Supervision and anti-money laundering facility for Takaful

TAKAFUL & RE-TAKAFUL (EUROPE)

By Ezzedine Ghlamallah

Supervision is an important factor for the growth, efficiency and stability of a Takaful operator. The role of supervision in the Takaful industry is to prevent or mitigate crises and build public confidence in the solutions offered. Supervision is also an important implementation condition for the economic development, efficiency and stability of the Takaful operator, with the supervisory authority having to carry out persistent controls on compliance with the regulations to guarantee their implementation.

The objectives of supervision may include functions such as an inspection program to determine whether Takaful's financial strength is maintained on an ongoing basis, industry best practices, review procedures and business operations as well as risk management issues encountered in business operations. It is also possible for supervisory agencies to compel Takaful companies to produce accurate, complete and consolidated information about their risk management activities and procedures.

Therefore, for supervisors to perform their role, as mentioned previously, effectively and efficiently, it is natural that there are regulations reinforcing the role of supervisors to ensure that larger regulations affecting stakeholders and the Takaful industry are implemented and observed. The IFSB believes that the implementation of its standards will result in a robust Takaful system on a global scale.

The IAIS stipulates in the guiding principle ICP 22, which deals with the policies against money laundering and terrorism: "The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, the supervisor takes effective measures to combat money laundering and the financing of terrorism".

ICP Guideline 28, which deals with the same subject, also states: "The supervisory authority requires insurers and intermediaries, at least those offering life insurance or other investment-related insurance, to take effective measures to prevent, detect and report money laundering and the financing of terrorism cases in line with the recommendations of the Financial Action Task Force.".

Malaysia is recognized as being at the forefront of Takaful regulation, with specific regulations in force since 1984. In Malaysia, the anti-money laundering guidelines cover both Takaful and conventional insurance and apply to both.

The Takaful operator shall establish procedures for the prevention, detection and reporting of suspected money laundering, fraud or other financial crimes, including violation of international sanctions.

Although local laws generally establish minimum requirements in this regard, a Takaful operator must consider whether these minimum requirements are adequate to control the financial and reputational risks against any financial crimes that may involve itself. A Takaful company that puts ethics and sound management first cannot afford to be exposed to the risks as in the case of the Vatican Bank in 2013 when it was charged with money laundering and misdemeanor insider and market manipulation.

Ezzedine Ghlamallah is the executive director of SAAFI which specializes in Islamic finance and Takaful solutions. He can be contacted at ezzedine.ghlamallah@saafi.fr.

IFN Sector Correspondents

CROWDFUNDING: Craig Moore
CEO, Beehive

DEBT CAPITAL MARKETS: Imran Mufti
partner, Hogan Lovells

EDUCATION: Dr Kamola Bayram, project director for training and research at the International Council of Islamic Finance Educators

ISLAMIC LEASING: Shoeb Sharieff
president, ijara CDC, ijara Community Development Corp

LAW: Paul McViety
partner, head of Islamic finance, DLA Piper Middle East

MERGERS & ACQUISITIONS: Burak Gencoglu
partner, Gencoglu & Ergun Law Firm

MICROFINANCE: Mohammed R Kroessin
head of Islamic microfinance, Islamic Relief Worldwide

PRIVATE EQUITY & VENTURE CAPITAL:
James R Stull, partner, King & Spalding

REAL ESTATE: Philip Churchill
founder partner, 90 North Real Estate Partners

RETAIL ASSET MANAGEMENT: Muzzammil Dhedhy, chief operating officer, Hejaz Financial Services

RISK MANAGEMENT: Dr Ken Baldwin
senior lecturer in finance, Coventry University

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Prof Dr Mohamad Akram Laldin
executive director, International Shariah Research Academy for Islamic Finance

SRI ETHICAL & GREEN: Dr Mohamed Wail Aaminou, general manager, Al Maali Consulting Group

TAKAFUL & RE-TAKAFUL (ASIA): Marcel Omar Papp
head of Retakaful, Swiss Re Retakaful

TAKAFUL & RE-TAKAFUL (EUROPE): Ezzedine Ghlamallah
director, Solutions Insurance and Islamic Finance (SAAFI)

TAKAFUL & RE-TAKAFUL (MIDDLE EAST):
Dr Sutan Emir Hidayat
assistant professor, head of Business Administration and Humanities Department, University College of Bahrain

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