

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ  
رَبِّ زِدْنِي عِلْمًا

"My Lord, increase me in knowledge."

4<sup>th</sup> Global Takaful & Re-Takaful Forum 2022

# **Sharī'ah Governance Framework & Sharīah Compliance in Takaful**

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# Shari'ah Governance Framework

## As per guidance from AAOIFI

An IFI must have in place a comprehensive Shari'ah Governance Framework which encompasses a set of institutional and / or system-wide arrangements for the effective and independent oversight of Shari'ah compliance of its products/services, processes and business operations.

# Objectives of the Sharī'ah Governance

The objectives of the “Sharī'ah Governance system” is to set the minimum requirements for IFIs to ensure Sharī'ah compliance with Islamic Sharī'ah Principles and Rules in all their objectives, activities, operations, and codes of conduct.

# 4 Unique Organs of Sharī'ah Governance Framework

## **Sharī'ah Governance Framework includes:**

- Sharī'ah Supervisory Board/ISSC (must have)
- Sharī'ah Compliance Function; (must have)
- Internal Sharī'ah Audit Function; (must have)
  
- Independent External Sharī'ah Audit;  
( should have – recommended)

# To ensure Shariāh compliance

**Takaful Cos. must follow the Shari'ah principles and rules as described in & guided by:**

- ✓ Shari'ah Standards & FAS issued by the AAOIFI;
- ✓ Shari'ah requirements (if any) issued by the Insurance Authority/Central Bank of the country;
- ✓ Shari'ah rulings of the Central Shariah Board/ Higher Shariah authority (if any); of the country;
- ✓ Shari'ah rulings issued by the Shari'ah Supervisory Board / ISSC of the Takaful company.

# **Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)**

## **Applicable Shariah Standards on Takaful & Retakaful – issued by AAOIFI:**

- Shari'ah Standard No. (26) Islamic Insurance
- Shari'ah Standard No. (41) Islamic Reinsurance
  
- Financial Accounting Standard Nos. (12, 13, 15 & 19) are currently under revision process, and expected to be effective within next 2 years.

# Guidance to avoid Shariah non-Compliance Risks

**As per AAOIFI Shari'ah Standard No.26 (5/8) on Islamic Insurance:**

**Company shall adhere to the rules and principles of Islamic Shariah in all its activities and investments, especially in refraining from provision of insurance coverage for Shariah-banned items, activities or purposes.**

# **Guidance to avoid Shariah non-Compliance Risks**

**It is not permitted to place/deploy Takaful and the Shareholders' funds into any Interest-bearing investments, such as:**

- Bank deposits/Certificate of deposit.**
- Placements/ Treasury note/bills.**
- Bonds/Debts Securities**
- Private Placement Agreements, etc.**
- Any others mode of financing, based on Interest**



# **Guidance to avoid Shariah non-Compliance Risks**

**Also, it is not permitted to invest Takaful and the Shareholders' funds into the trading & investing activities of the:**

- Shariah non-compliant company's Shares/Equity securities,**
- Conventional Mutual funds/ investment funds, etc.**

# **Insurance coverage prohibited for Shariah's repugnant business activities/purposes:**

**It is not permitted to provide Insurance coverage to any Shariah non-compliant business activities/purposes & Shariah-banned items, etc.**

- Insurance coverage of the properties & assets owned/or being used for Shariah non-compliant business activities; such as:
  - Gambling / Casinos / Night clubs /
  - Interest based financing institutions etc.

# **Insurance coverage prohibited for Shariah's repugnant business activities/purposes:**

- **Insurance coverage for the Shariah-banned items/products, such as:**
  - Alcohol/liquor/wine/ Pork & its by-products / drugs and similar items prohibited by Shariah.
  - Cargo Insurance for carrying any Shariah-banned items/products, etc.

# Managing the Shari'ah non-compliance risk

The management's "Risk Committee" must supervise and monitor the management of Shari'ah non-compliance risk, and set appropriate controls in relation to this type of risk, in due consultation with Shariah Supervisory Board/ISSC.

# **Significance and impact of maintaining Shariah Compliance at an acceptable level**

**Saving from financial losses & reputation risks by; avoiding the forfeiture of non-compliant income:**

**Not following Shariah principles and rules relating to the transactions & business activities;**

**may result in forfeiture of income derived from those transactions & business activities; by Shariah Supervisory Board**

# Achieving the satisfaction / confidence level of the stakeholders:



**Board of Directors & Shareholders**



**Regulatory Authorities & Shariah Board**



**Good reputation with Customers & in the market**

# Maintaining Shariah Compliance at the highest level



**Indeed; the objectives of ensuring Shariah Compliance in the Takaful industry may only be achieved with the collective efforts of all stakeholders.**

**May Allah (SWT) guide us towards the right path? AMEEN**

**Thank you for your Attention**

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