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The IFSB and IAIS Release Joint Paper on Issues in Regulation and Supervision of Microtakāful (Islamic Microinsurance) Sector

16 November 2015, Kuala Lumpur/Basel – The Islamic Financial Services Board (IFSB) and International Association of Insurance Supervisors (IAIS) today announced the issuance of a Joint Paper on Issues in Regulation and Supervision of Microtakāful (Islamic Microinsurance).

Microtakāful is an important mechanism that provides *Shari'ah*-compliant protection to low-income and under-privileged segments of society under the principles of *Tabarru'* (donation), *Ta'awun* (mutual assistance) and prohibition of *Ribā* (interest). Due to its nascent stage, regulators and supervisors have relatively little experience or empirical data to support their role in creating an environment conducive to the promotion of affordable *Takāful* services to low income and under-privileged segments. Therefore, the main objective of this paper is to highlight and identify regulatory issues prevailing in the *Microtakāful* sector and outline the role this sector can play in enhancing financial inclusion. In particular, the Issues Paper:

- Identifies current practices and models for offering *Microtakāful* products, and the challenges and potential issues in offering them to target customers.
- Reviews the current regulatory framework for the *Microtakāful* sector in various jurisdictions and suggest initiatives to strengthen it and thus enhance financial inclusion through the *Takāful* sector.
- Provides guidance to the regulatory and supervisory authorities in implementing an enabling environment for the development and growth of the *Microtakāful* sector.

The Issues Paper highlights distinguishing features of various models used for offering *Microtakāful* products which, despite having many common features with *Takāful* products, pose various unique supervisory challenges. Backed by a survey from *Microtakāful* operators as well as regulatory and supervisory authorities, the Issues Paper delineates the distinguishing features of *Microtakāful* such as types of participants, product features, participants' contribution and distribution channels. The paper also sheds light on corporate governance aspects of the *Microtakāful* sector, including the role of boards of directors and *Shari'ah* Boards in providing policy direction and ensuring the effectiveness of the *Shari'ah* governance framework.

This Issues Paper also delves into critical issues that require the attention of regulatory and supervisory authorities of *Microtakāful* sector. These areas pertain to the requirement of the separation of funds, solvency and capital adequacy framework, investment policies and *Shari'ah* compliance requirements. Other key aspects covered include customer education and awareness, consumer protection, licensing requirements and supervisory review processes. Finally, the Issues Paper illustrates the relevance of the IAIS' Insurance Core Principles in the practice of *Microtakāful*.

The Secretary-General of the IFSB said, *“Following the global financial crisis, the G20 and international standard-setters have stressed the importance of supporting initiatives to widen access to finance, as a means to promote greater financial and social stability”*. He further noted that, *“This joint Issues Paper with the IAIS continues the IFSB’s work in clarifying the appropriate regulatory issues that can, in appropriate manner, extend and widen the reach of Islamic finance to the poorest and least-served segments of society”*.

The draft Paper is available for download from the IFSB and IAIS websites at www.ifsb.org and www.iaisweb.org.

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NOTE TO EDITOR:

About the Islamic Financial Services Board (IFSB)

The IFSB is an international standard-setting organisation that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The IFSB also conducts research and coordinates initiatives on industry-related issues, as well as organises roundtables, seminars and conferences for regulators and industry stakeholders. Towards this end, the IFSB works closely with relevant international, regional and national organisations, research/educational institutions and market players. The members of the IFSB comprise regulatory and supervisory authorities, international inter-governmental organisations and market players, professional firms and industry associations. For more information about the IFSB, please visit www.ifsb.org.

About International Association of Insurance Supervisors (IAIS)

The IAIS is a global standard-setting body whose objectives are to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and to contribute to global financial stability. Its membership includes insurance regulators and supervisors from more than 200 jurisdictions. For more information, please visit www.iaisweb.org.