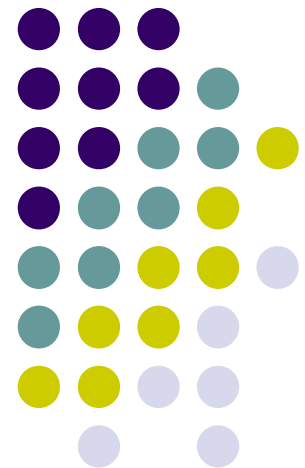


# Regulatory Frame Work of Takaful in Pakistan

---

**Shoaib Soofi, Director (SECP)**  
**April 27, 2007**  
**Karachi**

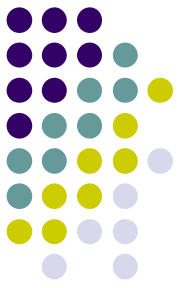


# Controlling Documents of Takaful

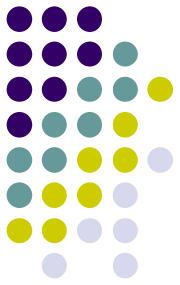


- [Insurance Ordinance, 2000](#)
- Covers all types of insurance business in Pakistan including takaful,
  
- [Insurance Rules, 2002](#)
- Deals with specific details like admissibility of assets, reinsurance, licensing documents etc, applicable to all insurers,
  
- [Takaful Rules,2005](#)
- Notified in 2005 under the Insurance Ordinance,2000 deals with specific additional requirements for takaful operators.
  
- [Circulars](#)
- Issued by SECP from time to time on various specific issues

# Compliance by Takaful Operators



- **A Takaful Operator has to comply with the Takaful Rules 2005 in addition to requirements of the Insurance Ordinance 2000 and the Insurance Rules 2002,**
- **In case Takaful Rules and Insurance Rules conflict - Takaful Rules prevail.**
- **In case Takaful Rules and the Insurance Ordinance conflict – Insurance Ordinance prevail.**



# **Major Regulatory Requirements for Takaful Business in Pakistan**



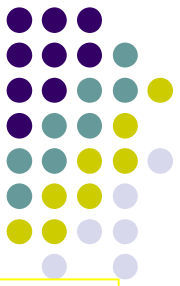
# Registration

- Registration under section 6 of the Insurance Ordinance is required to carry on Takaful Business,
- A person can be registered either as a Family Takaful Operator or General Takaful Operator. No person can be registered as a Composite Takaful Operator.
- Window Takaful Operations by existing Conventional Insurers are NOT ALLOWED,

# Shariah Board

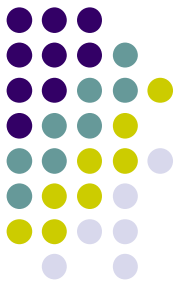


- **Takaful Operator shall appoint a Shariah Board,**
- **At least 3 members,**
- **Members must be high calibre scholars with knowledge of modern financial dealings,**
- **Responsible for approval of products, investment and operational practices,**
- **There is a provision of Central Shariah Board at SECP level which is in process**



# Minimum Paid up Capital

- For Family Takaful Operator:
- **Rs. 500 million**
  
- For General Takaful Operator:
- **Rs. 300 million**



# Minimum Solvency Margin

- **Admissible Assets less Liabilities,**
- **As per the Insurance Ordinance plus the condition that the securities must be approved by the Shariah Board,**
- **Solvency requirements being reviewed.**

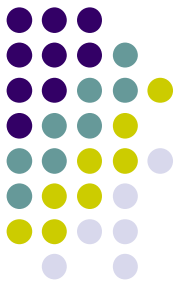


# Minimum Statutory Deposit



- Takaful Operators have to deposit and keep deposited with State Bank a minimum amount in cash or approved securities.
- Currently the minimum required statutory deposit is higher of Rs. 10 million or 10% of Paid-up-Capital,
- The securities for this purpose must be approved under the Insurance Ordinance and should be instruments of “approved Islamic Financial Institutions”.

# Operational Models



- The principal model for insurance risk management component shall be based on Wakala
- The principal model for investment components shall be based on “Modarba”,
- The Takaful product shall be based on the principal of Wakala or Modarba or both.

# ReTakaful/Reinsurance

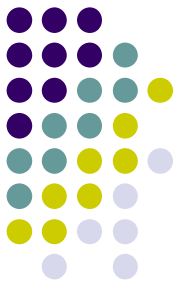


- **Should be as per the guidelines of Shariah Board of Takaful Operator,**
- **Should be adequate to ensure continuing compliance by Takaful Operator with the provisions of the Insurance Ordinance,**

# ReTakaful/Reinsurance (con'd)



- **In case Shariah Compliant Re-Takaful Operator does not provide sufficient re-takaful, takaful operator may be allowed to enter into contract with conventional reinsurance under advice of Shariah Board,**
- **Risk sharing among Takaful Operators within or outside Pakistan may be permitted by SECP,**



# Maintenance of Funds

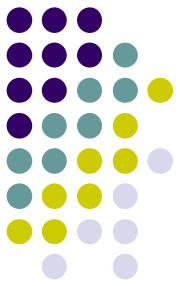
- **Each Takaful Operator shall maintain two funds:**
- **Shareholder Fund (SHF),**
- **Participants Takaful Fund (PTF)**

# Maintenance of Funds (cont'd)



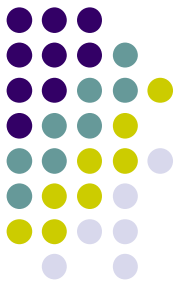
- Shareholder Fund (SHF):
- As per Insurance Ordinance and Rules,
- Under Guidelines of Shariah Board,
- Consists of Paid-up Capital and Undistributed Profit to Shareholders,

# Maintenance of Funds (cont'd)



- Participants Takaful Fund (PTF):
- To be established and maintained for each class of Takaful Business,
- A risk pool to which the participants' risk related contributions are paid and from which risk related benefits are paid out.

# Investment



- **Investments of the Funds must be Shariah Compliant under the advice of the Shariah Board,**

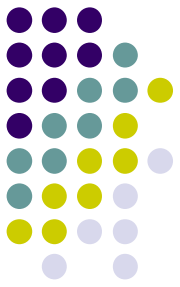


# Market Conduct



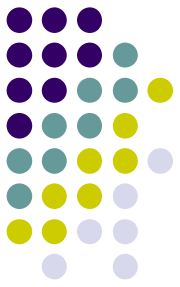
- **Participants should not be misled or deceived,**
- **Ambiguities in favor of participants,**
- **Agents' Training**
- **SECP may visit Takaful Operators to check compliance with Market Conduct Requirements**

# Additional Requirements for Family Takaful Operators

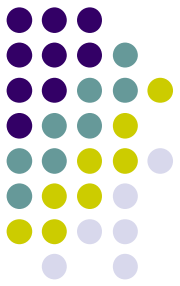


- Appointed Actuary
- **Certification of products as sound and workable,**
- **Financial Condition Report as part of Annual Returns,**
- **Any other duty prescribed by SECP.**

# Additional Requirements for Family Takaful Operators (cont'd)



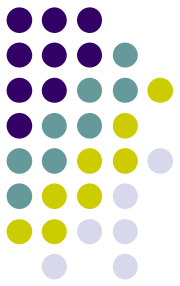
- Participants Investment Fund (PIF)
- Maintained to build up surrender value in saving type takaful products,
- A portion of each year's contribution is invested in this fund,
- Maintained in the form of units,
- Unit prices to be determined at least once every month.



# Key Issues

- **Human Resource,**
- **Shariah Issues,**
- **Limited Investment Avenues,**
- **Limited Re-takaful options,**

# Recent Developments



- **A comprehensive paper on issues in Takaful Regulation prepared by a joint working group of IFSB-IAIS (available on their websites) addressing the key issues like corporate governance, prudential regulations, suitability of persons from a regulator's viewpoint,**
- **Demand from conventional insurers to allow them to do takaful business through window operations,**
- **5 takaful applications in process,**
- **Realization to review Takaful Rules mainly to remove anomalies and address the needs of the market.**

---

**Thank You**

