

POLICY RECOMMENDATIONS OF THE 13TH MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP

The COMCEC Financial Working Group (FCWG) has successfully held its 13th Meeting on October 17th, 2019 in Ankara, Turkey with the theme of “Improving the Takaful Sector in Islamic Countries”. During the Meeting, FCWG made deliberations on improving Takaful sector in the OIC Member Countries. Room Document, prepared in accordance with the main findings of the analytical study conducted for the 13th Meeting of FCWG and the answers of the Member Countries to the policy questions, was the main input for the discussions. Accordingly, the participants have come up with some policy recommendations.

Policy Advice 1: Developing a comprehensive legal and regulatory framework for the Takaful industry to facilitate the operations, transparency, and governance in this sector.

Rationale: A robust and comprehensive regulatory and legislative frameworks for the Islamic finance industry, including the Takaful sector, would ensure stability, clarity, competitiveness, discipline, prudence, and safety in the market.

The regulatory requirements such as capital, risk governance, transparency, and disclosure are in place to ensure stability and sustainability of the financial institutions, including TOs. Also, there are prudential standards and requirements which specifically cater to the distinct features of Islamic finance. These standards would strengthen the governance of TOs, and provide greater transparency on the use of various Islamic contracts in the models and structures, as well as safeguarding the interests of Takaful participants. It is worth noting that all the regulatory and legal reforms need to be undertaken gradually to allow smooth transition and adjustments in the Takaful market.

The institutionalisation of Shari’ah committees, whether centralised and/or decentralised, is a requirement for the Takaful industry. The presence of the Shari’ah committee is vital to ensure the Shariah-compliance of Takaful products and services. The committee also develops the Shariah standards to guide the TOs to apply them in their product development and innovation. The competencies of these Shariah committee members should be enhanced from time to time through continuous training programmes.

There is also an increasing demand from the industry for more extensive Islamic investment instruments. This demand would require improvements in the Islamic capital markets to allow the TOs and RTOs to diversify their investment portfolios (COMCEC, 2018). Hence, regulators should continue to provide the necessary infrastructure for the growth of *Shari’ah*-compliant instruments.

Policy Advice 2: Promoting product customisation in Takaful Sector and introducing new products in accordance with the changing needs of the market.

Rationale: The unique value propositions of *Takaful* is a niche for the competitiveness of the industry. The value proposition is based on the Takaful principles of mutual assistance, risk-sharing, and *tabarru’* (donation). Based on these principles, the TOs are able to offer participants products and services unique features such as sharing of underwriting surplus and inheritance planning.

With impactful use of technology to improve the efficiency of delivery, innovative *Takaful* solutions can be offered with expanded outreach in a manner that provides a seamless experience to participants. The range of attractive product offerings to participants could also be widened with the introduction of new products and innovation in protection solutions supported by technology. With the employment of big data analytics, artificial intelligence and online channels, TOs are would be able to anticipate risks and demands with far greater precision. This allows for enhanced product customisation by TOs to suit the rapidly changing needs

of the market, thus, improving the participant experience when consuming Takaful products and services. For example, wearable computing devices that collect real-time data make underwriting process and managing on-going health claims more integrative and convenient to participants. Based on the participant's behaviour, lifestyle and Takaful plan that are monitored using the technology, the Takaful operator will be able to customise and price their products. Participant experience can also be enhanced with value-added services, as technology enables new business models through new and improved forms of distribution. For example, TOs can develop mobile/tablet financial planning apps which help illustrate Takaful more clearly and vividly to customers. It enables customers to understand the product features better and make informed decision when choosing a *Takaful* product or service.

Diversity in products and services, powered by technology adoption, has significant potential to increase the competitive edge of the *Takaful* industry to serve consumers better. Besides, new coming TOs can adopt InsurTech and other technology-based products and services as an entry-strategy to the market. With technology, the new entrants would be in a position to expand the market.

The growth in the Takaful products and services would create demand for other related Islamic finance industries such as Islamic banks and capital markets, which in turn would further stimulate demands for products and services of the Takaful industry. Thus, the Takaful sector can contribute to the growth of the Islamic finance industry (COMCEC, 2019).

Policy Advice 3: Encouraging talent development through training and professional certification programmes and increasing the awareness of stakeholders in the Takaful sector.

Rationale: Strategies for human capital development should focus on attracting highly skilled talent. This would include competitive remuneration and continuous up-skilling and building competencies of employees across all levels. Therefore, the TOs should set a clear vision and culture of continuous learning and development. Specifically, the Takaful industry workforce should be equipped with an understanding of the principles of Islamic finance and *Takaful* specificities through various certification and training programmes.

Employees should also be encouraged to acquire and develop their technical knowledge and competencies on risk management, underwriting and regulatory framework. Talent development in Takaful is also required for agents, brokers, and bank partners (offering bankatakaful services) who are also important players of the *Takaful* ecosystem. Enhancing the competencies of these Takaful players is imperative for supporting business growth, outreach and diversification.

To support the development of the *Takaful* industry, it is also essential to have a strong and dynamic association that charts the strategic direction for the market, establishes the best practices for Takaful players who are able to raise relevant industry issues with various stakeholders and deliberate on opportunities.

Policy Advice 4: To provide incentives to the Takaful industry to enhance its competitiveness and business sustainability, thereby creating the level-playing field for the industry.

Rationale: The penetration rate of *Takaful* in OIC member countries is still very low. Yet, the continuous growth of the *Takaful* industry and its potentials remain promising. The industry continues to operate in a highly competitive and challenging environment with the rapidly evolving business and economic landscape. It is imperative for the TOs to strive and address the protection gaps in the OIC member countries and continue to design and offer the protection solutions that meet the needs of the economy and participants rather than merely replicating the existing mainstream insurance. *Takaful's* unique features would strengthen the value proposition and business sustainability of the industry. The Takaful potentials, its continuous growth and the evolving innovative products would create a level-playing field and a competitive edge for the industry. This competitiveness can also be enhanced by creating MegaTakaful that would realise the economy of scale and

provide huge capital base for the Takaful companies. Moreover, provision of both tax and non-tax incentives, especially for new entrants in emerging Takaful markets, would take the industry to a new height. The tax incentives could include the standardisation of tax regime for both Takaful and conventional insurance. The non-tax incentives could be in the form of liberalisation of capital adequacy requirements and promotion of Takaful products to customers through third parties (e.g, through rebates or discounts).

Instruments to Realize the Policy Advices:

COMCEC Financial Cooperation Working Group: In its subsequent meetings, the Working Group may elaborate on the above-mentioned policy areas in a more detailed manner.

COMCEC Project Funding: Under the COMCEC Project Funding, the COMCEC Coordination Office issues calls for project proposals each year. With the COMCEC Project Funding, the member countries participating in the Working Groups can submit multilateral cooperation projects to be financed through grants by the COMCEC Coordination Office. For realising above-mentioned policy recommendations, the member countries can utilize the COMCEC Project Funding facility. These projects may include the organization of seminars, training programs, study visits, exchange of experts, workshops and preparation of analytical studies, needs assessments and training materials/documents, etc.