



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

INTERNATIONAL CONVENTION ON TAKAFUL AND RETAKAFUL

“Reshaping Takaful Landscape: Forging Global Excellence”

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“Shari’a Quality Rating: Independency from Conventional”

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Shari'a Quality Rating

The Takaful industry provides insurance service in legitimate cooperative manner free of '*Gharar*' (uncertainty) and '*Riba*' (interest). To evolve and grow the industry needs to be efficient. Efficient Takaful industry must be:

- a) Well managed, financially sound and strong**
- b) Fully Shari'a compliant**



We use different tools to assess –

- a) The Financial Strength**
- b) Shari'a compliance**

For Financial Strength Rating we consider –

- a) External Factors**
- b) Internal Factors**
 - i) Qualitative**
 - ii) Quantitative**



The External Factors include –

- Governments Economic Policies
- Country's legal system
- International relations
- Political stability, governance and transparency
- Standard of living and educational levels
- Economic growth and stability
- Integration with international markets
- Experience and effectiveness of regulatory bodies
- Accounting and Auditing standards
- Maturity of the industry



Internal Factors -

Qualitative:

- Business plan and strategy
- Targeted lines of business
- Distribution strategy
- Product and geographical diversification
- Market share and growth
- Investment strategies



Management -

- Track record in achieving targets
- Organizational culture and decision making
- Incentive and compensation plans, motivation
- Succession planning



Operational Control -

- Investment, underwriting and Accounting policies and procedures
- Audit control
- Valuation policy for establishing reserves
- Monitoring of catastrophic exposures
- Receivables and expense control



Re-insurance Programme -

- Financial capability and credit quality of re-insurers
- Concentration risk within the panel of re-insurers
- Amount ceded and reinsurance terms
- Ageing of re-insurance receivables



Balance Sheet Strength -

- Capital structure – equity & debt financing
- Regulatory capital, funding and solvency requirements
- Capital generation
- Investment strategy



Liquidity -

- Cash flows from operating activities
- Marketability of investments
- Gearing and borrowing ability



Asset quality -

- Diversification of Assets
- Impact on surplus in case of unexpected sale



Loss reserves adequacy -

- Historical accuracy
- In-line with premium growth
- In-line with premium volume



Profitability -

- Quality and sustainability of profit
- Sources of income-underwriting and investment
- Efficiency of administrative expenses
- Premium pricings



Shari'a Quality Assessment

Shari'a Committee (S.C)

- Composition and method of appointment
- Frequency of meeting, quality of deliberations
- S.C relations with management, importance given to S.C observations, recommendation
- Internal Shari'a control mechanism
- Training programme in Islamic Insurance
- Investment methods of Takaful funds
- Treatment of surplus
- How to deal with deficit



- Re-insurance arrangements
- Identity and corporate image
- Mechanism for dealing with Non-Shari'a compliant income, any other violations

