

Corporate governance in Takaful institutions



TAKAFUL & RE-TAKAFUL (EUROPE)

By Ezzedine Ghlamallah

Corporate governance is a qualitative and voluntary approach that aims to satisfy the interests of all stakeholders by introducing the utmost rigor and transparency in the administration and management of Takaful institutions. As a result of this vision, Takaful institutions have to cover themselves at a low cost against many operational risks and ensure that they have many competitive advantages that will grant them:

- Better readability
- Better operational and strategic results
- Improved attractiveness, and
- Improved reliability.

Governance standards should improve compliance with the principles of fairness, accountability, responsibility and transparency as follows:

- **Accountability:** Each stakeholder is accountable to another for which it is responsible.
- **Fairness:** The rights and duties of stakeholders, as well as the privileges and obligations attached thereto, should be distributed equitably.
- **Responsibility:** The responsibilities of one and the other have precise, unrequited objects.
- **Transparency:** Rights and duties, as well as the prerogatives and responsibilities deriving from them, are clear and explicit for all.

Takaful institutions have organizational and operational structures designed to support their strategic objectives and activities. These structures must be adaptable to changes in strategic objectives, activities or the environment in which Takaful institutions operate, within appropriate time frames.

Takaful institutions ensure that tasks and responsibilities are allocated, separated and coordinated in accordance with Takaful institutions' policies, and reflected in job descriptions and responsibilities. Takaful institutions ensure that all important tasks are covered while avoiding unnecessary duplication. Effective cooperation



among staff members is encouraged. Takaful institutions guarantee that the managers are competent. It should take into account their respective individual obligations to ensure the adequate diversity of qualifications, knowledge and relevant experience so that Takaful institutions are professionally managed and supervised.

Shareholders have rights as defined by law and any contractual documents. The rights of shareholders are reflected in the prerogatives they exercise in the framework of their general meeting. Through the standards of governance, each shareholder must be able to assert his or her rights in a fair, transparent and reliable manner.

Governance is implemented through the board of directors and the committees linked to the board of directors, like the Risk Management Committee or the Compliance Committee. The board of directors is composed of directors appointed by the general meeting. The duties to be performed by the board of directors are defined in the Takaful institution's articles and may be supplemented or clarified by resolutions of the general meeting.

The board of directors is required to ensure that the Takaful institution has adequate risk management, financial and operational control and compliance with applicable laws and standards.

The board is also responsible for the proper execution of its tasks. It shall endeavor to make an objective and independent judgment on the conduct of the affairs of the Takaful institution and act diligently in the best interests of the Takaful institution and its shareholders.

When its decisions are likely to affect the different categories of shareholders

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in a variable manner, the board of directors must take into account the interests of the shareholders involved and ensure that they are treated fairly. Its decisions and trade-offs must be based on transparent fairness and ethical standards.

The Shariah supervisory board, which must be composed of at least three members, is responsible for advising, reviewing and supervising the Takaful institution's activities with a view to ensuring its conformity with Shariah. Its opinions are binding on the Takaful institution. IFSB Norm 10 provides that the Shariah governance system adopted by Takaful institutions must be commensurate with its size, complexity and the nature of its business.⁽²⁾

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