Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)

Proceedings of the 13th Meeting of the COMCEC Financial Cooperation Working Group

"Improving the Takaful Sector in Islamic Countries"

COMCEC COORDINATION OFFICE

November 2019

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PROCEEDINGS OF THE 13TH MEETING OF THE
COMCEC FINANCIAL COOPERATION WORKING GROUP
ON

"Improving the Takaful Sector in Islamic Countries"

(October 17th, 2019, Ankara, Turkey)

COMCEC COORDINATION OFFICE
November 2019

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Introduction

The 13th Meeting of the COMCEC Financial Cooperation Working Group was held on October 17th, 2019 in Ankara, Turkey with the theme of "***Improving the Takaful Sector in Islamic Countries***". The representatives of 19 Member States, which have notified their focal points for the Financial Cooperation Working Group, attended the Meeting. Representatives of COMCEC Coordination Office, SESRIC, SMIIC, IFSB, ICIEC, the OIC Exchanges Forum, the COMCEC Capital Markets Regulators Forum, OIC-COMCEC Central Banks Forum, and NEOVA Insurance have also attended the Meeting.

At the outset, the representative of the COMCEC Coordination Office informed the participants about the financial outlook of the OIC Member Countries. It was followed by the presentations made by Assoc. Prof. Dr. Yusuf Dinç and Dr. Adam (Ruslan) Nagayev on the Takaful industry development.

The participants presented the background of Takaful, reviewed the current state of the global Takaful industry, highlighted the issues and challenges faced by the industry, outlined the policy recommendations for the further growth of the Takaful sector in OIC member countries, which were presented in the research report titled "***Improving the Takaful Sector in Islamic Countries***".

The Representatives of the Member States shared their experiences, achievements and challenges faced by Takaful industry in their respective countries. The participants had the chance to discuss the policy options for enhancing the cooperation in this important field in a moderation session.

The efforts exerted by the private sector on Islamic finance were also reflected to the discussions.

1. Opening Session

In line with the tradition of the Organization of the Islamic Cooperation (OIC), the Meeting started with the recitation from the Holy Quran. At the outset, Mr. Deniz GÖLE, Program Manager from COMCEC Project Funding, briefly mentioned about the COMCEC and its activities as well as the Programme of the meeting.

- Mr. Selvaraj RAMASAMY ABDULLAH, Head of Section, International Division, Ministry of Finance Malaysia who was elected as the Chairperson of the Meeting, introduced himself, thanked all the participants, and made a short opening speech.

2. Financial Outlook of the OIC Member Countries

Dr. Mücahit ÖZDEMİR, the financial sector specialist at the COMCEC Coordination Office, presented the main findings of the Financial Outlook of the OIC Member Countries 2019. Mr. ÖZDEMİR expressed that the presentation consists of three chapters: recent global economic and financial developments, financial developments in the OIC countries, and Islamic finance.

In the first part of the presentation, Mr. ÖZDEMİR provided an overview of the global economic developments and economic growth in the OIC member countries. In this context, GDP growth rates have been analyzed by world regions to understand the latest developments in the world markets. Mr. ÖZDEMİR highlighted that, based on the recent World Bank Global Prospects Report, global growth slightly decreased in 2018, and this trend is expected to continue in 2019 and 2020. He pointed that expectations towards the performance of the global economy are slightly deteriorated, so that leading central banks have started to interest rate cuts to promote the domestic economy. Also, Mr. ÖZDEMİR emphasized the adverse effects of the trade war between the US and China on global economy. OIC Countries' growth performance was analyzed based on income levels according to World Bank Income Grouping Methodology. The OIC countries' growth rate slightly increased to 3.8% in 2018, as compared to 3.6% in 2017. The positive growth trend is expected to continue for the OIC countries for the next two years. The growth rate of OIC countries is expected to increase to 4.1% in 2019 and 4.8% in 2020.

In the second part of the presentation, Mr. ÖZDEMİR provided an assessment of the financial developments of the OIC member countries. He stated that in this section, World Bank's Global Financial Development Database was utilized. The report and presentation provided four principal measures of the financial systems. These measures are (1) Financial Access: the degree to which individuals can and do use financial institutions and markets, (2) Financial Depth: the size of financial institutions and markets, (3) Financial Efficiency: the efficiency of financial institutions and markets in providing financial services, and (4) Financial Stability: the stability of financial institutions and markets.

Mr. ÖZDEMİR stated that the OIC Member Countries had been categorized in four major groups for analyzing them according to the World Bank Income Grouping Methodology: OIC-Low income group; OIC-Lower middle-income group; OIC-Upper middle income; and OIC-High income group. All these groups along with the OIC average and world average has been analyzed by using the following indicators under the measures of depth, access, efficiency, and stability: Mr. ÖZDEMİR stated that the analysis revealed that OIC-Upper middle income and OIC-High income groups were equal to or above world averages in the fundamental indicators regarding above mentioned four measures whereas OIC-Low income group and OIC-Lower middle-income groups were below the world averages.

In the third and the last part of the presentation, Mr. ÖZDEMİR shared information on Islamic finance. He stated that Islamic finance as a useful tool for financial development worldwide became an inseparable part of the international financial system. Islamic finance has the potential to help in addressing the challenges of ending poverty and sharing prosperity. Mr. ÖZDEMİR mentioned that data used in this chapter was collected mainly from International Financial Services Board's (IFSB) reports, International Islamic Financial Market (IIFM) reports, Thomson Reuters Islamic Finance Development Report. Islamic financial sector continued its growth performance in 2018 but at a steady pace and the total asset size of the Islamic finance sector has slightly increased from USD 2.05 trillion [2017] (that was the first time the industry recorded USD 2 trillion) to USD 2.2 trillion in 2018 with 7.0% YoY growth rate [2017: 8.5%].

Mr. ÖZDEMİR expressed that in terms of the breakdown of Islamic finance assets by regions, the Gulf Cooperation Council (GCC) region continued as the most significant region, in 2018 and total Islamic finance worth of the GCC region increased by 8% and reached USD 927.1 million [2017: USD 861.6] in 2018 that figures kept the region as being the largest domicile for Islamic finance assets. Asia is one of the most potential regions to grow in Islamic financial market, however only Asia's market share declined in 2018 to 16.9% [2017: 24.4%], even though total assets of the region significantly increased in the same period. It is highlighted during the presentation that Islamic banking has been still the dominant segment of the industry in 2018, although its share was slightly decreased to 71.7% as compared to the 76.0% share in 2017. In 2017, the sukuk market observed double-digit growth rates thanks to the large issuances; however, this performance did not continue in 2018. Total global issuance increased 5% in volume from USD 116.7 billion in 2017 to USD 123.2 billion in 2018. Malaysia continued to dominate the sukuk market. He also emphasized that the green sukuk issuance continued in 2018. Mr. ÖZDEMİR also touched on developments regarding Islamic funds as the other commonly used Islamic capital market instruments. Despite the significant increase in the number of Islamic funds in 2018 [1,292], assets under management (AuM) almost kept steady and reached USD 67.4 billion. The two critical domiciles for Islamic funds are Saudi Arabia and Malaysia. Mr. ÖZDEMİR also stated that global takaful industry continued its upward trend in many countries and gaining popularity in recent years. The global takaful contributions reached to USD 26.1 billion in 2017.

Question(s) and Comment(s):

Comment:

- It was expressed that the data for the Takaful sector should also include the number of takaful operators so that the performance of the takaful sector can be evaluated more properly.

Answer:

- It was stated that the data for the number of takaful operators could be added if the relevant data for takaful operators are available by highlighting the crucial data problem for the Islamic finance sector.

3. Overview of Takaful Industry

The presentation was divided into two sessions. Dr. Yusuf DINÇ, Associate Professor from the Department of Islamic Economics and Finance of Istanbul Sabahattin Zaim University, presented the first part of the research report in the session entitled "***An Overview of Takaful Sector in the World and OIC***". At the outset, Dr. DINÇ briefly outlined the scope of his presentation that covered three areas: (i) Introduction; (ii) Global development of the Takaful industry and an overview of the Takaful industry in selected case study countries such as Malaysia, Saudi Arabia, Turkey, and the United Kingdom; and (iii) methodology applied in the study.

In introducing the topic, Dr. DINÇ highlighted the importance of insurance in the financial systems providing services for wealth protection. He said, Takaful, the Islamic Shari'ah-compliant modern alternative to conventional insurance, has been in practice in many OIC and non-OIC countries over the last half century years. However, compared to the global size of Muslim population, the penetration rate of Takaful sector remains still insignificant and there is a huge potential for this sector to grow. He explained that some countries have shown success in the development of the Islamic finance infrastructure, including the Takaful industry. There are jurisdictions with full-fledged Islamic insurance sectors as Saudi Arabia, Sudan, and Iran, and there are countries with dual systems such as Malaysia, Pakistan, and Bahrain, and there are countries that operate both conventional insurance and Takaful under a consolidated regulatory and legal framework, such as Turkey, UAE, and Bangladesh. The report suggests that more efforts are required to further improve the existing Takaful sector and its size in OIC countries. So, what are the issues that impede its growth and what initiatives should be taken to address these issues?

Dr. DINÇ highlighted that the total assets of global Islamic finance industry have reached US$2.2 trillion by 2018, of which the Takaful industry constitutes only 1.26% in terms of Takaful contributions. He further elaborated that the size of global Takaful industry represents just a half percent of global insurance sector which is US$5.2 trillion as of 2018. The largest share of Takaful contributions is from GCC region (45%), followed by MENA (39%), and Asia (16%). The global Takaful industry is represented by 306 Takaful and Re-Takaful operating companies, including 107 General Takaful Operators (TOs) and 57 Family TOs. Also, there are 45 composite Takaful companies, 76 windows, and 21 Re-Takaful Operators (RTOs) around the world (IFSB, 2019).

The total value of Takaful contributions in Malaysia is MYR 7.7 billion as of 2018, whereas the total insurance premiums is MYR 27.9 billion. Among this total Takaful contributions in Malaysia, more than half of the contribution belongs to the family Takaful (64%), followed by general Takaful (36%). In case of Saudi Arabia, the Takaful industry represents the entire insurance sector – i.e. SAR 35.2 billion as of 2018, out of which the largest share (57%) belongs to the health insurance, followed by general insurance (40%), and life insurance (3%). On the other hand, the total value of Takaful contribution is TRY 2.23 billion as of 2018 which represents only 5% (the share of general and family Takaful is 97% and 3% respectively) share in the total insurance premiums in Turkey.

Dr. DINÇ presented the objectives of the study which is to assess the development of the Takaful industry in OIC and non-OIC countries, analyse it thoroughly, and suggest policy recommendations to further enhance the industry worldwide.

Finally, Dr. DINÇ explained the methodology used to achieve the objectives of the study. It is a mixed-method comprising literature review, data analysis, and synthesis of findings to assess the current Takaful issues and challenges and formulate the policy recommendations on improving the Takaful sector in Islamic countries. The sample data was collected both from the primary sources (the structured questionnaires and semi-structured interviews) as well the secondary sources (databases, government statistics, and case studies). The administered questionnaires and interviews were used to assess the current challenges facing the Takaful industry and to evaluate the company-level SWOT analysis. The study has focused on four jurisdictions – Malaysia, Saudi Arabia, Turkey, and the United Kingdom. The first three are OIC member countries, and the latter is a non-OIC country. The sample countries are selected based on two-level screening criteria: 1) The level of Islamic finance industry development, and 2) The quality of institutions. The findings derived from the selected case study countries were used to formulate policy recommendations for the development of the Takaful industry in OIC countries.

Question(s) and Comment(s)

Question: What are the data sources for the number of TOs in Iran?

Answer: The data for the number of TOs were collected from two sources: i) Thomson Reuters and ii) IFSB

Comment: The Jordanian representative accentuated on extensive research on increasing awareness regarding Takaful.

Question: How reliable the country-level data sources are?

Answer: Numerous data sources have been used in this report. All the data are from the official websites of the respective organizations as well as reliable reports. Verily, collecting the data was the most challenging task in the entire research.

Comment: IFSB representative commented that finding data for TOs is harder than mining for gold.

4. Selected Case Studies and Policy Options

Dr. Ruslan NAGAYEV, Assistant Professor from the Department of Islamic Economics and Finance of Istanbul Sabahattin Zaim University, presented the findings of the research report and highlighted the policy recommendations in the second session entitled "***Lessons Learnt from the Selected Case Studies and Policy Options***".

Dr. NAGAYEV elaborated on the criteria used for the selection of case study countries, as presented by Dr. Yusuf in the first session. The first criterion is the level of Takaful industry development in a country based on Thomson Reuter's Islamic Finance Development Indicators. The second criterion is the quality of institutions measured by the Heritage Foundation's Economic Freedom Index.

Dr. NAGAYEV presented the summary of the findings of the survey on challenges and company-level SWOT analysis. The results of the research revealed that Takaful insurance is far from covering the needs of all Muslims in OIC and non-OIC countries. A comprehensive approach is required at all levels including regulatory, educational, awareness, business practices, etc. to achieve a higher position in Islamic finance and better penetration of the Takaful market in OIC member countries.

In concluding the presentation, Dr. NAGAYEV outlined the general policy recommendations to support the development of the Takaful sector. Lessons learned from individual countries can also serve as recommendations for other countries especially on the same level of development.

The salient policy recommendations for the Takaful industry to develop further, and become a worldwide business especially in OIC member countries include:

- To address the structural, regulatory, technical, academic and other main challenges that inhibit the development and promotion of Islamic finance for Takaful.
- To address issues and challenges at the local, regional and global levels and propose adequate Shari'ah compliant solutions.
- To provide practical solutions to the ever-emerging issues and recommend solutions and policies based on this study for improving/strengthening Islamic finance for Takaful in the OIC member countries.
- To standardise best practices of Takaful insurance and extend their application to all OIC member countries.

The summary of policy recommendations and the relevant implementing authorities are presented in Table 1 below.

Table 1: Policy Recommendations and the Implementing Agencies

No	Item	Policy recommendations	Implementing agencies
1	**Legal and Regulatory Framework**	Developing the *Takaful* Act	◦ **Saudi Arabia**: SAMA ◦ **UK**: FCA, complemented by IIAL ◦ **Turkey**: BRSA and CMB
		Developing specific *Takaful* laws	◦ **Malaysia**: BNM
		Developing *Takaful* standards	◦ **Saudi Arabia**: SAMA ◦ **UK**: FCA, complemented by IIAL ◦ **Turkey**: BRSA and CMB
2	***Shari'ah* Framework**	Developing the *Shari'ah* governance framework for *Takaful*	◦ **Saudi Arabia**: SAMA ◦ **UK**: FCA, complemented by IIAL ◦ **Turkey**: BRSA and CMB
		Developing *Shari'ah* standards for *Takaful*	◦ **Saudi Arabia**: SAMA ◦ **UK**: FCA, complemented by IIAL ◦ **Turkey**: BRSA and CMB
		Harmonizing the existing legal framework with *Shari'ah* requirements	◦ **Saudi Arabia**: SAMA ◦ **UK**: FCA, complemented by IIAL ◦ **Turkey**: BRSA and CMB ◦ **Malaysia**: BNM
		Establishing *Shari'ah* units for conflict resolutions and empowering *Shari'ah* committees	◦ **Saudi Arabia**: SAMA ◦ **UK**: FCA, complemented by IIAL ◦ **Turkey**: BRSA and CMB
3	**Product and Services**	Developing unique and original products	◦ **TOs** in the four countries
		Investing in technology	
		Awareness campaign among the public and in schools and colleges	
		Promote the use of technology particularly InsurTech, and mobile apps for micro-*Takaful*	
		Diversify products to include trade insurance	◦ **TOs** in the four countries
		Offer more *Re-Takaful* businesses	◦ **TOs** in the four countries
4	**Talent Development**	Develop certificate and in-house training programs for the relevant *Takaful* stakeholders [executives, managers, agents and brokers]	◦ **Saudi Arabia**: SAMA ◦ **UK**: FCA, complemented by IIAL ◦ **Turkey**: BRSA and CMB ◦ **Malaysia**: BNM ◦ **TOs** in the four countries
		Develop certificate and in-house training programs for *Takaful* executives, managers and *Shari'ah* board members	◦ **Saudi Arabia**: SAMA ◦ **UK**: FCA, complemented by IIAL ◦ **Turkey**: BRSA and CMB

No	Item	Policy recommendations	Implementing agencies
			◦ **Malaysia**: BNM ◦ **TOs** in the four countries
		Develop certificate and in-house training programs for *Takaful* executives and managers	◦ **TOs** in the four countries
		Enhancing collaboration between the *Takaful* industry and the academia	◦ **TOs** and **institutions** of higher learning in the four countries
		Technical assistance from relevant International Islamic organizations	◦ **IsDB** ◦ **OIC** ◦ **IFSB**
5	**Low growth and lack of competitiveness**	Create mega *Takaful* Business through mergers and acquisition	◦ **TOs** in the four countries
		Create favourable tax incentives	◦ **TOs** in the four countries

Notes: **BNM** – Bank Negara Malaysia (Malaysia), **SAMA** – Saudi Arabian Monetary Authority (Saudi Arabia), **BRSA** – Banking Regulation and Supervision Agency (Turkey), **CMB** – Capital Market Board (Turkey), **FCA** - Financial Conduct Authority (UK), **IIAL** - Islamic Insurance Association of London (UK), **IsDB** – Islamic Development Bank, **IFSB** - Islamic Financial Service Board, **OIC** – Organisation of Islamic Cooperation. *Source:* Authors

Question(s) and Comment(s)

Comment: The Turkish delegate agreed that comprehensive regulatory framework is essential and suggested that it should be developed based on the right Takaful model as the existing model has some issues.

Comment: IFSB representative commented that regardless of the model being used, a comprehensive regulatory framework should be in place. Obviously, each model has its own advantages and disadvantages. Models are secondary issue. Having regulatory framework is crucial for the development of the Takaful sector. He also commented that there is an urgent need for the development of Re-Takaful industry to support the growth of Takaful sector. Previously, the Shari'ah resolutions allowed Takaful companies to approach conventional reinsurance because of lack of Shariah-compliant alternatives. However, the practice cannot continue like this, because of the controversy this resolution creates. On one hand, customers are told about the Shari'ah non-compliance of conventional insurance, while, on the other hand, Takaful operators are allowed to approach [deal with] conventional reinsurance companies.
Comment: The delegate from Malaysia emphasized that regulatory framework is essential. It should cater for developing new models and should allow various models to be applied. Malaysia started with Wakalah model. Now they find that the market should be given flexibility in choosing the appropriate model which caters to the consumer needs and demands.

Question: Are the findings or recommendations in this study (on the four selected countries) applicable to other OIC member countries as well or there is a need for conducting a separate study?

Answer: While developing the methodology and selecting four countries for case studies, we two criteria were used: 1) the level of Takaful industry development was assessed using IFDI score, and 2) the quality of institutions was measured by Heritage's Freedom Index. So, for countries that share similar characteristics with the selected countries, the same recommendations are applicable.

Question: Which one is more preferred for Takaful industry – the Centralised Shariah body or a board within institutions (decentralized)?

Answer: There are different approaches for Shari'ah governance: centralized board level, decentralized institutional level, both levels, and independent organization (as in UK). Having central Shariah board could be sensitive issue for secular countries. So, the solution might be in creating an independent organization as well as having an institutional level board which can focus on routine operations.

Comment: IFSB representative explained that there are four Shari'ah governance approaches: two-tier, centralised, decentralised, and independent body. Regardless of whichever model is chosen, it is critical to ensure Shari'ah compliance to the extent of scholars' engagement in business and the level of their expertise in Takaful.

Comment: Turkish delegate commented that the centralized model of Shariah governance may have disadvantage (risky) if their fatwa is binding. This may be contrary to common understanding that fatwas are only pronouncements which are not legally binding.

Question: Does the study consider the issue of pricing of Takaful products, comparing with conventional ones?

Answer: The findings of the study on the issues surveyed revealed that Takaful products are expensive. Detailed results show that competition, lack of instruments for investment, taxation and other factors make Takaful products less cost-efficient. Hence, the recommendations based on these results, if implemented, would minimize the problem of cost-efficiency, among others.

Comment: IFSB provided two comments, one on investment, and another on MegaTakaful. Regarding investments, IFSB opine that the majority of Takaful operators in GCC invest in the real estate, which is pro-cyclical. Such investments may have negative implications for the Takaful industry. IFSB also commented that the creation of MegaTakaful through mergers and acquisition is important for sustainable growth of the industry.

Comment: Malaysia highlighted two points: 1) Distinction should be made between the mandatory and voluntary insurances. Such distinction would contribute to the scale and size of industry, and would determine the different strategies needed. 2) Regulations evolve, and, therefore the impact of any forthcoming regulatory frameworks on how industry will develop in various jurisdictions should be considered.

Question: 1) How were the research questions developed relative to four components [SWOT]? 2) It seems the study has focused on the commercial types of Takaful whose aim is profit making. Does it imply that the study has overlooked the models with the charity dimension of Takaful?

Answer: 1) The questions were developed based on literature review and published reports. A pilot study was conducted to test the validity and comprehensiveness of the questions. 2) As for the charity dimension, Takaful models such as Waqf model with charity dimensions were also included in the study.

Comment: IFSB commented on the business model. He highlighted that there is a misunderstanding about the nature of Takaful. It is understood that the objective of conventional insurance is profit-maximization, whereas Takaful is a charitable business. Both are looking for the maximization of profit but have different approaches. Waqf model was introduced to overcome the issues on surplus distribution.

Comment: The delegate from Turkey emphasized that the main difference between the Takaful and conventional insurance is the status of contract. Takaful is based on 'hibah' [donation] to eliminate the issue of Gharar. According to AAOIFI, there is an element of Gharar in conventional insurance contract making the contract impermissible. On the other hand, there is a view that conventional insurance does not contain excessive uncertainty that would cause disputes between the contracting parties and create injustice, thus, conventional insurance is permissible as long as the funds are invested in Shari'ah-compliant instruments. As for the nature of Takaful, each stakeholder has some expectation from the business of Takaful including the earning of profits by the Takaful operator/shareholders.

Question: In the recommendations you have mentioned about new, emerging and developed Takaful markets. How do you categorize UK and Malaysia?

Answer: We have categorized countries based on the penetration of Takaful industry: 1) developed Takaful markets are countries with full-fledged 100% Shariah-compliant insurance sectors (like Saudi Arabia, Sudan, Iran), 2) emerging Takaful markets are jurisdictions with the dual system having both Takaful and conventional insurance regulatory frameworks (like Malaysia, Brunei, Pakistan), and 3) new Takaful markets are countries with consolidated regulatory environment (like Turkey and the UK).

5. Policy Debate Session on the Improving the Takaful Sector in Islamic Countries

The policy debate session was moderated by Mr. Selvaraj RAMASAMY ABDULLAH, Head of Section, International Division, Ministry of Finance Malaysia. At the beginning of the session, Mr. Selçuk KOÇ, Director at the COMCEC Coordination Office, made a brief presentation on the responses of the Member Countries to the Policy Questions on Takaful sector improvement in Islamic countries and introduced the Room Document including draft policy recommendations.

After extensive discussions, the Working Group has come up with the following four 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.*
- ***Policy Advice 2:*** *Promoting product customisation in Takaful sector and introducing new products in accordance with the changing needs of the market.*
- ***Policy Advice 3:*** *Encouraging talent development through training and professional certification programmes and increasing the awareness of stakeholders in Takaful sector.*
- ***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.*

6. Utilizing the COMCEC Project Funding

Mr. Deniz GÖLE, Director at the COMCEC Coordination Office, made a presentation on the COMCEC Project Funding. At the outset, a short video on COMCEC Project Funding has been showed to the participants. Afterward, Mr. GÖLE informed the participants about the essentials of the COMCEC Project Funding.

Mr. GÖLE continued his presentation by highlighting the timeline for the project submission. He stressed the importance of finding a project idea and informed the participants on how they can find project topics. He introduced the COMCEC Project Funding Webpage and invited the participants to check put the COMCEC Project Funding webpage.

Mr. GÖLE underlined the supported themes in financial cooperation area and shared brief information with participants regarding online project submission system. At the final part of his presentation, he informed the participants on the funded financial cooperation projects in 2019, namely ‘‘Capacity Building on Islamic Finance in Mozambique, Gambia and Nigeria”, “Islamic Liquidity Management Instruments for Sustainable Development of Islamic Financial Institutions” and “Assessment of COMCEC Real Estate Securities Markets and Regulatory Landscapes for Strengthening Capital Markets”.

Question(s) and Comment(s)

Question: Is there a budget limit for projects?

Answer: Mr. GÖLE stated that the project limit for the member countries is 250.000 USD while it is 100.000 USD for OIC Institutions. He underlined that member countries should provide 10% co-finance

7. Member Country Presentations

7.1. Malaysia

Ms. Nurul Izza binti Idris, Deputy Director at the Central Bank of Malaysia, presented the development of Takaful Sector in Malaysia. Initially, she mentioned about the main development objectives that comprosing of financial inclusion, reducing protection gap and value based impact in this sector.

She also touched upon industrial growth in this sector by presenting the share of total insurance and Takaful business 6% in 1998, 18% in 2008 and in 32% 2018, respectively. Then, she continued her presentation by stating key building blocks for sustainable takaful development that includes: Financial literacy, Effective business delivery, Scale and capacity, Innovative leadership, Responsive regulations. She also informed the participants about recent developments in these aformentioned objectives.

She categorized the developments realized Financial Education Network, National Financial Literacy Strategy Awareness programmes SMEs, rural community into Financial literacy. Besides, the efforts and developments in digitalization of distribution and operations, balanced scorecard framework and diversification of protection solutions were categorized in the title of effective business delivery. Regarding the developments such as conversion to single takaful licenses phased out composite licences and diversification of protection solutions were put in Scale and capacity title. She mentioned Innovation governance - Board and Senior Management responsibility and Value based Intermediation Strategy as the components of Innovative Leadership. Lastly, Regulatory sandbox fintech business model and Proportionality framework were placed under the pillar of responsive regulations.

In her presentation, she gave detailed information about Professional programmes, research & training on Takaful in Malaysia. In this context she presented the objectives and studies of different institutions which work in this field under three groups. One of them was labelled as develop “industry ready” talent & expertise. The second one was named to ‘‘cutting edge research’’. The last one was mentioned as ‘‘Upskill industry expertise via training’’

7.2. Turkey

Mr. Hüseyin ÜNAL, Senior Expert at Ministry of Treasury and Finance, made a presentation on the Participation Insurance in Turkey and Developments and Future Perspectıve. Firstly, he informed the participants about legal framework and regulatory and supervisory framework for participation insurance sector in Turkey.

Mr. Ünal continued his presentation by highlighting issues affecting the development of participation insurance in Turkey and underlined the problem of regulation focusing on one Islamic insurance model. He mentioned about solutions regarding new Islamic insurance models. According to Mr. Ünal's presentation, general idea of the topic is given in the following paragraphs.

Takaful is an insurance activity which is sharia compliant. Takaful is just a name of an insurance model under the Islamic Insurance perspective. It does not refer to the only Islamic Insurance model in the practice. Some scholars including OIC Fiqh Academy say that conventional insurance is not permissible because there is uncertainty (gharar) element in the contract. On the other hand, other scholars including Turkish Religious Authority say that conventional commercial insurance is permissible in general because in conventional insurance contract, there is no excessive uncertainty causing dispute between parties and injustice earning. The main difference between Takaful and conventional insurance is hibah status of contract. Hibah concept eliminates uncertainty elements from the insurance contract.

The impermissibility of insurance is not like impermissibility of Riba. While impermissibility of Riba is based on clear nass, impermissibility of insurance is based on Fatwa.

There are some sharia issues of Takaful practice in terms of substance and form. There is an expectation of full compensation by policyholders in the practice. Takaful contract creates liabilities for two parties. When there is a deficit in risk fund, there is a qard payment requirement for shareholders. They have to compensate the deficit rather than going back to the customers. There are also some sharia questions for risk fund. Who is the owner of risk fund? Can someone have ownership right on his hibah? Is conditional hibah is permissible or not? These issues mentioned above are contradicting with hibah concept. At the end of the day, the practice way of takaful is not in line with its principles. The process and output of the takaful is very similar to conventional practice. The main difference of Takaful from conventional side in the practice is sharia compliant investment and insurance product for non-prohibited things.

As a consequence, new Islamic insurance models (cooperative, mutual insurance, waqf based, fund based or company models) should be considered by the sector. Regulations which have comprehensive sharia governance framework are important and giving opportunities new Islamic insurance models and providing flexibility in Regulations benefits the development of the sector.

8. Private Sectors' / International Institutions' Contributions

8.1. IFSB's Experiences and Practices in Takaful sector

Dr. Ahmad AlRazni ALSHAMMARI, Member of the Secretariat, Technical and Research in Islamic Finance Services Board (IFSB), made a presentation on IFSB's experiences and practices in Takaful sector. The presentation discussed two main parts: i) IFSB mandate; and ii) IFSB standards in Takaful sector.

For the first part, Dr. ALSHAMMARI stated that IFSB is an international standard-setting organisation, based in Malaysia that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The IFSB also conducts research and coordinates initiatives on industry related issues, as well as organises roundtables, seminars and conferences for regulators and industry stakeholders.

He mentioned that IFSB started its operation in 2003, to complement the global regulatory bodies like Basel Committee on Banking Supervision, International Organisation of Securities Commissions and the International Association of Insurance Supervisors, by focusing on the characteristics of Islamic finance. In terms of membership, IFSB has 180 members operate in 57 jurisdictions.

Dr. ALSHAMMARI highlighted that IFSB has nine objectives and one of them is developing standards to promote the development of a prudent and transparent Islamic financial services industry. Initially, the main focus was banking sector however, the Council of IFSB decided to expand the scope to cover takaful and capital market as well. At this time, IFSB has published 30 Standards, including five dedicated Standards related to Takaful sector. For cross sectorial, there are two Standards: IFSB-9 Conduct of Business and IFSB-10 Shariah Governance. He added that IFSB is currently working on two Standard pertaining to Takaful: i) Disclosures to promote transparency and market discipline; and ii) Core Principles for Islamic Finance Regulation for takaful. He emphasied that the Secretariat is subject to rigorous governance process in developing IFSB Standards, to ensure the document is technically comprehensive and in line with shariah rules and principles.

For the second part, Dr. ALSHAMMARI briefly discussed on five Takaful standards. Firstly, *IFSB-8: Guiding Principles on Governance for Takāful Undertakings*, this standard presented the fundamental characteristics of takaful, along with the six principles as follows:, comprehensive governance framework, code of ethics, governance structure for participants, procedures for proper disclosure, mechanism to sustain solvency, and sound investment strategy.

He shared four rationale of having a comprehensive governance framework, i.e.

- The role of Takaful Operator (TO) is unique, compared to conventional insurance. Where TO can be act as an agent and a mudarib, depending on the model adopted. In this regards, the conflict of interest may arise between the ownership of the funds and its control. Hence, this matter may be mititgated by having in a place a sound and comprehensive governance framework;

- Clear segregation of funds between Participants Risk Fund (PRF) and Shareholders Fund (SHF), it is one of the key features of takaful that must be maintained all the time, because it carries the rights and obligations of each party are different;
- Takaful is built based on hybrid structure, combination of both mutual and proprietary structures; and
- TO has a fiduciary responsibility towards participants and duties towards other stakeholders.

The second standard issued by IFSB in takaful is, *IFSB-11: Solvency Requirements for Takāful Undertakings.* This standard is structured based on four objectives: i) to increase likelihood to meet obligations; ii) to act as early warning system; iii) to provide buffer; and to foster confidence. Dr. ALSHAMMARI highlighted that this standard consists of seven key features for minimum solvency requirements in order to assist regulatory and supervisory authorities (RSAs) for achieving a robust and sound industry. He discussed in details various aspects related to qard facility. Where this facility defined as a non-interest-bearing loan intended to allow the borrower to use the funds for a period with the understanding that this would be repaid at the end of the period. In the takaful context, qard facility is identified by a TO to enable a PRF to meet its solvency requirement. Another important aspect addressed by presenter is the earmarked amount, which is a capital allocated within SHF for any potential deficit in PRF and at the same time the PRF has the right to call qard.

Dr. ALSHAMMARI presented the third Stanadard, *IFSB-14 Risk Management for Takāful Undertakings,* by focusing on specific risks relevance to takaful, for example: i) Shariah non-compliance risk, it is one of the unique risks which may occur from product development and investment. In fact, breaching Sharī`ah principles may damage the reputation of the firm, especially many of participants select takaful because it is in line with shariah principles and also non-compliance with the shariah princples may make the firm exposed to regulatory action; and ii) risks arising from segregation of funds (SHF, PRF, PIF), it is one of the core characteristic of takaful which must be maintained all the time. The segregation of these funds in a takaful undertaking brings with it a set of agency risks that differ from those in a conventional insurer and require separate consideration in the undertaking's risk management framework.

IFSB-18: Guiding Principles for Retakāful, is the fourth standard presented by Dr. ALSHAMMARI, who stated this standard aims to provide the followings: i) a basis for RSAs to set rules and guidance on the operational framework of entities undertaking inward retakaful activity; ii) a basis for RSAs to supervise TUs' and RTUs' use of outward retakaful arrangements; and iii) *to* suggest recommended practices for RTOs, TOs and RSAs to help address regulatory issues concerning retakaful.

Lastly, Dr. ALSHAMMARI shared with the audience the recent published standard, *IFSB 20 Key Elements in the Supervisory Review Process of Takaful/Retakaful Undertakings, which is developed around three objectives: i)* to provide guidance to supervisors on minimum standards for an effective and efficient supervisory review process for TUs and RTUs, addressing the unique elements of these institutions; *ii)* to promote, by means of supervisory review, fair, safe and stable takaful and retakaful markets for the benefit and protection of participants; and *iii)* to promote harmonisation of supervision internationally, and hence to enhance cooperation among supervisors.

8.2. As an Islamic Political Risk Insurance Provider ICIEC's Operations in Turkey and in Member Countries

Ms. Fatma Gamze Sarioglu made a presentation about ICIEC's experience in Turkey and other member countries as an Islamic institution. Presentation started with introducing ICIEC; as an entity of IsDB Group and a multilateral company, followed by giving brief information about the ownership and capital structure of the institution.

Ms. Sarioglu touched upon the mandate of ICIEC and how ICIEC is supporting the development of member countries in line with sustainable development goals of the IsDB Group. She continued with more information on levels of ICIEC's contribution in member countries to sectors such as agriculture, energy, infrastructure, manufacturing, health, trade, construction and services. Ms. Sarioglu also informed the audience about the product offering of ICIEC, as well as mentioning how its products could be utilized within the Islamic Finance scheme.

Thereinafter, she briefed the participants about several infrastructure projects which were covered by ICIEC, those have significant importance in terms of developmental impact in the respective member countries including Turkey. Some of the examples were the bilateral loans to Turk Exim Bank granted by global banks that were covered by ICIEC for the development of Turkish SME sector, Tosyali Holding's steel factory investment in Algeria, political risks attached to equity investment covered by ICIEC, buyer's credit loan covered by ICIEC granted from Turk Exim Bank to Republic of Senegal for the financing of Dakar Market of National Interest and a Truck Station.

She continued with explaining how her institution were using the advantages of takaful and the fundamentals of takaful business model implemented by ICIEC, briefing the participants about the takaful mechanism's benefits to the shareholder's fund and policyholder's fund of her institution.

8.3. Experiences of Neova Sigorta in Non-Life Takaful

Mr. Serdar Sevindik, Head of Internal Control, Risk Management and Compliance at Neova Sigorta A.Ş., made a presentation on non-life takaful sector in Turkey and specific information about Neova Sigorta A.Ş..

At the beginning, Mr. Sevindik informed the participants about the basic principles and differences of takaful. He also gave a brief information about the history of takaful in Turkey.

In the second part of the presentation Mr. Sevindik gave a brief summary about KATSIDER (Katılım Sigortacılığı Derneği – Association of Participation Insurance) which was established with the partnership of Neova and Katılım Emeklilik ve Hayat companies in 2014 to promote and expand the interest-free insurance according to international standards. He cited the contributions of KATSIDER on the preparation of legislation of participation insurance (takaful) in Turkey.

After KATSIDER, Mr. Sevindik talked on the establishment of Neova Sigorta, a subsidiary of Kuwait Finance House, in 2009 which is the first non-life takaful operator in Turkey. He presented the yearly figures to demonstrate the evolution of Neova and takaful sector. He also draw attention to how Neova pushed the insurance sector to consider on takaful business. Another important point that Mr. Sevindik mentioned was surplus rebates by Neova to the customers, which is the money given back to the positive- balanced customers. Neova is the first in Europe giving surplus rebates to its customers amounting more than 15 mn TRY in 5 years.

At the last part Mr. Sevindik gave a list success and opportunity factors of takaful in Turkey. He sorted the list as government support, increase in the number of participation banks and in number of takaful companies in the sector, supporting existing successful takaful companies, conservative society and increased participation finance awareness.

9. Closing Remarks

The Meeting ended with closing remarks of Mr. Selvaraj RAMASAMY ABDULLAH, Head of Section, International Division, Ministry of Finance Malaysia and the Chairperson of the Meeting and Mr. Deniz GÖLE, Director at the COMCEC Coordination Office.

In his closing remarks, Mr. GÖLE informed the participants that the 14th Meeting of the COMCEC Financial Cooperation Working Group will be held on March 12, 2020 in Ankara with the theme of ‘‘Improving Shariah Governance Framework in Islamic Finance’’. He stated that a research report will also be prepared for the meeting and shared with the focal points and other participants at in advance of the meeting.

Annex 1: List of Participants

LIST OF PARTICIPANTS
13th MEETING OF THE FINANCIAL COOPERATION WORKING GROUP
17th October 2019, Ankara

A. MEMBER COUNTRIES OF THE OIC

ISLAMIC REPUBLIC OF AFGHANISTAN
- Mr. MOHD ZUBAIR SEDIQI
Head of Development Projects, Ministry of Economy

REPUBLIC OF AZERBAIJAN
- Mr. GUNDUZ ALIYEV
Deputy Head of the Department, Ministry of Finance of Republic of Azerbaijan

REPUBLIC OF BENIN
- Mr. RACHID MAMA-SIKA
Director, Plan and Development Ministry

BRUNEI DARUSSALAM
- Ms. MONA HAJI ZAKARIAH
Act. Senior Manager, Autoriti Monetari Brunei Darussalam
- Ms. XUAN PEI YAP
Manager, Autoriti Monetari Brunei Darussalam

ARAB REPUBLIC OF EGYPT
- Mr. AMR SELİM
Deputy Head of Mission, Embassy of Egypt in Ankara

REPUBLIC OF GAMBIA
- Mr. FATOUMATTA BARRY
Fiscal Officer, Ministry Of Finance & Economic Affairs

HASHEMITE KINGDOM OF JORDAN
- Mr. EMAD MASALMEH
Counselor, the Embassy of Jordan in Ankara

THE STATE OF KUWAIT
- Ms. JAMANAH AHMAD
Researcher, Ministry of Finance

MALAYSIA
- Mr. SELVARAJ RAMASAMY ABDULLAH
Head of Section, International Division, Ministry of Finance Malaysia
- Ms. NURUL IZZA IDRIS
Deputy Director, Central Bank of Malaysia

REPUBLIC OF MOZAMBIQUE
- Mr. SAIDE OMAR
Expert, Ministry of Economy and Finance
- Ms. ESTER DOS SANTOS JOSE
Director, Ministry of Economy and Finance

SULTANATE OF OMAN
- Mr. ABDULMALIK AL HINAI
Advisor of Minister of Finance, Ministry Of Finance
- Mr. AHMED AL MEZEINI
Expert, Ministry Of Finance

ISLAMIC REPUBLIC OF PAKISTAN
- Mr. UMER SIDDIQUE
Counsellor, Embassy of Pakistan in Ankara

STATE OF QATAR
- Mr. SAOUD ALHABABI
Expert, Ministry of Finance
- Mr. ALDULRAHMAN ALMULLA
Researcher, Ministry of Commerce

REPUBLIC OF SIERRA LEONE
- Mr. FODAY IBRAHIM KABBA
Economist, Ministry of Finance

REPUBLIC OF SUDAN
- Mr. MOHAMMED HAG ALAMIN
Director Assistant, Ministry of Finance

REPUBLIC OF TUNISIA
- Mr. SABER SOLTANI
Director, General Insurance Committee
- Ms. IMEN EL ARBI
Director, General Insurance Committee

REPUBLIC OF TURKEY
- Mr. DENİZ YILMAZ
Deputy Director General, Ministry of Treasury and Finance
- Mr. HALDUN NİGİZ
Head of Department, Ministry of Treasury and Finance
- Mr. UTKU ŞEN
Expert, Ministry of Treasury and Finance
- Mr. BORA TAMER YILMAZ
Head of Department, Ministry of Treasury and Finance
- Mr. BURAK DENİZ
Assistant Specialist, Central Bank Of Turkey
- Ms. GULSUM CINAR DOLGUN
Specialist, Central Bank of Republic Of Turkey

- Mr. ERHAN AKKAYA
Specialist, the Central Bank of the Republic of Turkey
- Mr. SADRETTİN KARABEYESER
Expert, Ministry of Treasury and Finance
- Mr. Hüseyin ÜNAL
Expert, Ministry of Treasury and Finance
- Mr. MELİH ÖZBULUT
Assistant Expert, Ministry of Treasury and Finance

REPUBLIC OF UGANDA
- Mr. COLLINS HERBERT ISHIMWE
Economist, Ministry of Finance, Planning and Economic Development

B. THE OIC SUBSIDIARY ORGANS

STATISTICAL, ECONOMIC, SOCIAL RESEARCH AND TRAINING CENTER FOR ISLAMIC COUNTRIES (SESRIC)
- Mr. ABDULHAMİT ÖZTÜRK
Research Assistant, SESRIC

C. AFFILIATED ORGANS OF THE OIC

STANDARDS AND METROLOGY INSTITUTE FOR ISLAMIC COUNTRIES (SMIIC)
- Mr. YASİN ZÜLFİKAROĞLU
Specialist, SMIIC

D. OIC STANDING COMMITTEES

THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT (ICIEC)
- Ms. FATMA GAMZE SARIOĞLU
Director, ICIEC

E. INVITED INSTITUTIONS

SECRETARIAT OIC COMCEC CENTRAL BANK FORUM
- Mr. ÖZGÜ EVİRGEN
Specialist, OIC-COMCEC Central Bank Forum

SECRETARIAT OF OIC STOCK EXCHANGES FORUM
- Mr. RECEP BİLDİK
Director, COMCEC OIC Exchanges Forum

SECRETARIAT COMCEC CAPITAL MARKET REGULATORS FORUM
- Ms. SEÇİL SAYIN KUTLUCA
Senior Legal Expert, COMCEC Capital Market Regulators Forum

THE ISLAMIC FINANCIAL SERVICES BOARD (IFSB)
- Mr. AHMAD ALSHAMMARI
Expert, IFSB

NEOVA
- Mr. SERDAR SEVİNDİK
Manager of Business Development, NEOVA
- Mr. YUNUS EMRE GÜRBÜZ
Head of Internal Audit, NEOVA

F. CONSULTANTS

- Mr. YUSUF DİNÇ
Consultant, Istanbul Sabahattin Zaim University
- Mr. RUSLAN NAGAYEV
Consultant, Istanbul Sabahattin Zaim University
- Mr. MOHAMED CHERIF EL AMRI
Consultant, Istanbul Sabahattin Zaim University

G. COMCEC COORDINATION OFFICE

- Mr. M. METİN EKER
Director General, Head of COMCEC Coordination Office
- Mr. ERTAN TOSUN
Deputy Director General
- Mr. SELÇUK KOÇ
Director
- Mr. DENİZ GÖLE
Director
- Mr. MEHMET ASLAN
Director
- Mr. MÜCAHİT ÖZDEMİR
Consultant
- Mr. CAN AYGÜL
Expert

Annex 2: Agenda of the Meeting

AGENDA
13th MEETING OF THE COMCEC
FINANCIAL COOPERATION WORKING GROUP
(October 17th, 2019, Ankara)

"Improving the Takaful Sector in Islamic Countries"

Opening Remarks

1. COMCEC Financial Outlook
2. Overview of Islamic Insurance (Takaful)
3. Selected Case Studies and Policy Options
4. Policy Debate Session on Improving Takaful Sector in Islamic Countries
5. Member Country Presentations
6. Private Sector's / International Institutions' Contributions
7. Utilizing the COMCEC Project Funding

Closing Remarks

Annex 3: Program of the Meeting

DRAFT PROGRAMME
13TH MEETING OF THE
COMCEC FINANCIAL COOPERATION WORKING GROUP
(October 17th, 2019, Crowne Plaza Hotel, Ankara, Turkey)

"Improving the Takaful Sector in Islamic Countries"

08.30-09.00	Registration
09.00-09.05	Recitation from Holy Qur'an
09.05-09.15	Opening Remarks

COMCEC Financial Outlook

09.15-09.40	Presentation: Dr. Mücahit ÖZDEMİR, Financial Sector Specialist, COMCEC Coordination Office
09.40-09.50	Discussion

Overview of Takaful Sector in the World and OIC

09.50-10.25	Presentation: Assoc. Prof. Dr. Yusuf DİNÇ, İstanbul Sabahattin Zaim University
10.25-10.55	Discussion
10.55-11.10	Coffee Break

Lessons Learnt from the Selected Case Studies and the Policy Options

11.10-11.50	Presentation: Assoc. Dr. Ruslan NAGAYEV, İstanbul Sabahattin Zaim University
11.50-12.30	Discussion
12.30-14.00	Lunch

14.00-15.30 Policy Debate Session on Improving Takaful Sector in OIC Member Countries

There will be a moderation session under this agenda item. Participants are expected to deliberate on the policy options/advices for improving Takaful sector in the OIC Member Countries. At the beginning of the session, the CCO will make a short presentation on the responses of the Member Countries to the policy questions as well as the Room Document.

14.00-14.10 "Responses of the Member Countries to the Policy Questions on Improving Takaful in the OIC Member"

Presentation: Mr. Selçuk KOÇ, Director

COMCEC Coordination Office

14.10- 15.30 Discussion

15.30-15.45 Utilizing the COMCEC Project Funding

Presentation: Mr. Deniz GÖLE, Director

COMCEC Coordination Office

15.45-16.00 Discussion

16.00-16.15 Coffee Break

16.15-17.15 Member Country Presentations

- Presentations
- Discussion

17.15-18.15 Private Sectors' / International Institutions' Contributions

17.15-17.30 Presentation: "IFSB's Experiences and Practices in Takaful Sector"

IFSB, Technical and Research Department, Dr. Ahmad ALSHAMMARI

17.30-17.45 Presentation: "ICIEC's Experiences in Takaful Sector"

IDB Group- ICIEC, Senior Country Manager, Fatma Gamze SARIOĞLU

17:45-18:00 Presentation: "Private Sector's Experiences in Takaful Sector in Turkey"

Serdar SEVİNDİK, Internal Control, Risk Management and Compliance

Manager, NEOVA Insurance

18.00-18.15 Discussion

18.15-18.30 Closing Remarks and Family Photo

Annex 4: Policy Recommendations

**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 ihe 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.
<u>Rationale</u>: 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.
<u>Rationale</u>: 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.

<u>Rationale</u>: 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.