



TAKAFUL OPERATIONAL FRAMEWORK

NICHOLAS ACTUARIAL SOLUTIONS

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This white paper introduces the Takaful Operational Framework issued by Bank Negara Malaysia on 26 June 2019 which aims to achieve operational efficiency of takaful business and sustainability of takaful funds, thereby safeguarding the best interest of the takaful participants. This is a succinct summary. We welcome discussions and collaborations.

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INTRODUCTION

Takaful operators (TO) currently acts as the manager and administrator of the takaful funds on behalf of the takaful participants, based on wakalah and mudharabah contracts, which operational requirements are outlined in this Takaful Operational Framework (TOF).

Bank Negara Malaysia strongly encourages the adoption of Shariah contracts beyond wakalah and mudarabah, for takaful, especially in light of the changing operating environment and advancements in technology. TO have the opportunity to pivot their takaful business model to respond to participants' needs and compete more effectively. The role of TO should not be limited to being the manager and administrator of takaful business.

This TOF focuses on minimum standards for existing contracts, but allows flexibility on the operational requirements for new Shariah contracts, reflecting the growing maturity of the takaful industry.

KEY CHANGES

The TOF shall be effective from 1 July 2020, the key changes are as follows:

1. **Opportunities.** TOs may apply new Shariah contracts and adopt new business models.
2. **Practical.** The new TOF requires a clear communication plan to ensure policies and procedures are executed by the personnel involved.
3. **Detailed.** Clear operational requirements for commonly used Shariah contracts, including minimum standards for legal documentation.
4. **Sub-fund management.** Clear standards on the creation, management, cross-subsidy and consolidation of sub-funds.
5. **Product design.** Clear standards on partial cash withdrawal such as sustainability tests, and guidance on cash payout benefit.
6. **PIF Seed.** TO may provide seed money for PIF, with clear standards on musyarakah, qard and wakalah requirements.
7. **Hibah.** A deficiency and loss rectification mechanism in addition to a contract for takaful product design.
8. **Overall status-quo.** Few changes to existing takaful business model.

KEY TAKEAWAY

As the existing takaful business model matures, it inadvertently attracts regulatory complexity, putting a ceiling to its potential. Thus the existing takaful business model alone is insufficient to bring the takaful industry to new heights.

The Takaful Operational Framework is a catalyst to spur growth through innovation. We will see significant innovation in the takaful industry, with a proliferation of new business models and new roles for takaful operators.

BACKGROUND

"Takaful Operational Framework" is our seventh issue of succinct white paper. Our objective of issuing succinct white papers is to enable our thought leadership to reach a wider audience, and make a larger positive impact. Our white papers are publicly available and we do not claim any proprietary intellectual property on the contents.

Takaful is a unique risk management solution. It has to be managed in accordance with Shariah principles, in the best interest of the takaful participants; and in a sound and prudent manner.

ABOUT US

Nicholas Actuarial Solutions is founded as a platform to collaborate with like-minded businesses and individuals to make a difference. Our interests are wide and varied, with our core focus being the actuarial field.

Our mission is to develop and implement novel and cutting edge solutions to make our clients more successful.

It is our vision to achieve global recognition of our thought leadership and innovative solutions in the actuarial field.

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