should thus be noticed from a terminology and legal view, that all the three groups that are called <i>Microtakāful</i> provider under (i), (ii), and (iii) are in fact by shari'a-logic and economic function nothing but <i>Microtakāful</i> operators. The peculiarity of the group under 35 (i) is only: in this case the <i>Microtakāful</i> operator is a company which specializes in insurance and possibly already functions as operator for <i>Takāful</i> funds. For regulatory purposes, it should be useful to be terminologically clear: an MP is by definition an MTO. If the MTO is at the same time a <i>Microtakāful</i> fund, as in the example 35 (iv), we have the case of a mutual One of the regulatory options deriving from that clarification is, that a <i>Microtakāful</i> fund can have more than one MTO according to different functions (e.g. one for distribution, one for investing etc.). Similarly, an MTO can provide its service(s) to more than one <i>Microtakāful</i> fund. Munich Re	The 3 categories are made based on their compliance to the formal regulatory requirements imposed by RSAs. While (i) complies fully to the requirements of being a formal <i>Takāful</i> provider, (ii) and (iii) are not required to comply to RSAs. The objective of this section is to differentiate these institutions based on their regulatory compliance, not based on their models.
74. Para 35 (New Para 31) ("MPs" shall henceforth refer to institutions offering <i>Microtakāful</i> products, including licensed TOs.)	As "MP" is already spelled out in paragraph 20, is the parenthetical at the end of this paragraph ["MPs" shall henceforth be referred to institutions offering <i>Microtakāful</i> products, including the licensed TOs)] necessary or even potentially confusing?	Noted. The description of MP has been placed in the definitions section

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		National Association of Insurance Commissioners	
75.	Footnote 9 (New Footnote 12) The proportional principle works two ways: (1) for low-risk activities, simpler and less burdensome guidelines are used; and (2) for complex and riskier activities, more sophisticated methods and techniques will be used	Note typo in Point (i) of footnote 9 (new footnote 12), should be "proportionate" Zurich Insurance Group	Amended to proportionality
76.	Para 35 (iii) The third type of MP is unregistered and unregulated institutions. These are informal entities that are unregulated by RSAs of <i>Takāful</i> /insurance law...	Removal of unregulated MPs (in page 9) regroup them under Distribution Channel. Unregistered and unregulated institutions marketing micro <i>Takāful</i> products are categorized as the one of the <i>Microtakāful</i> providers. The joint-paper suggested that marketing <i>Microtakāful</i> should be carried in governed manner. Therefore we suggest that unregistered and unregulated institutions should not be recognized as one of the <i>Microtakāful</i> providers. Instead, such institutions, could be the distributional channels for a more established <i>Microtakāful</i> provider or <i>Takāful</i> operator. This is because the regulated MPs and TOs already have sufficient resources to produce the product. The role of the unregulated institutions should be restricted to solely on distributing the product to the target market as they are more approachable and trusted by the target market than the regulated MPs (as specified in the	It is important to note that the intention of the paper is to highlight the current practices of the industry, i.e. to state what is currently being done. Hence the mention of the existence of unregulated MPs. Section C draws upon the issues and challenges that may be faced by regulators, if they decide to regulate <i>Microtakāful</i> in their jurisdiction. Examples are provided from jurisdictions that have already implemented their regulations on <i>Microtakāful</i> .

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		document too). Therefore, we feel that Section C is not relevant to the unregulated MPs. Syarikat <i>Takāful</i> Malaysia	
77.	Para 37 (New Para 33) <i>Microtakāful</i> participants are, on the other hand, irregular or low-income earners. Many <i>Microtakāful</i> participants do not enjoy basic amenities.	Definition of <i>Microtakāful</i> clients introduces new concepts for how to define the segment. These are narrower than earlier in the paper (e.g. para 11) as well as the definitions used in other Microinsurance papers. We recommend to use a consistent definition based on insurable vulnerability to poverty and lack of access (or use) of insurance. We agree with prior discussions at IAIS which have recommended that the Microinsurance (and <i>Microtakāful</i>) definition be as broad as possible in order to stimulate the development of a vibrant market. In a later step and where a competitive market is formed, regulators may decide to refine the definition if necessary. Zurich Insurance Group	Noted. The paragraph has been amended “underprivileged and low-income earners” to be consistent with the definition provided in paragraph 14.
78.	Para 40 (New Para 36) <i>Microtakāful</i> products, on the other hand, are in practice generally simpler and easier to understand as compared to <i>Takāful</i> products.	Whereas simple-to-understand products are always preferred, education and awareness-raising also have their place. The aim is that the products are understood and not necessarily that the products are “simple” to understand. Zurich Insurance Group	Noted. The sentence has been amended to “...are in practice generally simpler and easier to understand as compared to <i>Takāful</i> products”.

Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
79. Para 41 (New Para 37) A credit <i>Microtakāful</i> plan was introduced by Takmin (<i>Takāful</i> Mikro Indonesia) in 2006 as a joint partnership between <i>Takāful</i> Indonesia and Peramu, an NGO.	This is a good example of bundling <i>Microtakāful</i> with microfinancing products; perhaps to consider providing clarity on <i>Microtakāful</i> plan e.g. <i>Microtakāful</i> credit protection against death, accidental etc. Also noted that similar example is repeated under para 44; and suggest to consider combining both para 41 and 44. Bank Negara Malaysia	Noted. The clarification for credit <i>Takāful</i> has been provided as suggested.. As for the similar example quoted in paragraph 44 (new para 40), the intention is to provide the example from the perspective of distribution channel since the former provides the example from the perspective of product. Sentences will be reworded accordingly.
80. Para 42 (New Para 38) These distribution channels survive based on the various layers of the agency and brokerage commission structure.	Suggest to include bancassurance as common distribution channels too for distributing <i>Microtakāful</i> products, in particular bundling with microfinancing solutions. Bank Negara Malaysia	Noted. Bancassurance has been reflected in the document.
81. Para 43 (New Para 39) Where products are distributed via local mosques, religious groups or trade unions, the participation rate seems to be higher	Role of mosque in distribution and education as highlighted in paras 43-46 is an interesting proposal. The mosque could play a critical role in financial inclusion of the low income earning population. Therefore, this research paper can explore more specifically on how the mosque, the scholars and Imams can play a role in reality. For example, how they can collect <i>Microtakāful</i> contributions and pass them on to the MPs, how they issue <i>Microtakāful</i> policies, how they can explain the terms and exclusions, how they can handle claims, etc.	Noted. Simple illustration of how the mechanism might work has been provided.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		Dubai Financial Services Authority	
82.	Para 43 (New Para 39) The transactions (exchange of <i>Aqd</i> and payment of contribution) take place via the deduction of mobile phone credit and by an exchange of a contract that sets out in simple fashion the terms and conditions of the <i>Microtakāful</i> products.	Distribution channels such as deduction of credit via the use of mobile phones may be a method of mass distribution more than it is a method of reaching participants in remote areas while adequately educating them in terms on conditions of <i>Microtakāful</i> products. Saudi Arabian Monetary Agency	This is currently being done by Amana <i>Takāful</i> in Sri Lanka to reach <i>Microtakāful</i> participants in remote areas.
83.	Para 43 (New Para 39) The need to remain simple, yet affordable, makes distribution taxing, since the majority of the participants may reside in areas that are unreachable by normal means of communication and transportation	The paragraph seems to imply that the main market is rural whereas in actual fact in many or most markets the greatest numbers of micro clients are in urban and peri-urban centers. Zurich Insurance Group	The paragraph has been amended to indicate that only in certain jurisdictions do <i>Microtakāful</i> participants reside in rural areas.
84.	Para 45 (New Para 41) <i>Microtakāful</i> objectives and values are generally not known or understood by the target market itself	Awareness of <i>Takāful</i>, in general, and <i>Microtakāful</i>, in particular, is still not popular compared to conventional insurance. Thus, it is important that governments play a larger role in ensuring that educating low-income people to avoid ambiguity is properly done. Saudi Arabian Monetary Agency	Noted. This has already been mentioned in paragraph 67 (new para 63).

	Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
85.	Para 45 (New Para 41) The high level of awareness among middle-income earners can be attributed to the development of Islamic finance	<i>Takāful</i> customers are described as "middle class" and this may be misleading. As seen with the para 11, Malaysia has defined its <i>Microtakāful</i> segment right at the Malay median income. As this is a guideline and not a rule it effectively means that the true middle class (and lower) are considered to be the micro segment. This fits with, for example, the definition used by the InterAmerican Development Bank (and others) which calls its micro-segment initiative "Opportunities for the majority" Zurich Insurance Group	There is no indication in paragraph 11 that Malaysia has defined its <i>Microtakāful</i> segment right at the Malay median income.
86.	Para 46 (New Para 42) <i>Microtakāful</i> objectives and values are not known or understood by the target market itself. This is due to the low level of education and financial literacy of that market, which makes it incognisant of the risks that may cause it further suffering and financial losses.	We should like to stress that the values and objectives of <i>Microtakāful</i> are reflected in informal risk sharing groups (see para 35 iii and iv) throughout the Muslims world and thus these values are well known and understood. They may, however, not (always) be perceived by the potential buyers in the existing <i>Microtakāful</i> offerings. This can be a point for regulators to focus on. Munich Re	Noted. Amended to "<i>Microtakāful</i> objectives and values may not be well understood by the target market itself"
87.	Para 46 (New Para 42) <i>Microtakāful</i> objectives and values are not known or understood by the target market itself	We have a different opinion, in Malaysia, <i>Microtakāful</i> is well understood depending on the product. <i>khairat kematian</i> (funeral expense) is well known practice of <i>Microtakāful</i> in the rural areas for century. iBRIM also is another example of a well-known scheme of	Noted. Amended to "<i>Microtakāful</i> objectives and values may not be well understood by the target market itself"

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		<i>Microtakāful</i> which is known nationwide. the notion of the target market do not understand the objective of <i>Microtakāful</i> is not entirely true in the paper Prudential BSN <i>Takāful</i>	
88.	Para 50 (New Para 46) In Malaysia, Etiqa <i>Takāful</i> and Angkatan Koperasi Kebangsaan Malaysia (a government agency) launched the <i>Tabarru'</i> Koperasi scheme, which covers death and total permanent disability for members aged up to 80 years. The scheme is open only to members of the cooperative, and to members of cooperatives that are overseen by Angkatan Koperasi Kebangsaan Malaysia (Angkatan). The contribution for this scheme ranges from just USD1.30 to USD6.80 per year, and pays a death benefit of up to USD5159. The operation of this particular scheme has been simplified, in the sense that participating cooperatives manage applications and claims for their members (ICMIF, 2014).	We hope the working group can validate all the <i>Microtakāful</i> schemes quoted as examples in the draft paper. We believe that the readers will study further the quoted examples as case studies if needed and it's important that these examples are valid and have been implemented successfully. As for Malaysian case, both the Etiqa <i>Takāful</i> Koperasi Scheme and <i>Takāful</i> Ikhlas Farmers <i>Microtakāful</i> schemes may have only reached the product development stage. As such, please review and seek endorsement from Malaysian <i>Takāful</i> Association or the respective <i>Takāful</i> companies prior to issuance. Bank Negara Malaysia	Noted. Information quoted on Etiqa and <i>Takāful</i> Ikhlas were both obtained from press release and a published book which information were provided by respective organisations. Do note that these products are group products, in which filing of Actuarial certificates to the Central Bank differ from the filing for Actuarial certificates for individual products. For group products, a blanket Actuarial certificate will contain basic mortality/morbidity rates and various other relevant rates as guidance. These rates will be used to meet the demands of various groups. For as long as the benefits that these groups have requested fall within the specification of the Actuarial Certificate, no independent approval needs to be obtained from the regulator.
89.	Para 51 (New Para 47) In Pakistan, for example, 96% of the population is Muslim. Muslims believe that the principles set forth in the conventional insurance mechanism are against their faith	The Pakistani example seems to imply that 96% of Pakistanis believe that insurance principles are against their faith. It's not clear that the research shows this to be a uniformly held position. While there will be some or even many with this view, we suspect that a majority	This has been amended to give better clarity

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
	and beliefs. On the contrary, they accept that the principles in <i>Microtakāful</i> promote cooperation among members of the community and serve the people better	of the 96% of Pakistanis who have never really thought about insurance at all. Zurich Insurance Group	
90.	Para 55 (New Para 51) Based on the limited information provided by 15 participating respondents, the survey results indicated that, while <i>Microtakāful</i> is still not as widespread as normal <i>Takāful</i> products, a few institutions have already taken steps to provide coverage to the low-income population via low-contribution and simple products – most commonly, death, total permanent disablement and credit <i>Takāful</i>. Although the infrastructure for <i>Microtakāful</i> administration is not fully in place for many of these 15 institutions, steps have been taken to ensure that products and claims administration procedures have been simplified to provide ease of transactions for participants.	There's a methodological challenge in asking companies about "<i>Microtakāful</i>" or "Microinsurance." Even where companies do a lot of business with the "micro" segment, they more commonly describe it by the distribution channel (e.g. retail, bank assurance) or by the product (e.g. credit life, personal accident). As seen even in this paper, the segment definition can sometimes be confusing ranging from the middle class [para 11] to the rural poor [para 43]. If the same companies were surveyed again regarding business that they do which reaches the middle class via some common micro distribution and common micro products would possibly respond differently than in the first instance. Zurich Insurance Group	This is true to a certain extent. However, since this is an initial Issues Paper where both Secretariats tried to highlight as many issues as we can from the industry where <i>Microtakāful</i>/microinsurance may or may not yet be categorised under a different product line, and they may or may not be regulated either, the survey sent was somewhat guided to ensure that only the known <i>Microtakāful</i> providers responded.
Section C: Supervisory and Regulatory Framework for <i>Microtakāful</i>			
91.	General	An appropriate structure of governance (corporate and <i>Sharī'ah</i>) and management for the organisation. INCEIF	This has been discussed at length in Section C.I.

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92.	General	The paper does not offer a specific proposal of what regulatory constraints might be adjusted to improve adoption by providers and/or customers. Some are hinted at but not so clearly described. These typically include lower capital requirements, changed requirements for distribution intermediaries, allowances for mobile money, etc. It appears that there are a handful of existing <i>Microtakāful</i> regimes and rather than consistently comparing and contrasting these for each of the major topic areas, the paper picks and chooses examples from the regimes to make its points. Where research is presented, it would help the reader to have the information presented using a set structure e.g. Board of Directors: Overview, Malaysia Example, Nigeria Example, Pakistan Example. Finally, a graphic describing the interplay of the various governance elements would be helpful. Zurich Insurance Group	It is not the intention of the paper to propose any kind of regulatory requirement in this paper since the paper aims to just highlight issues. Examples of successful <i>Microtakāful</i> practices, which are very limited during the drafting process, may not be available in certain sections of the document. Hence, the proposed structure may not be appropriate.
93.	General	What are the right underwriting requirements for <i>Microtakāful</i>? If underwriting is lax the cost of cover will increase. INCEIF	The paper does not intend to spell out the underwriting requirements for <i>Microtakāful</i>. The objective of this paper is merely to highlight issues for the attention of readers.
94.	General	What other regulations can be used to regulate the MPs other than the <i>Takāful</i> Insurance Act or IFSA. INCEIF	Various regulations of different countries such as Nigeria, Kenya and Pakistan have been cited in the document. The document does not only cite laws and regulations from Malaysia. Certain matters have been focused

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95.	General	Instead of corporate governance at the national/ federal level establishment of provincial/local/state level regulatory bodies can be more effective for this growing sector of microtatakful. Local/District/ Tehsil council level committees may be established under the supervision of Local/District/Tehsil Council members for monitoring the activities of MPs. Government funds may also be provided to MPs through these members. State Bank of Pakistan	Noted. What might seem to work for one jurisdiction may not necessarily work for another jurisdiction. Hence this paper avoids making recommendations of this sort. Rather, real-life examples are given for readers of this paper to comprehend and relate these examples to their own jurisdiction.
96.	General	As MT is targeted at low income population, therefore the support of government is crucial in this regard. Government driven initiatives can create a bridge between participants and MT Providers which will be helpful in confidence building in the said market. State Bank of Pakistan	Noted. These have been highlighted in paragraphs 64 – 69 (new paragraphs 60 – 65).
97.	General Comment	<i>Microtakāful</i> industry need to work hand in hand with SME and Micro SME product providers to combine their efforts and provide a unified solution/product bundle to serve the financial needs of small and marginal customers National Commerce Bank	Noted. These have been highlighted in paragraph 64 – 69 (new paragraphs 60 – 65).

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
98.	General	Some sort of guarantee/support to MPs for meeting their expenses for expanding their operations in rural and semi urban-areas to cover low-income earner may be provided. State Bank of Pakistan	Noted. What might seem to work for one jurisdiction may not necessarily work for another jurisdiction. Hence this paper avoids making recommendations of this sort. Rather, real-life examples are given for readers of this paper to comprehend and relate these examples to their own jurisdiction.
99.	General <i>Sharī'ah</i> Board	Necessary training regarding products, structure, technology, business operations, procedures and process may also be given to the <i>Sharī'ah</i> Board enabling them to make sound <i>Shari'ah</i> pronouncements based on MPs processes. State Bank of Pakistan	The need for <i>Sharī'ah</i> Board to be given necessary training has been mentioned in para 86 (new para 83) as a responsibility of Senior Management.
100	General Shareholders Participants	Approval of shareholders and participants may be obtained in respect of surplus funds. State Bank of Pakistan	The Sudan Cooperative model has been cited in paragraph 84 (new para 81). The BOD consisting of shareholders and participants will be able to decide on surplus sharing/distribution based on this model.
101	General <i>Retakāful</i>	The paper should indicate whether regulative structure of <i>Microtakāful</i> can be formed or not in the case of no <i>Retakāful</i> structure. If the answer is yes, then the Paper should provide how to do so. Borsa Istanbul	This paper is intended to highlight only issues rather than providing any stand on an issue.
102	General	If detailed information about the current statistics of the market (i.e., size, number of operators, supply and demand) is represented in the Paper, it can help audience to understand what the market is. Borsa Istanbul	<i>Microtakāful</i> is still at its nascent stage where most jurisdictions have yet to regulate the MPs. No statistics are currently made available.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
103	General	To consider a paragraph on the role of Actuary in <i>Microtakāful</i> in the areas of valuation, pricing, surplus distribution, financial condition amongst others. Bank Negara Malaysia	Noted. Footnote 22 has been made making reference to the role of actuary in IFSB 14.
104	General	<i>Sharī'ah</i> Compliance must be ensured at all the stages of product life cycle offered by various <i>Microtakāful</i> providers National Commercial Bank	Noted. Paragraphs 94 – 106 (New paragraphs 91 – 104) addressed <i>Sharī'ah</i> compliance comprehensively.
105	General	Consumer awareness should be created to highlight the benefit of <i>Microtakāful</i> products National Commercial Bank	Noted. Paragraphs 133 – 135 (new paragraphs 137 – 139) have highlighted this.
106	General	At least one representative from the participants may also be appointed as member of the board. State Bank of Pakistan	The Sudan Cooperative Model has been cited in paragraph 84 (new paragraph 81)
107	General	Further emphasis on distribution channel as a key stakeholder: In the Corporate Governance section (page 14 – 25), distribution channel was neither an external stakeholders, nor an internal stakeholders. We should highlight the importance of distribution channel to be included as one of the key stakeholders. A key factor to the success of <i>Microtakāful</i> is the well established distribution channels used that allow easy access by the target market. For example, the author could deliberate	Noted. Amendment has been made accordingly by incorporating paragraph 30 of IFSB 8 in paragraph 72.

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		further on the use of the existing retail agents that TOs and MPs can capitalize on. As much as the corporate governance is pertinent in the operations of <i>Microtakāful</i>, distribution channel will ensure that the product reaches the target market and sells well. Additionally, the author could include the use of Banks and Post Offices as distribution channels. This is because these are the channels that are also easily accessible by the target market. Syarikat <i>Takāful</i> Malaysia	
108	General (vi) <i>Sharī'ah</i> Board	As the paper points out it is imperative that the operating cost of an MP must be low in order for this business model to be viable. In this regard, one area where there could be major cost saving is the cost of having a Sharia Supervisory Board (SSB). For many TOs the maintenance of SSB contract incurs a significant cost. In <i>Microtakāful</i> where the main objective is a societal one (and not profit driven), is there a way a government can be involved to provide SSB to the MP free of charge. This would be easier to administer for those RSAs which have central SSBs. Also, the scholars themselves can provide pro-bono work for MP, serving the role of SSB. Perhaps the governments and religious leaders in wealthier Muslim countries can be involved to encourage scholars to form a pro-bono network for <i>Microtakāful</i> in poorer countries. Syarikat <i>Takāful</i> Malaysia	Noted. IFSB-10 of the IFSB provided basic requirements of a <i>Sharī'ah</i> Board for easy reference of various jurisdiction which may have their own ways to fund for the <i>Sharī'ah</i> -related expenses.

Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
109 Para 69 (New Para 65) Lack of cooperation between government and MPs might lead to conflict. An example would be when the contribution provided by the government is insufficient to cater for the solvency requirements of the MPs	In the case that government involvement is the main driver of such a system, a government study must be conducted to explore all options available to serve the targeted segments of society and decide which one serves them best. Saudi Arabian Monetary Agency	Noted. The role of government has been specified in Section C.I.
110 Para 70 (New Para 66)	- Seeking long term versus short term profitability may be a reality of the market but it does not need to be the goal for <i>Microtakāful</i>. - This statement focuses only on demand side constraints whereas supply side should be considered. - This implies that the low-income population creates a higher risk to insurers or <i>Takāful</i>. Is there empirical evidence to support this view? This has not held true in micro-credit or in our Microinsurance experience.	- For <i>Microtakāful</i> industry, since the aqd plays an important role (where contributions do not belong to the Operator), the goal should be long term especially when the real intention is to eliminate poverty. - It is the demand side that requires protection from the regulators since they are the participants who may not be well-versed in the business. - The paper does not imply that the low-income population creates higher risk. Rather, it highlights that since this is a new area where regulations are not in place for many jurisdictions, close monitoring needs to be done to ensure that this new block of business does not bring high risk to the existing clientele.
111 Para 70 (New Para 66) Regulatory and supervisory authorities of MPs that are TOs play a key role in understanding the nature of <i>Microtakāful</i> participants prior to regulating the	Other non-financial institutions like pusat pungutan zakat, bail maal, recognised waqf institutions should be licensed to distribute <i>Microtakāful</i> product and should not be subject to the normal regulations which oversee the operations of normal <i>Takāful</i> operations. there	Noted. This is what Section C tries to highlight to the regulators. If they wish to require MPs (other than TOs) to be licensed, different consideration should be given on the requirements.

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	<i>Microtakāful</i> industry, since literacy, financial stability and accessibility may be constraints on participation by the low-income population.	should be a separate regulations for <i>Microtakāful</i> . Prudential BSN <i>Takāful</i>	
112	Para 73 (New Para 69) ...it is essential that <i>Retakāful</i> arrangements are in place in initiatives such as these. RTOs must have the capacity to underwrite risks that are relatively new to them.	There seems to be lack of understanding of the potential difficulties in utilising <i>Retakāful</i> . It may be quite difficult to make any form of risk transfer financially viable for the recipient. In principle, <i>Retakāful</i> operators would need expertise in <i>Microtakāful</i> to be able to help with product development, as well as to help underwrite risks new to them (point 73). Moreover, it would be difficult for the <i>Retakāful</i> operator to support <i>Microtakāful</i> adequately. In principle, it is as difficult for reinsurers to support micro-insurance, as it is for <i>Retakāful</i> operators to support <i>Microtakāful</i> . However, the much larger size of some reinsurer compared to any <i>Retakāful</i> players could leave this market relatively small. Saudi Arabian Monetary Agency	Noted. Hence the sentence “a comprehensive understanding of the nature of <i>Microtakāful</i> participants is crucial to ensure that these RTOs are aware of the types of risks involved where <i>Microtakāful</i> participants are concerned” in paragraph 68 is written.
113	Para 73 (New Para 69) MPs that are involved in government-funded <i>Microtakāful</i> initiatives whereby the contributions are subsidised by the government are at particular risk.	Are fully funded government programs considered insurance for this paper? Zurich Insurance Group	In certain jurisdiction, yes. An example was given in paragraph 11.

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114 Para 75 (New Para 71) Entities that are not regulated by the RSAs, but which may be regulated by other regulators of formal entities such as the <i>Zakah</i>, <i>Waqf</i> and other types of charitable entities, may sometimes be involved in <i>Microtakāful</i> initiatives. When this happens, the products sold may not go through the same stringent product development process they would have undergone had an RSA been required to provide approval. This may pose a challenge to the various stakeholders of the <i>Microtakāful</i> schemes, especially the <i>Microtakāful</i> participants. No specific requirements for clients' protection might be imposed; hence, participants are more susceptible to mis-selling, misconduct of <i>Microtakāful</i> intermediaries, and damaging poverty alleviation efforts.	The second sentence is somewhat confusing and could benefit from further clarity. However, if the intent is to suggest that products not approved by the regulatory bodies may not be subject to a rigorous development process then we would challenge that view. 4th sentence. What are examples of "damaging poverty alleviation efforts"? Zurich Insurance Group	The objective of the sentence is to ensure that regulator of formal entities (other than RSAs) ensure that participants of <i>Microtakāful</i> are protected at all times. The paragraph has been amended for clarity.
115 Para 76 (New Para 72) In expanding the product offerings to include the low-income population, the TOs may need to take a comprehensive approach so as to better understand the new segment of the target market. It is crucial for these TOs to consider the interests of all stakeholders and identify the gaps that may arise when high-risk, low-income groups are offered <i>Takāful</i> products	As we noted previously, it is not our experience that the micro-segment is "high risk" or substantially more so than other segments. Potentially higher frequencies are offset by lower severity and there are other underwriting conditions. Rather than "low income segment of the population, we prefer to speak of the "vulnerability" of clients. While potential externalities may attract certain investors, we do not see this market as restricted to a particular investor type. For example, LeapFrog Investment fund works	While it is true that higher frequencies are offset by lower severity and underwriting conditions, this may not necessarily be true for MPs/TOs that have just started operation since they may not have the experience of putting appropriate underwriting conditions in place. It is hence identified as high-risk to ensure that regulators intending to regulate MPs may wish to provide certain guidelines to the TOs/MPs. Removed "most" from bullet 2

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		with a broad cross section of investors and claims to work in the micro space. In bullet 2 we suggest removing the modifier ("most") that precede "vulnerable" Zurich Insurance Group	
116	Para 76 (New Para 72) In expanding the product offerings to include the low-income population, the TOs may need to take a comprehensive approach so as to better understand the new segment of the target market. It is crucial for these TOs to consider the interests of all stakeholders and identify the gaps that may arise when high-risk, low-income groups are offered <i>Takāful</i> products	- Suggest to provide further clarity on how the assurance is provided to shareholders e.g. through profitability test of <i>Microtakāful</i> products, through comprehensive stress test to be conducted and etc. - Suggest to provide examples on the types of risks taken by shareholders i.e. poor return on their investments Bank Negara Malaysia	Noted. Amendment has been made accordingly.
117	Para 76 (New Para 72) The TOs need to ensure that the product offerings meet the requirements set out by the SB. In addition, the intermediaries used to distribute the products, and the mechanisms by which the products are sold	Since <i>Sharī'ah</i> compliance is a pillar of <i>Takāful</i>, it should be holistically uphold, and not just the basic <i>Sharī'ah</i> requirements. Hence, the <i>Sharī'ah</i> compliant elements for <i>Microtakāful</i> firm should not differ from normal <i>Takāful</i> operator. Bank Negara Malaysia	Noted. Amendment has been made accordingly.
118	Para 77 (New Para 73) The Central Bank of Malaysia issued guidelines and standards pertaining to corporate governance of MPs. Although	Suggest to have clarity on the proportionality options that are available in the context of directorship requirements as the subsequent para heavily discuss on the normal directorship requirements on <i>Takāful</i> operators (para 78)	Noted. Amendment has been made to paragraphs 73 - 82 for clearer understanding of the role of the BOD. Bank Negara Malaysia is cited heavily since this is the only regulation

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	these guidelines and standards are applicable to MPs, they may face some difficulty in applying those same requirements of directorship to their corporate governance structure, especially if they are unregulated	and very Malaysian-centric requirements (para 79-85). Bank Negara Malaysia	that is found to provide detail guidance on how BOD should be elected. On proportionality options, since it has never been done for <i>Microtakāful</i> , paragraphs 105 – 107 provide the IAIS' proportionality principles for reference.
119	Para 78 (New Para 74) The BOD is able to resort to appointing a <i>Sharī'ah</i> advisory firm to oversee the <i>Sharī'ah</i> aspects of the business	There should be clarity on the purpose of the alternative structure i.e. reduce costs of staffing or small size of <i>Microtakāful</i> operator. Bank Negara Malaysia	See the above comment.
120	Para 79 (New Para 75) The <i>Sharī'ah Governance Framework</i> states that the BOD of MPs is responsible for establishing a sound and robust <i>Sharī'ah</i> governance framework	The <i>Sharī'ah</i> Governance Framework (SGF) is different from country to country, and the SGF issued by Bank Negara Malaysia is too comprehensive. As such we suggest to follow IFSB standard 10 (<i>Sharī'ah</i> Governance) Islamic Development Bank	IFSB 10 has been cited in the later paragraphs. What have been cited of Central Bank of Malaysia's <i>Sharī'ah</i> Governance Framework (SGF) is just a mere example. Also, Archer, Karim and Nienhaus has been cited under subsection. However, the structure of that section has been changed to indicate that the Central Bank of Malaysia's SGF requirements mentioned are just examples.
121	Para 80 (New Para 78) The <i>Islamic Financial Services Act</i> 2013 emphasises that the responsibility for overseeing the implementation of <i>Sharī'ah</i> governance does not lie only with the <i>Sharī'ah</i> Supervisory Board, but also with the BOD	This brings us back to the issue of alignment of interests (or: agency dilemma) between shareholders and participants in the usual <i>Takāful</i> models. BOD's "entrusted by the shareholders (according para 78) shall be obliged to give precedence to the interests of the participants over those of the shareholders. This construct could raise concerns BOD's can be appointed or at least controlled by other means, e.g. and above all by annual	Noted. The Sudan Cooperative Model has been cited in new paragraph 81 as an example.

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		participants' assemblies. See the Sudanese example or mutual insurers who, again, do not face the same dilemma Munich Re	
122	Para 85 The RSA of Nigeria requires the same role as spelled out above to be carried out by the senior management of MPs. It also imposes on the senior management responsibility for ensuring that the SB is remunerated at an appropriate level commensurate with its duties	Talks about requirements for the Board of Directors adopted in Malaysia. These sort of requirements may be less practical in other jurisdictions. In addition, there should be some mention of Actuaries who might be valuable Board members. Saudi Arabian Monetary Agency	Like the rest of the requirements recorded in the Paper, they were meant to serve as examples to readers rather than guidelines or requirements prescribed by the IFSB
123	Para 90 (New Para 87) According to Archer, Karim and Nienhaus (2009), the shareholders have the ultimate authority to appoint all governance organs of MPs	Analogous to paragraph 80, rights of the shareholders can also be given to a participants' representative body, like an annual assembly Munich Re	Noted. The Sudan Cooperative Model has been cited in paragraph 81 as an example.
124	Para 90 (New Para 87) according to Archer, Karim and Nienhaus (2009), the shareholders have the ultimate authority to appoint all governance organs of MPs	The first sentence would benefit from a citation for the reference to Archer, Karim and Niwnhuas Zurich Insurance Group	Noted. Citation has been provided.

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125 Para 90 (New Para 87) However, according to Archer, Karim and Nienhaus (2009), the shareholders have the ultimate authority to appoint all governance organs of MPs, inclusive of the SB. They also have full control of the operations of MPs, which entitles them to deciding on matters such as the distribution of any surplus among participants, business strategy, the amount of contribution paid by participants, and more	Point 90 states that the shareholders may only be the ultimate authority for appointing governance organs if and only if the mutual model is being adopted. It's not clear who then would be the ultimate authority for appointing governance organs if other models are being adopted. Saudi Arabian Monetary Agency	It is implied in para 89 (new para 86) that in practice, ultimate authority is awarded to the BOD by the shareholders. Para 90 (new para 87) is merely stating that there is a view or theory suggesting that ultimate authority should reside with shareholders. Also, we are highlighting that this theory may be applicable to only the Mutual model whereby the TO is being run directly by the shareholders. Furthermore, it is implied that it is not suitable for any TO (adopting any model) with the current modern <i>Takāful</i> governance structure. However, the paragraph has been amended to give more clarity.
126 Para 91 Participants in <i>Microtakāful</i> have needs that differ from those of <i>Takāful</i> participants due to their varying socio-economic conditions. Their lack of knowledge of and exposure to financial products of MPs, coupled with their limited access to economic information, makes them susceptible to various types of miscommunications	We beg to differ on the surplus sharing mechanism will become confusing to <i>Microtakāful</i> target market (perhaps in context malaysian practice). This is very common and very much depend on product offered Prudential BSN <i>Takāful</i>	Issues pertaining to surplus sharing may become confusing for participants especially when they are aware that there is surplus, yet not distributed to them for the purpose of meeting solvency requirements.
127 Para 91 (New Para 88) Participants in <i>Microtakāful</i> have needs that differ from those of <i>Takāful</i> participants due to their varying socio-economic conditions. Their lack of knowledge of and exposure to financial products of MPs, coupled with their limited access to economic information,	We would suggest replacing the 2nd sentence with "Their lack of experience with financial services and reduced or total lack of sources of information about the same make them susceptible to miscommunication leading to misunderstanding" Consider revising the 4th sentence to "A 36	Noted. Amendment has been made accordingly.

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	makes them susceptible to various types of miscommunications	Critical Illness Plan that provides coverage for a specific set of listed illnesses may be understood by a participant to cover the various stages of illnesses when in actual fact it may not necessarily be. Zurich Insurance Group	
128	Para 94 (New Para 91) The requirement to comply with <i>Sharī'ah</i> principles is as significant for <i>Microtakāful</i> as it is for normal <i>Takāful</i> products. Many potential <i>Microtakāful</i> participants find Islamic financial products more welcoming and encouraging as compared to the conventional financial products, due to the absence of <i>Riba</i> , <i>Gharar</i> and <i>Maysir</i> elements, especially in <i>Takāful</i> .	Establish unified operational model that covers different Islamic opinions under one umbrella, based on the arrangement and approved by Sharī'ah Committee. Also, establish written policy on the management of surplus that are approved by Sharī'ah Committee and Board. Saudi Arabian Monetary Agency	The paper does not intend to recommend any best practise to be applied by MPs. Rather it highlights examples from various jurisdictions, for reference of regulators.
129	Para 95 (New Para 92) While the ideal scenario is one where MPs comply with <i>Sharī'ah</i> principles, it may not be easy or practical to carry out such a requirement. In a jurisdiction where MPs are not regulated under the same RSAs as the TOs	There should be clarity on the different proportionality options that are available to small <i>Microtakāful</i> institutions e.g. for one <i>Sharī'ah</i> scholar to be appointed to approve the <i>Microtakāful</i> products or to outsource the approval function to an external <i>Sharī'ah</i> advisory firm. Saudi Arabian Monetary Agency	Noted. Various approaches have been cited from various jurisdictions for RSAs to compare and contrast. On options for proportionality, the sections on IAIS intend to provide the readers an idea of the proposals of the ICPs.
130	Para 97 (New Para 95) Consistency in the interpretation of <i>Sharī'ah</i> rules and principles based on the science of Islamic jurisprudence is pertinent to the growth of the <i>Microtakāful</i> industry, as it	Point 97 talks about consistency of decisions across different <i>Sharī'ah</i> Boards. This looks an optimistic, as scholars (in all subjects) often hold different opinions and like to debate these issues.	This para has been revised to give the intended meaning recorded in IFSB 10.

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	encourages confidence by participants in the industry	Arabian Monetary Agency	
131	Para 97(New Para 95) Consistency in the interpretation of <i>Sharī'ah</i> rules and principles based on the science of Islamic jurisprudence is pertinent to the growth of the <i>Microtakāful</i> industry, as it encourages confidence by participants in the industry	<i>Sharī'ah</i> opinion is flexible and not consistent, it can be changed after new findings and new research Islamic Development Bank	This para has been revised to give the intended meaning recorded in IFSB 10.
132	Para 98 (New Para 96) Apart from approving <i>Microtakāful</i> products, the SB is expected to give binding opinions and decisions relating to the business and operations of MPs and shall be responsible and accountable for the decisions made and opinions expressed	Point 98 sets out roles and responsibilities of the <i>Sharī'ah</i> Board. As stated, these do not appear to make any allowance for the need to simplify <i>Takāful</i> to make micro- <i>Takāful</i> function. A focus on <i>Sharī'ah</i> sign-off rather than technical sign-off might lead to the technical side being neglected which could be dangerous. Saudi Arabian Monetary Agency	These roles and responsibilities are spelt out as per Central Bank of Malaysia's <i>Sharī'ah</i> Governance Framework which does not differentiate between <i>Takāful</i> and <i>Microtakāful</i> . Furthermore, it is a common practice of the industry that <i>Sharī'ah</i> sign-off would only be given after the Technical sign-off has been sought.
133	Para 99 (New Para 97)	Suggest <i>Sharī'ah</i> Board of every individual <i>Microtakāful</i> Provider (MP) shall consist of at least 3 members, due to limited numbers of <i>Sharī'ah</i> Scholars Islamic Development Bank	The purpose of this Paper is only to highlight issues and does not take any position. The paper has already mentioned the requirements imposed by RSA in various jurisdictions.
134	Para 104 (New Para 102) In the event the MP is not capable of having its own internal SB and <i>Sharī'ah</i> governance functions	Consider revising the 1st sentence to begin with "In the event that the MP is not..." Zurich Insurance Group	Noted. Amended as suggested.

Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
135 Para 105 (New Para 103) For MPs regulated by entities other than the RSAs, where monetary assistance is in the form of government subsidies or charitable donations, compliance with <i>Sharī'ah</i> principles may pose a challenge if there exists no formal <i>Sharī'ah</i> Board to oversee the compliance requirement	There must be a minimum requirement with regards to having a <i>Sharī'ah</i> Board - this could be a shared SB or the SB for non FIs may be subject to less stringent requirements eg 3 members instead of the minimum 5 to reduce the operating cost and to ensure affordability of the MT products Prudential BSN <i>Takāful</i>	Paragraphs 99 – 106 (New Paragraphs 97 – 104) provided several examples of how <i>Sharī'ah</i> Boards were formed. The purpose is to provide insights on how this may be done for new jurisdictions. It is not the intention of the paper to make on stand on how <i>Sharī'ah</i> board should be formed.
136 Para 105 (New Para 103) For <i>Takāful</i> Mikro Indonesia (Takmin), the partnership between Peramu and <i>Takāful</i> Indonesia obtains the involvement of Baytul Maal, which is a trust fund institution responsible for pooling funds and distributing them to the poor.	In the second sentence it is not clear what "institution of trust fund" is meant to imply. Zurich Insurance Group	In this context, it is referring to the Baytul Mal institution, which function is to collect funds from donation, zakah, etc, put the money into a trust fund, and distribute the money to the poor and needy.
137 Para 106 (New Para 104) For MFIs offering <i>Microtakāful</i> products under no formal supervision of the local RSAs, such as the example cited from Sri Lanka where deregulation of the insurance sector allows for new MPs, questions will always arise about the sanctity of <i>Microtakāful</i> products' compliance with <i>Sharī'ah</i> principles.	Our view is there must be minimum <i>Sharī'ah</i> compliance requirements to ensure products offered are <i>Sharī'ah</i> compliant and consistent with the model that is adopted Prudential BSN <i>Takāful</i>	Noted. This has been addressed in Paragraphs 99 – 106 (New Paragraphs 97 – 104).

Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
138 Para 106 (New Para 104) For MFIs offering <i>Microtakāful</i> products under no formal supervision of the local RSAs, such as the example cited from Sri Lanka where deregulation of the insurance sector allows for new MPs, questions will always arise about the sanctity of <i>Microtakāful</i> products' compliance with <i>Sharī'ah</i> principles.	While it is surely true that the supervision of informal and unregistered organisations is difficult, due to the very fact that they are informal, we should deem a general mistrust concerning the shari'a compliance of informal groups most detrimental to the intention of <i>Microtakāful</i> as a whole. Many informal groups (as the examples mentioned under para 35) have been created exactly out of the will to cooperation and mutual help that make - according to the shari'a scholars - <i>Takāful</i> acceptable. The intention (niya) is to our understanding more important than formal compliance and the existing gharar is "forgiven", due to that intention. In particular, the informal groups can be decisive drivers of <i>Microtakāful</i> awareness and penetration and should by all means rather be encouraged to function as MP than being regarded with mistrust. (Please allow me to quote, for the sake of illustration, a story that expresses the issue perfectly: A fish trader at a seaside village is asked, why he buys his supply of fish in the city one day's journey away and not directly from the fishermen next to him. His answer was: the wholesale traders give me a quality guarantee. If I buy the fish directly out of the water, who guarantees to me that it is fresh?) In this sense, a suggestion to RSA for such cases might be the following: the RSA and/or central shari'a boards set a few criteria to	It is true that most of the informal initiatives are created out of the will to cooperate and help each other, hence it is not the intention of this paper to undermine these initiatives. Similarly for <i>Takāful</i> initiatives, the operators have the best intentions when the <i>Takāful</i> models are created. Why this possible issue is highlighted is to ensure that regulators are aware of the existence of <i>Sharī'ah</i> non-compliance risk. This is since any possible non-compliance to <i>Sharī'ah</i> principles (whether intentional or unintentional) will lead to detrimental mistrust of the good niya of the MPs in the first place.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		satisfy themselves that the informal groups carrying the fund are in fact created out of the spontaneous or traditional intention to solidarity risk carrying (and that they are e.g. limited in size) and if this is given, supervision is relaxed (i.e.: they check if the fish has actually just been caught in the water, and if so they do not need to check freshness in detail). German regulation, e.g. knows the "small mutual insurer" that is defined by its limited regional and personal scope and enjoys relaxed reporting obligations (53 VAG) Munich Re	
139	Para 107 (New Para 105) The IAIS in its application paper provides guidance on how its Insurance Core Principles may be implemented to enhance the inclusivity of insurance markets	As this is the first time the IAIS Application is referred to, it may be helpful to mention it specifically to help distinguish it as the source - suggest: "The IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets provides guidance on..." National Association of Insurance Commissioners	Noted. Amendment has been made accordingly.
140	Para 107 (New Para 105) The IAIS in its application paper provides guidance on how its Insurance Core Principles may be implemented to enhance the inclusivity of insurance markets	Other than the customer, are the stakeholders of TOs and MPs really different? Zurich Insurance Group	Yes. Stakeholders of MPs may include Baytulmal, Zakah, Waqf institutions, and other types of charitable entities.
141	Para 109 (New Para 107)	Point 109 mentions a point that is raised at various times in the paper, in which <i>Microtakāful</i> Providers may or may not be	Noted.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
	For MPs that are regulated by the RSAs, the licensing requirement may require them to have an internal <i>Sharī'ah</i> Board or to comply with the RSA's <i>Sharī'ah</i> Board requirements prior to being offered a licence.	subject to the supervision of the Insurance Supervisor in any jurisdiction, and the potential for inconsistent treatment arising as a result. This is difficult to avoid, as there are entities in most countries that have special status for historical, size or other political reasons (such as a government subsidy). This situation invariably leaves the regulator pushing for similar treatment for all entities. Saudi Arabian Monetary Agency	
142	Para 114 – 116 (New Para 112 – 114) In the most commonly used model of <i>Takāful</i> , separation of funds between the Shareholders' Fund and the Participants' Risk Fund is a key requirement in fulfilling the <i>Sharī'ah</i> principles. As stipulated in IFSB-11, "The distinctive rights and obligations between the TO and <i>Takāful</i> participants require a clear segregation of the PRF from the TO's shareholders' fund"	Points 114 and 116 talk about regulatory requirements for <i>Takāful</i> in general. It is worth noting some slightly convoluted reasoning is needed to try to make the <i>Takāful</i> concept financially sound. It is stated that the Shareholder is not contractually liable for any losses in the <i>Takāful</i> fund. However the Shareholder must provide a Qard facility, and to ensure a solvent operation this would have to be set at the same level as regulatory solvency margins plus whatever prudent margin the regulator might require (typically 50%). As in the event of any losses requiring a Qard loan, the Shareholder would also be required to ensure that an adequate Qard facility was present again and the Qard loans itself is unsecured, it is clear that in practice the Shareholder is liable. Saudi Arabian Monetary Agency	Noted. However, this paper does not intend to dwell with specific requirement since regulations of various jurisdictions may differ from one to another.
143	Para 114 (New Para 112)	The section of the Paper only discusses the requirement to establish separate funds for shareholders and <i>Microtakāful</i> participants.	Paragraph 38 of IFSB-11 elaborated on this. A footnote will be added to paragraph 112, quoting an excerpt of para 38 of IFSB-11.

Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
In the most commonly used model of <i>Takāful</i>, separation of funds between the Shareholders' Fund and the Participants' Risk Fund is a key requirement in fulfilling the <i>Sharī'ah</i> principles. As stipulated in IFSB-11, "The distinctive rights and obligations between the TO and <i>Takāful</i> participants require a clear segregation of the PRF from the TO's shareholders' fund"	The Paper may want to discuss further about establishing sub funds for <i>Microtakāful</i> risk funds. This is because under ordinary <i>Takāful</i> operations, there may be sub-funds with the <i>Takāful</i> risk funds due to differences in the profile of the <i>Takāful</i> risks. As mentioned in the Paper, establishing a sustainable <i>Microtakāful</i> risk fund is actually challenging. We are of the opinion that establishment of sub-funds within the <i>Microtakāful</i> risk fund may pose more challenges for <i>Microtakāful</i> provider i.e. profitability of each <i>Microtakāful</i> products may be compromised and; ability of sub-fund to pay claims may be compromised if claims of certain product is high. The Paper subsequently may discuss issues of cross subsidization across <i>Microtakāful</i> sub-funds where a jurisdiction allows such practice. Among the issues is fairness to customers when cross subsidization amongst sub funds is practiced. Malaysia Insurance Deposit Corporation	
144 Para 114 (New Para 112) (b) Requirement for Separation of Funds The MP is not contractually accountable for any deficit or loss arising from an MRF...	To add a discussion on <i>Takāful</i> deficit, where AAOIFI generally proposes in its relevant standards a number of methods for covering the <i>Takāful</i> deficit as follows: • To settle the deficit from the reserves of policyholders, if any; • To borrow from the shareholders' fund or from other the amount of deficit,	Noted. These methods have been mentioned in footnote 29.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		which should be paid back from future surpluses - To ask the policyholders to meet the deficit pro rata - To increase the future premium contribution of policyholders on a pro-rata basis Islamic Development Bank	
145	Para 115 – 118 (New Para 118 – 122) The solvency requirements for <i>Takāful</i> undertakings must adopt a total balance sheet approach to ensure that risks are appropriately recognised and consistently valued, and to identify the interdependence between assets, liabilities, regulatory solvency requirements for PRF and the shareholders' funds of the TO	The paper may also want to discuss capital charges for <i>Microtakāful</i> products. <i>Microtakāful</i> business is inherently riskier than ordinary <i>Takāful</i> business, as such theoretically the risk charge on <i>Microtakāful</i> would be higher than that of the ordinary <i>Takāful</i> business. Malaysia Insurance Deposit Corporation	This section of the document discusses exactly that and invites the regulators to consider IFSB-11 when drafting regulation for capital charges of <i>Microtakāful</i>.
146	Para 117 (New Para 121) An example would be the requirement to have two solvency control levels for each of the risk fund and the SHF. For MPs, some of which may not be under the regulation of <i>Takāful</i> RSAs, this requirement may be burdensome since a higher amount needs to be set aside to meet the various solvency control levels unless lower amounts are allowed from a perspective of proportionality, as is shown in the next paragraph	While having two solvency control levels looks to be still viable for <i>Microtakāful</i>, perhaps there should be a reduced threshold as per para 129. In addition, we suggest for the small <i>Microtakāful</i> entities to consider using the percentage of written premium to arrive at the capital required, rather than a risk-based formula.	It is not the intention of this document to provide any stand when it comes to calculation of capital. IFSB-11 is cited to provide some basic guide on how regulators may wish to approach the capital calculation.

Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
147 Para 120 (New Para 124) MPs that are not regulated by the RSAs may not possess the required expertise to assess the risks and put in place an appropriate control framework. They may not be aware of the risks that are specific to <i>Microtakāful</i>, such as the risk of <i>Sharī'ah</i> non-compliance and the risks arising from the separation of SHF and MRF funds	Risk management framework and understanding of all risks by a non-regulated entity. One of the key risks is pricing risk. Non regulated entities must be able to demonstrate their understanding in this area as this would be the key to ensuring the success and sustainability of a MT product Prudential BSN <i>Takāful</i>	Noted. "There needs to be a mechanism to ensure that these MPs possess the minimum pricing knowledge for sustenance of the MRF" after the last sentence of para 122 (new para 126) has been added
148 Para 125 (New Para 129) The underwriting requirements for normal TOs usually involve various processes of understanding and classifying the types of risks absorbed by TOs	This paragraph is confusing as it appears to focus on underwriting requirements for TO and not MP. These requirements are unusual for MP and go against the simplicity recommendations found earlier in this paper. Zurich Insurance Group	This paragraph focuses entirely on underwriting requirements of TOs. The first sentence of paragraph 126 (new paragraph 130) consequently highlights that requirements mentioned in paragraph 125 (new paragraph 129) is not practical for MPs.
149 Para 126 (New Para 130) The demographic and educational background differences between the low-income and average-income participants make the <i>Microtakāful</i> participants more prone to various kinds of hazardous occupations and sicknesses	Some maladies may have same/similar occurrence in wealthy and non-wealthy and, indeed, other problems (caused by obesity, for example) are more common with wealthier populations. Highly active farm workers may experience higher accident rates but lower heart disease compared to their more sedentary wealthy counterparts. This paragraph needs supporting data substantiate the assertions. Zurich Insurance Group	Amendment has been made to give clarity.

	Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
150	Para 130 (New Para 134) While the ICP on investment (ICP 15) is not specifically mentioned under the proportionality principle, its interconnection with ICP 17 makes the following factors worth considering in establishing the regulatory investment requirements for microinsurance	Proportionality is an underlying concept that applies to all of the ICPs, so it is not clear why the paragraph starts off by saying ICP 15 is not specifically mentioned under the proportionality principle. Suggest this read: "With respect to ICP 15 on Investment, the following factors are worth considering..." National Association of Insurance Commissioners	Noted. Amendment has been made accordingly.
151	Para 130 (New Para 134) While the ICP on investment (ICP 15) is not specifically mentioned under the proportionality principle, its interconnection with ICP 17 makes the following factors worth considering in establishing the regulatory investment requirements for microinsurance...	Point 130 talks about ICP 15 on Investment being interconnected with ICP 17 on capital adequacy, which is a new way of looking at the ICP's. All the ICP's are interconnected. Investment requirements for Micro-<i>Takāful</i> are dependent on the liability profile, with the usual distinction between long-term savings products and short-term risk products. Saudi Arabian Monetary Agency	Noted
152	Para 134 (New Para 138) Information asymmetry is currently the predicament faced by both the MPs and <i>Microtakāful</i> participants. The MPs are uncertain of the types and behaviours of risks that they absorb into their financial system, due to the lack of mortality and morbidity statistics on the low-income population.	Point 134 again focusses on life insurance and mentions a lack of mortality and morbidity statistics on the low-income population. This may not be accurate, as many countries have population mortality tables which can be adapted for the low-income population. Saudi Arabian Monetary Agency	It is worthy to note that mortality tables of countries are based on insured population, which does not include the low income population.
153	Para 136 (New Para 140) The product literature, contract wording, sales illustration and various other means of	Literature must be in simple and plain language. Dual language in markets like Malaysia or all vernacular languages as well depending on	The possibility of having dual languages have been addressed by having the (s) in the phrase "simplified language(s)" in para 141.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
	information sharing provided by the current TOs are often lengthy and in an eligible format, in language that usually requires careful study on the part of the <i>Takāful</i> participant	target market. Must be supplemented by adequate awareness programmes. Prudential BSN <i>Takāful</i>	
154	Para 136 (New Para 140) The lack of education on financial services and <i>Takāful</i> literacy makes <i>Microtakāful</i> participants susceptible to various types of possible mis-selling and misinformation on the part of MPs	The regulator should play an essential role in guaranteeing that beneficiaries receive accurate information. Moreover, education should cover employees to make sure that handling such services is done according to Sharī'ah due to the general lack of expertise in the Islamic insurance industry as a whole Saudi Arabian Monetary Agency	Noted. These have been reflected in relevant sections of the paper.
155	Para 136(New Para 140) The lack of education on financial services and <i>Takāful</i> literacy makes <i>Microtakāful</i> participants susceptible to various types of possible mis-selling and misinformation on the part of MPs	Risk of mis-selling over feasibility of product design: The content seems to suggest the importance of consumer protection over the feasibility of marketing <i>Microtakāful</i> economically. Similar to requirements under 'Guideline on Product Transparency and Disclosures' in Malaysia, the joint-paper suggested for enhanced consumer protection. The point 136 of joint-paper has correctly pointed out that the marketing materials and all documents disclosed to the customers should be kept short and simple as possible. However, due to the simplicity in product design, we believe that mis-selling risk is relatively low. Therefore we propose that the <i>Microtakāful</i>	In areas populated by low-income earners, even the simplified marketing materials and documents may not be easily comprehensible since the terms and conditions of products may have certain exclusions which are not comprehensible by the participants. Misselling, be it high or low, is still a risk faced by these participants. This paragraph illustrates the need for regulators to look into protection of consumers, from their own inability to comprehend the product literature. At the same time, the paragraph emphasizes the need for regulators to impose certain requirements on the MPs. The paragraph does not take away the flexibility in designing the disclosure.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		providers (MPs) and TOs should be given the flexibility in designing the disclosure that they find most effective in reaching out to the customers. The mis-selling risk could be mitigated by having proper internal governance on the marketing approach / material. Syarikat <i>Takāful</i> Malaysia	
156	Para 136 (New Para 140) The lack of education on financial services and <i>Takāful</i> literacy makes <i>Microtakāful</i> participants susceptible to various types of possible mis-selling and misinformation on the part of MPs	The risk of misunderstanding over the underwriting surplus sharing mechanism: The joint paper suggested that Participants (under key internal stakeholders on page 21), may be confused by and could have misunderstanding over the underwriting surplus sharing mechanism due to its complicated and incomprehensible technicality. However, we believe that due to simplicity of <i>Microtakāful</i> product design, the underwriting surplus sharing mechanism should also be simplified and that would have mitigated the issue. In reality, surplus sharing may not be the main selling point for <i>Microtakāful</i> product. If there's any surplus sharing mechanism, it should be the responsibility of the MPs or TOs to properly train their distribution channels to explain the underwriting surplus sharing mechanism. Syarikat <i>Takāful</i> Malaysia	In jurisdictions such as Kenya, surplus sharing is used as a selling point, as shown in the example provided in new paragraph 117. Various jurisdictions have various interpretation of how surplus should be calculated, hence the suggestion for regulators to ensure their MPs and TOs properly train their distribution channels in explaining the underwriting surplus sharing mechanism, as you rightly pointed.
157	Para 136 (New Para 140)	In the second sentence. Is the use of the word "illegible" the most appropriate? It may be that	Noted. The word illegible has been removed.

Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
The product literature, contract wording, sales illustration and various other means of information sharing provided by the current TOs are often lengthy and in an illegible format, in language that usually requires careful study on the part of the <i>Takāful</i> participant.	the provided materials are more complex than is easily understood by the target population due to their lack of familiarity. Zurich Insurance Group	
158 Para 139 (New Para 143) Many jurisdictions already have in place a dedicated complaint channel for <i>Takāful</i> participants. There are dedicated websites, customer services centres, toll-free telephone lines and various other channels that make TOs easily accessible by the participants	- In the second sentence. The assertion about the use of technology is open to question. Mobile infrastructure and penetration are excellent in many of the target jurisdictions. The existence of 24/7 helplines at Uplift (cited in 141, new para 144) helps to make this point. Zurich Insurance Group	Noted. Amendment has been made to give further clarity
159 Para 142 -143 (New Para 145 – 146) It is common for some MPs to offer only <i>Microtakāful</i> products with the intention of assisting only the low-income population. This reason has been used to justify why these MPs do not require strict supervision from the RSAs or relevant authorities.	Points 142 and 143 suggest that simplified reporting to the Regulator might be suitable for micro-<i>Takāful</i>. Whilst this sounds logical, there are many different types of <i>Microtakāful</i> operation possible, and if a regulator tried to put in place forms that covered all possible risks then the reporting forms could end up longer than those for other forms of insurance/<i>Takāful</i>. This may not make a lot of sense, and given the <i>Microtakāful</i> is unlikely ever to be consist of a large number of disparate entities it may be that in practice the reporting forms would be best designed after the first <i>Microtakāful</i> operation has been set up, and then redeveloped over time. Saudi Arabian Monetary Agency	Agree. Hence the consideration to be taken by respective jurisdiction's regulators on how and when reporting should be conducted.

	Relevant Text	Issues/Comments Received	Secretariat Response/ Amendments Made
160	Para 143 (New Para 146) Instead of requiring the MPs to provide an elaborate report (some jurisdictions may require monthly or quarterly reporting) of the kind required of the TOs, the RSAs and the relevant authorities may request simplified but consequential reporting	The first sentence appears to contradict the preceding paragraph. Zurich Insurance Group	Noted. The word “strict” in paragraph 142 (new para 145) has been removed.
161	Para 144 (New Para 147) Under the IAIS’ proportionality principle, microinsurance providers need still to comply with the requirements set forth under ICP 18: <i>Intermediaries</i>, ICP 19: <i>Conduct of Business</i> and ICP 20: <i>Public Disclosure</i>	Proportionality allows for the requirements in the ICPs to be implemented in a manner appropriate for the risk, market, etc.; however, the last part of this first sentence seems to imply that the requirements themselves can be changed to be made consistent with a microinsurance context. To avoid misunderstanding, suggest this read: Under the IAIS’ proportionality principle, microinsurance providers need to still comply with the requirements set forth under ICP 18: <i>Intermediaries</i>, ICP 19: <i>Conduct of Business</i> as well as ICP 20: <i>Public Disclosure</i>, subject to the requirements being implemented in a manner consistent with the focus of the microinsurance providers. National Association of Insurance Commissioners	Noted. Suggestion has been reflected.
162	Para 149 (New Para 152) However, it is worth noting that a requirement that is too stringent will pose a challenge, since many of the <i>Microtakāful</i> intermediaries do not enjoy the high	Consider revising the 4th sentence to - “However, it is worthwhile to note ...” Zurich Insurance Group	Noted. Suggestion has been reflected.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
	remuneration package enjoyed by normal intermediaries		
163	Para 149 (New Para 152) The licensing requirement for intermediaries should be considered to be imposed on intermediaries of MPs other than TOs. They should be required to possess appropriate levels of <i>Takāful</i> knowledge and expertise, integrity and competence	Point 149 covers the licensing of <i>Microtakāful</i> intermediaries. There seems to be an assumption that the enforcing of <i>Takāful</i> intermediaries to have appropriate <i>Takāful</i> knowledge and expertise, integrity and competence is enforced fully in jurisdictions. Some might think that intermediaries should also have some understanding of the products they are selling. However, the important point is covered in point 150, that the simplified nature of <i>Microtakāful</i> products should also make it possible for these to be sold by intermediaries with limited relevant knowledge. Saudi Arabian Monetary Agency	The objective of licensing intermediaries goes beyond requiring them to possess the required knowledge and expertise on products. It covers consumer protection for <i>Microtakāful</i> participants since intermediaries that are licensed would be required to meet certain level of competence.
164	Para 151 (New Para 154) Insurance activities should be conducted by licensed entities. Jurisdictions may decide that some limited activities are not included in the definition of regulated insurance activities subject to licensing requirements	Point 151 talks about some micro-insurance entities only needing to be registered with a Supervisor, but not being actively regulated. This may be reasonable in some circumstances, but it is not well defined in this paper. Saudi Arabian Monetary Agency	Reference has been made to the document produced by the IAIS in 2012. The paper does not intend to repeat the substance highlighted by the IAIS.
165	Para 152 (New Para 155) While it may seem practical and simplified, MPs for <i>Microtakāful</i> may need to go through a more thorough process due to the need to ensure <i>Sharī'ah</i> compliance of their operational activities	In the first sentence, it is not clear what process is being referred to - licensing? supervisory review? Some clarity or elaboration here would be useful. National Association of Insurance Commissioners	Noted. Amendment has been made to give clarity.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
Section D: Proposal for Future Work			
166	General Comment	One separate recommendation which might fit in section D, Proposal for Further Work, is to consider a financial inclusion policy which fits across both Insurance and <i>Takāful</i> as it appears that the difference between Insurance and Microinsurance are the same as the difference between <i>Takāful</i> and <i>Microtakāful</i>. Where a jurisdiction has both Insurance and <i>Takāful</i> regulations, an alternative would be to have a financial inclusion unit which informs (or establishes) practices in each regime. Zurich Insurance Group	This goes back to the objective of the IFSB, as stated in item (a) in Article 4 of Articles of Agreement: “To promote the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing, international standards consistent with Shariāh principles, and recommend these for adoption.” The documents produced by the IFSB complement those produced by other international standard setters, i.e. IAIS, taking into consideration the specificities of Islamic Finance.
167	General Comment	Corporate governance: structure should be given special attention in such a model due to the unique circumstances and expected level of awareness and education among recipients. Also, It is necessary to harmonize and insure the consistency of the regulatory guideline to be enforceable by multiple regulators. This will make the rules efficient and sustainable. Saudi Arabian Monetary Agency	Noted. These will be reflected in future regulatory documents issued by the IFSB.
168	Para 153 (New Para 156) The realisation that the low-income population should not be excluded from the financial system is gaining ground, since their contribution to the economic system of every jurisdiction, no matter how minimal,	Strike "no matter how minimal" from the sentence. Usually the contribution of the popular majority is small on a per capita basis but relevant in aggregate. Zurich Insurance Group	Noted. Amendment to be reflected in the document.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
	warrants providing them the opportunity to enjoy similar kinds of financial services as are available to other income segments		
169	Para 156 (New Para 159) For <i>Microtakāful</i> to achieve its target of inclusivity, a concerted effort needs to be made by all the stakeholders. This paper identifies two important areas as possible directions for future work on <i>Microtakāful</i>:	Our comments will mainly dwell on the Section D of the ED (Proposal for Future Work), particularly clause 156 (a). It is our firm belief that in the initial stages, every government/state party must form a state-run MP which, through leveraging of State resources, can overcome the glass ceiling challenges that confront every privately run MP, and which have resulted in low penetration ratios despite the best efforts and intentions of the MPs, namely: • The costs of compliance to supervisory and regulatory requirements (which in most cases, duplicate the requirements for TOs to MPs). For example, every MP must have a <i>Sharī'ah</i> Supervisory Council, A Board of Directors, <i>Sharī'ah</i> Auditors, Internal Auditors, a Risk Management Department etc. • The costs related to creating awareness of <i>Microtakāful</i>. More often than not, the target population is in areas that are deficient in infrastructure (be it roads, rail, electricity or all of them). In this instance, marketing and distribution costs become prohibitively high. However, a common denominator is that in all such areas, there is government/state presence.	Noted. These comments will serve as a guidance for the IFSB in its future work for <i>Microtakāful</i>.

Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
		• All IFIs compete with each other on the scarce qualified human resources available. This is clearly demonstrated by the migration of labour from existing IFIs to any new IFI being created. It is a kin to raiding the left pocket in-order to fill the right pocket. This scenario is particularly devastating for private MFIs. • In short, we would encourage both the IFSB and IAIS to give serious thought on this matter, and work towards an ED aimed at pursuing the suggestion/recommendation articulated in Section D, clause 156 (a). Chase Assurance	

170	Para 156 (New Para 159) For <i>Microtakāful</i> to achieve its target of inclusivity, a concerted effort needs to be made by all the stakeholders. This paper identifies two important areas as possible directions for future work on <i>Microtakāful</i>:	a. (In relation to paragraph 69) the Technical Committee may also wish to consider further research on the appropriate solvency requirement for the <i>Microtakāful</i> fund (if the <i>Microtakāful</i> product is underwritten by <i>Takāful</i> operators). This could include the way the solvency calculation is done (whether it is fair to calculate the solvency on consolidated basis) and most importantly, the way any deficits in the fund are managed (how and by whom) b. The Technical Committee may also wish to collect data and undertake an analysis of the actual performance of some <i>Microtakāful</i> products (with trend analysis and key performance indicators) from different countries (if publicly available) to provide more insight into the topic. c. For <i>Microtakāful</i> provided by entities that are not regulated by RSAs such as Zakat, Waqaf, and other charitable entities can be improved in order to provide better <i>Microtakāful</i> services in the future. In the shorter term, it may be feasible to allow <i>Takāful</i> operators to provide support services in key areas such as product development (this will ensure <i>Microtakāful</i> product complies with Sharia requirements) and the claims handling process (to ensure efficiency). However the services rendered must be charged at a minimal cost. In the longer run, where the <i>Microtakāful</i> internally and more efficiently. Qatar Financial Centre Regulatory Authority	a. Noted. Amendment has been made accordingly. b. While this study should ideally be conducted, it may only be done when the <i>Microtakāful</i> sector has been successfully regulated. It is for this reason that items (a) and (b) are put forward as nearest projects to be focused on. c. Initiatives of this nature should be conducted by respective jurisdictions since it involves various regulations which may or may not be applicable elsewhere.
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Relevant Text		Issues/Comments Received	Secretariat Response/ Amendments Made
Section E: Appendixes			
Section F: Definitions			
171	General	Some of the terms being defined also appear in the IAIS glossary, but the definitions are not the same. If these are the IFSB's definitions or definitions used solely for this paper, it would be helpful to explain that. It may also be helpful to note that more general definitions of some of these terms can be found in the IAIS Glossary. Suggest a brief introductory paragraph along these lines should be added at the start of this section so as to avoid any potential confusion National Association of Insurance Commissioners	Noted. Amendment has been made to give clarity. To add: The following definitions provide a general understanding of the terms used in this document. They are consistent with the definitions used in all IFSB documents, hence may not be similar with the definitions used in IAIS' documents. This list is by no means exhaustive one.