Good governance for Takaful institutions

TAKAFUL & RE-TAKAFUL (EUROPE)

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Takaful institutions must capitalize on the experience developed by the conventional insurance sector by ensuring that they do not violate any Shariah compliance rules.

Good governance is the seventh indispensable need of the human personality. Without political stability and good governance, it is not possible to apply the company's rules of conduct. In this case, the violation of the rules may tend to spread and the corruption to strengthen.

The imperative of good governance has been emphasized in all Muslim history by almost all scholars, and one of the main causes of Muslim decline over the past centuries has generally been understood as the lack of good governance.

The concept of governance is a relatively new concept dating back to the 1990s; before it was mentioned for a country or an administration but rarely for a private organization. The AAOIFI Standard 26 states that a Takaful company must have a board of directors, a Shariah supervisory board and an internal audit committee.

Corporate governance is a qualitative and voluntary approach that aims to meet the interests of all stakeholders by introducing the utmost rigor and transparency in the administration and management of companies.

Some studies have shown that non-executive administrators do not seem to contribute positively to the effectiveness of Takaful operators and that in fact they may even lead to cost inefficiencies for operators with professional advice administration due to a lack of financial management expertise.

There is a strong signal for Takaful companies which have been criticized as Shariah non-compliant that in order to correct this distortion of perception, they must improve their governance and internal Shariah audit mechanisms to ensure fairness between participants and all stakeholders.

The International Association of Insurance Supervisors and the IFSB point out that the board of directors of a Takaful company acts in principle on behalf of the participants and the shareholders but that it is often appointed solely by the shareholders. To correct this imbalance, they recommend that participants be represented within the governance structure.

Currently, the governance standards for Takaful operators vary by jurisdiction, since in the absence of a well-conceptualized framework, countries have developed their own frameworks based on their own needs and experiences.

Global regulation and industry self-regulatory organizations such as the IFSB, AAOIFI and the International Islamic Financial Market have made significant progress in developing standards for governance, financial reporting and compliance. It is not enough for these standards to be implemented without the commitment and support of Takaful boards and executives.

Thus, Takaful companies need to improve their governance and risk management control processes. The importance of a Takaful company-wide risk strategy should not be overlooked, and the support and supervision of boards of directors are key factors in setting up a company based on the risk culture in the Takaful sector.

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