



Atatürk
University



2nd International Symposium on Insurance, Banking and Finance "Circular Economy, Sustainability and Financial Ecosystem"

21 - 23 December 2023 Erzurum / TÜRKİYE

Atatürk Üniversitesi - Nenehatun Kültür ve Gösteri Merkezi /
Atatürk University – Nenehatun Culture and Performance Center



*NEW APPROACHES TO THE ORGANIZATION OF
INSURANCE BUSINESS IN VIEW OF AAOIFI STANDARDS
AAOIFI STANDARTLARI AÇISINDAN
SİGORTA İŞİNİN ÖRGÜTLENME YAPISINDA YENİ YAKLAŞIMLAR*

21 – 12 - 2023

Prof.Dr. Necdet Şensoy

İstanbul Ticaret Üniversitesi (Istanbul Commerce University)

AAOIFI – Board of Trustees Member

OUTLINE OF THE PRESENTATION

- 1. The Premise which «Takaful» depends on*
- 2. A Brief Outlook to the Islamic Insurance (Takaful) Sector*
- 3. Organizational Structure of Islamic Insurance Business (Enterprise)*
- 4. A Brief Outlook to conventional Cooperative Insurance Business*
- 5. AAOIF and AAOIFI Standards on Takaful*
- 6. Review of the new Standards*
- 7. Conclusion*
- 8. References*

Attributes of PARTICIPATION (ISLAMIC) FINANCE

**1. *Lending transactions should not aim «return» (income)-
Partnership & Trade***

**2. *Risk transfer should not aim «return»
(income).***

Risk should be shared not to be transferred

- 1. Objectives of islamic law should be abided with*
- 2. The understanding of custody «amana» shuld be internalized. The universe is granted to the custody of human being*
- 3. Financing activity should not be disconnected from «production» (Real Sector)*

*INSTITUTIONS OF
Islamic Finance = Participation Finance*

- 1. Participation Banks*
- 2. Islamic Insurance Co.s = Takaful Companies =
Participation Insurance Companies**
- 3. Asset Management companies complying with islamic principles*
- 4. Pension Funds complying with islamic principles*
- 5. Waqfs**
- 6. Micro Finance Companies**

#IFDI2022

ICD – REFINITIV ISLAMIC FINANCE
DEVELOPMENT REPORT 2022

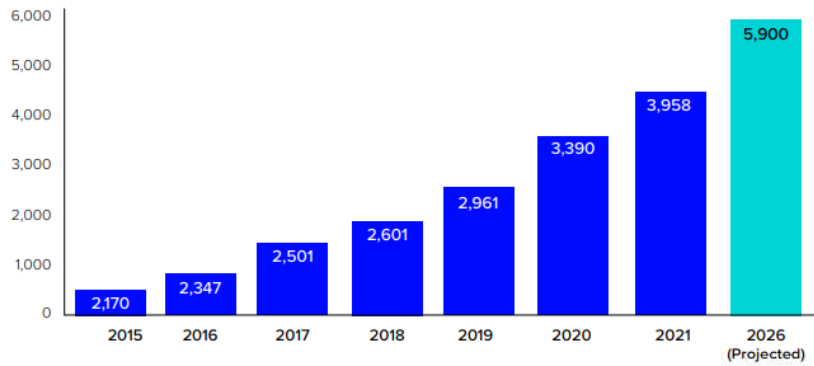


EMBRACING CHANGE

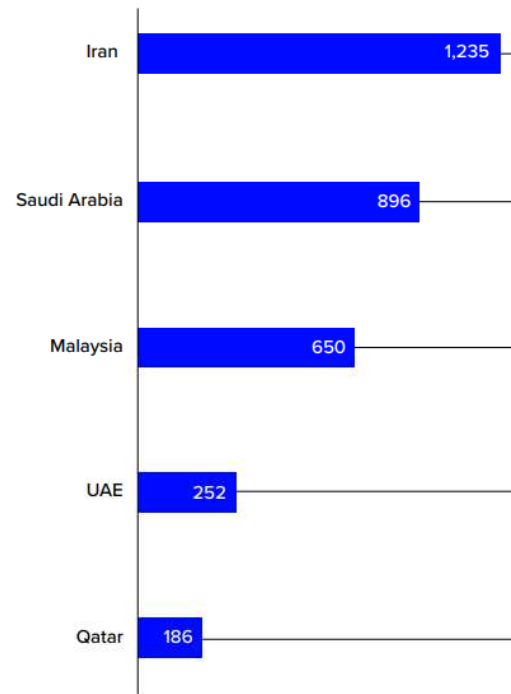


Islamic Finance Landscape in 2021

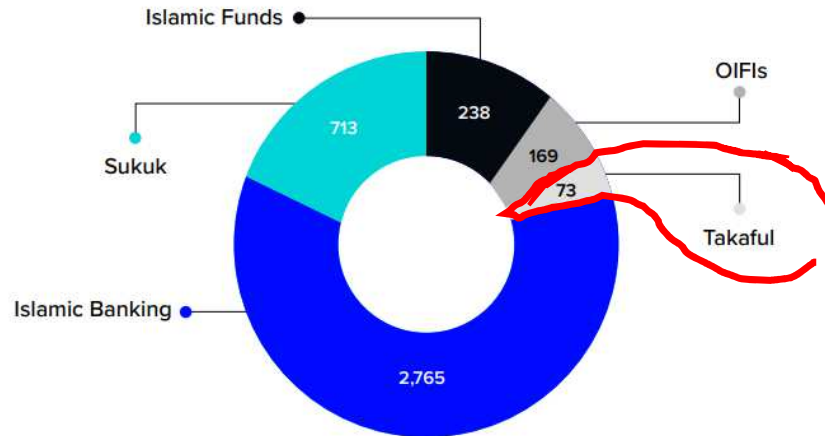
Islamic Finance Assets Growth (2015 - 2021, US\$ Billion)



Top Countries by Islamic Finance Assets (2021, US\$ Billion)



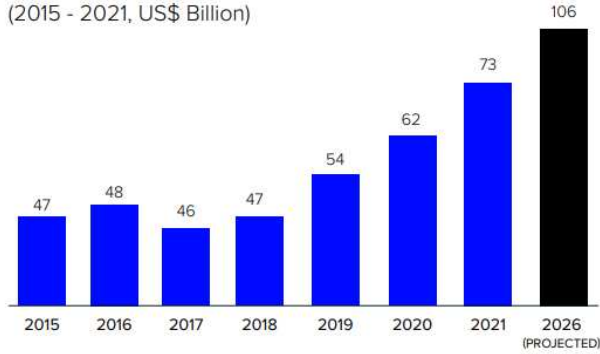
Islamic Finance Assets (2021, US\$ Billion)



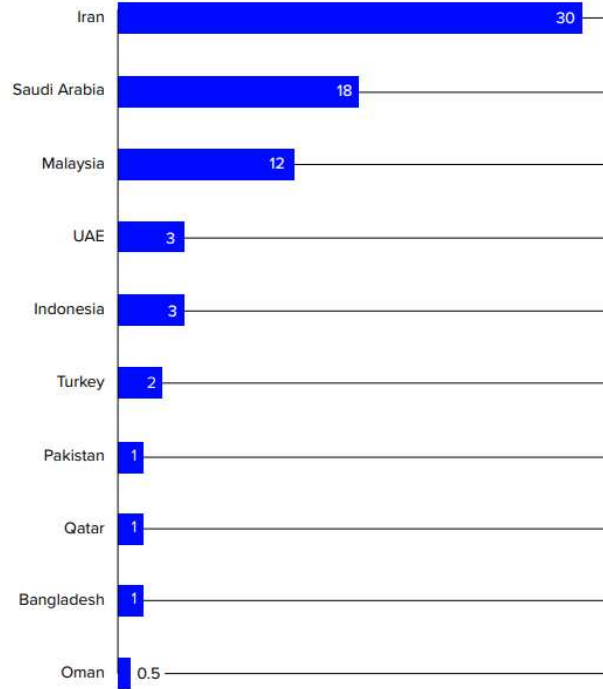
Takaful



Takaful Assets Growth
(2015 - 2021, US\$ Billion)



Top Countries by Takaful Assets
(2021, US\$ Billion)



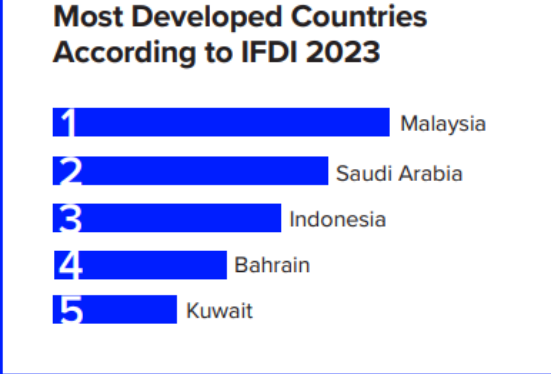
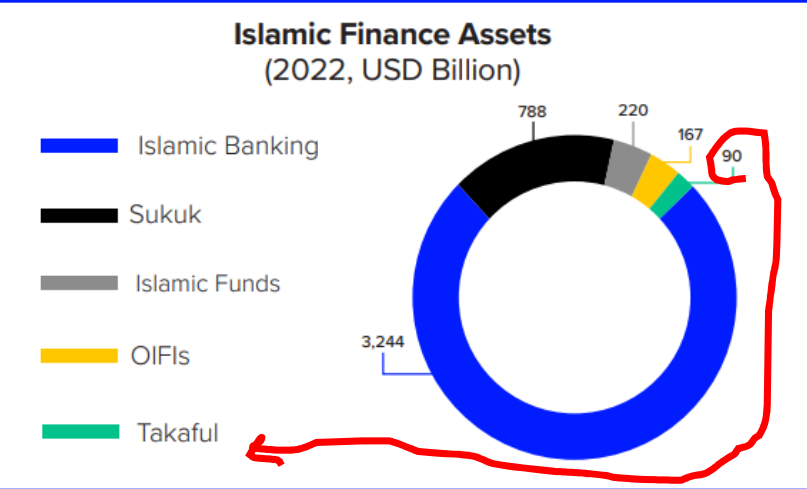
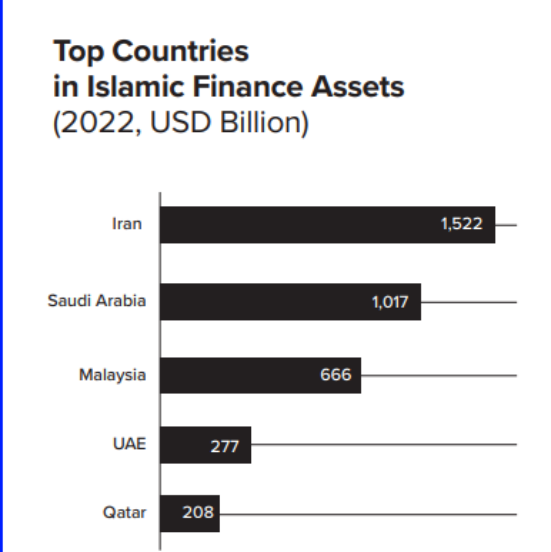
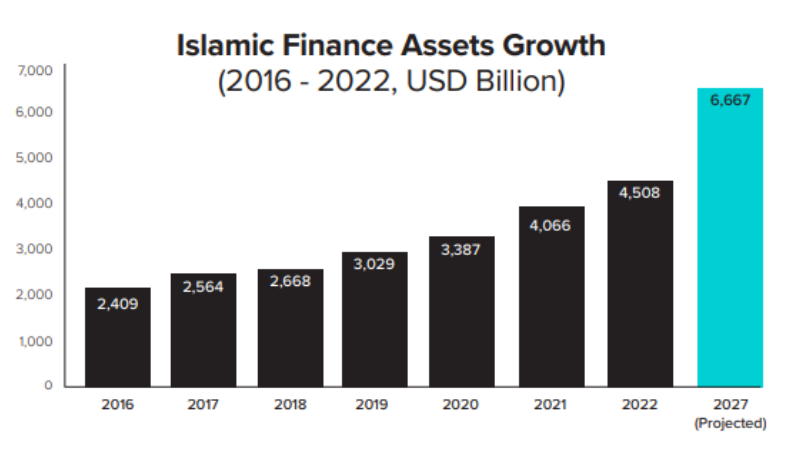
#IFDI2023

ICD - LSEG ISLAMIC FINANCE
DEVELOPMENT REPORT 2023

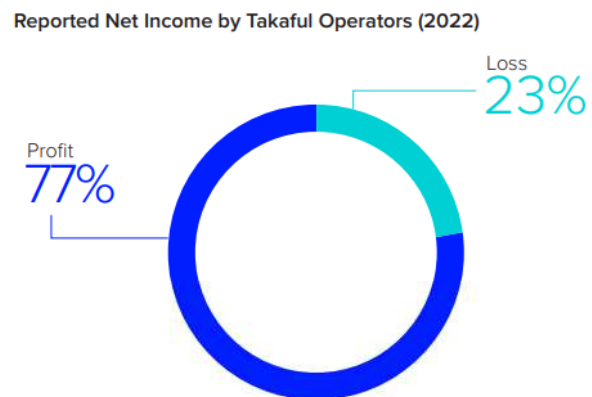
NAVIGATING UNCERTAINTY



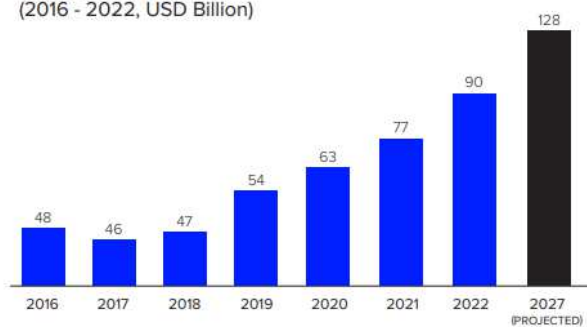
LSEG DATA &
ANALYTICS



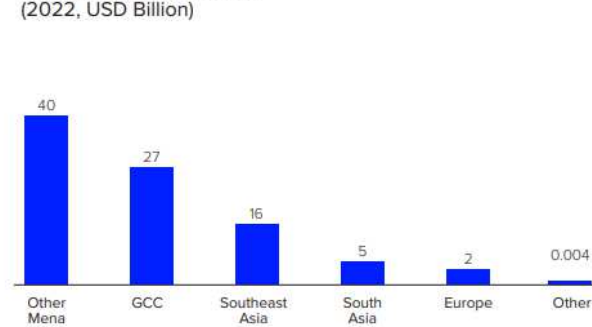
Takaful



Takaful Assets Growth (2016 - 2022, USD Billion)

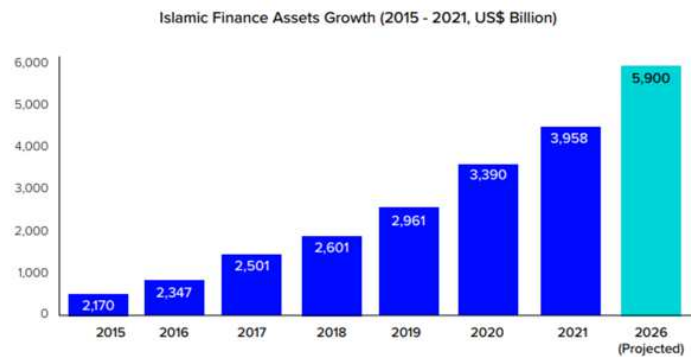


Takaful Assets by Region (2022, USD Billion)

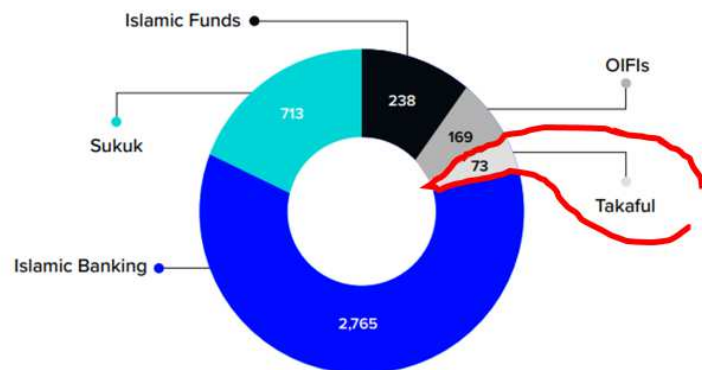


Comparison of the Islamic Finance Landscape 2022-2021

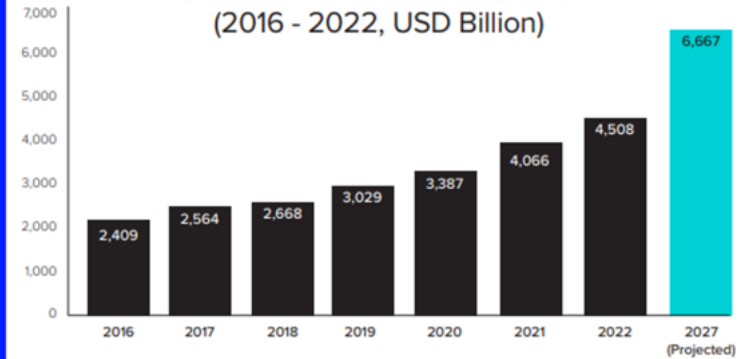
Islamic Finance Landscape in 2021



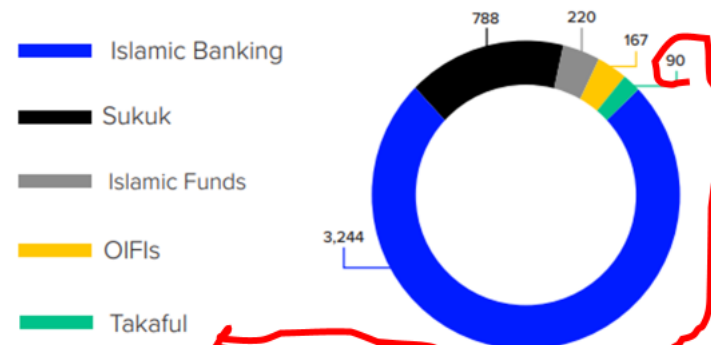
Islamic Finance Assets (2021, US\$ Billion)



Islamic Finance Assets Growth (2016 - 2022, USD Billion)



Islamic Finance Assets (2022, USD Billion)

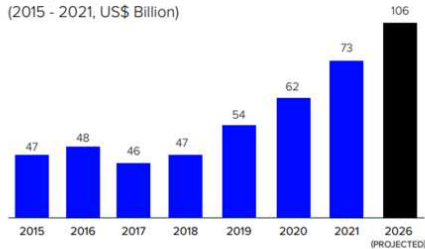


Comparison of Takaful Assets 2022 - 2021

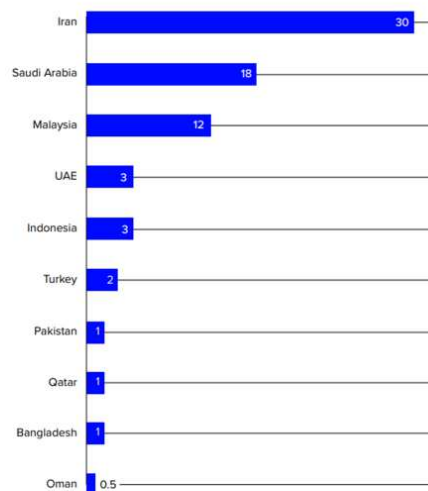
Takaful



Takaful Assets Growth (2015 - 2021, US\$ Billion)



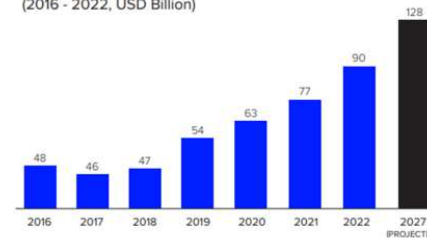
Top Countries by Takaful Assets (2021, US\$ Billion)



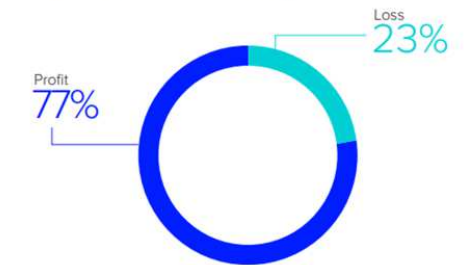
Takaful



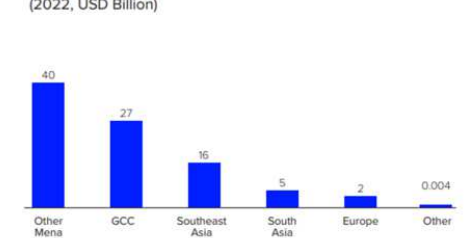
Takaful Assets Growth (2016 - 2022, USD Billion)



Reported Net Income by Takaful Operators (2022)



Takaful Assets by Region (2022, USD Billion)



Total assets of insurance companies worldwide from 2002 to 2021 (in trillion U.S. dollars)

Characteristic	Assets in trillion U.S. dollars
2021	40.61
2020	38.79
2019	36.38
2018	32.93

9 satır daha • 12 Oca 2023



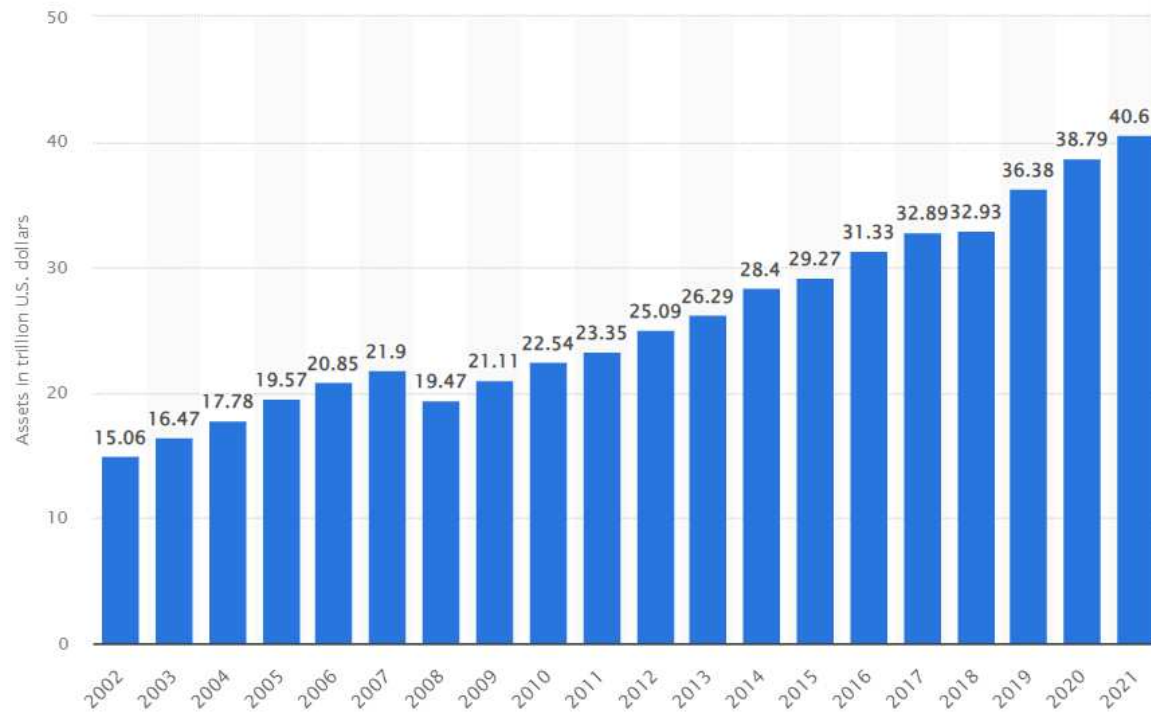
Statista

<https://www.statista.com> › ... › Insurance



Total assets of insurance companies worldwide from 2002 to 2021

(in trillion U.S. dollars)



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Region

Worldwi

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Islands,

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Market Shares

Share of Takaful in Total Islamic Finance Assets

Year 2022 :

$$90 / 4,508 = 2 \%$$

Year 2021 :

$$73 / 3,958 = 1.8 \%$$

Share of Total Islamic Finance Assets in Global Total Assets of Insurance Co.s

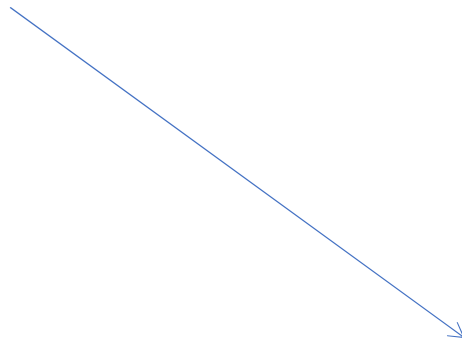
Year 2021 :

$$4 / 40 = 10 \%$$

Share of Takaful in Global Total Assets of Insurance Co.s

Year 2022 :

$$90 / 40,000 = 0.00225 \text{ (less than 1\%)}$$



How should a «Takaful» Business organize?

When we prefer «SHARING» instead of «TRANSFERRING» :

- 1. Segregation of Participants' Fund with an **insurance company** is required*
- 2. Ownership of the Contributions from Participants (**the premium is not preferred**) should remain with them*

HOW THE PARTICIPANTS' FUND (Takaful Fund) will be managed

MODEL 1

- *Self management by the participants by organizing themselves*
- *A cooperative which will be founded by the participants will make this function*

«MUTUALITY»

MODEL 2

- *Delegating the management of the fund and realizing insurance services to another business entity*

Self management by the participants by organizing themselves

- ***A cooperative which will be founded by the participants makes this function.***

MUTUAL & COOPERATIVE INSURANCE IS AVAILABLE IN THE CONVENTIONAL FINANCE WORLD

icmif International Cooperative and Mutual Insurance Federation

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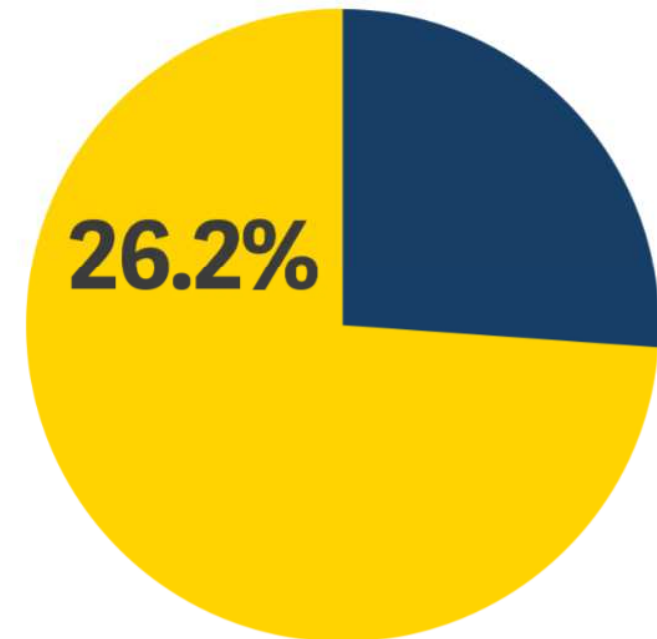
Global Mutual Market Share
2023

- [Download report](#)
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- [Télécharger le rapport](#)
- [レポートをダウンロードする](#)

Global Mutual Market Share is ICMIF's annual statistical report on the size and financial performance of the global mutual and cooperative insurance sector. The report includes a detailed analysis of the premium income, assets, investments, number of employees and number of members/policyholders of over 4,400 mutual and cooperative insurance companies in 79 countries.

This latest research shows that in the 14-year period since the onset of the financial crisis (2007 to 2021), premium income of the global mutual and cooperative insurance sector grew by a total of 46% compared to 37% growth of the total global insurance industry. As a result, the global market share of mutual and cooperative insurers rose from 24.5% in 2007 to 26.2% in 2021.

Global mutual market share in 2021



Model 2 :Takaful Business by an Operator

If the «management of the fund»and «realizing insurance sevices (=underwriting)» functions are delegated to another business entity :

There are alternative relationships to be set up between the Fund Owners and the Operator Co. :

- 1. Operator can be wakeel (agent) of the fund owners*
- 2. A mudaraba partnership can be founded*
- 3. A hybrid set up*
- 4. Through a Waqaf organisation*

The Relationship between Takaful Fund (Asset Pool) and Equity of the Operator Co.

Islamic Insurance Company

(The Operator)

- **It is necessary to separate the Fund assets/equities and Assets/Equity of the Operator Company since the fund is embedded in the Islamic Insurance Co. by FAS 12**
- **«Katılımcıların Fonu» ile «Paysahiplerinin Özkaynağı» kesin bir şekilde hesaplarda ayrı tutulmalıdır**

THE FUND

- **The Fund owners (Participants of the Takaful) should have a separate accounting ENTITY**
- **Fon sahipleri Operatör Şirketten ayrı bir hesapsal kişilik oluştururlar**

CONTEXT OF THE RELATIONSHIP BETWEEN THE FUND AND THE OPERATOR COMPANY

THE TAKAFUL FUND

- **A Separate «AccountingEntity» owned by the participants.**

Comprises

Participation Fees (Tabarru)

- **This Fund will be used to cover the CLAIMS of the Participants who incur loss**

THE OPERATOR COMPANY

- **A Separate legal entity owned by the shareholders of the Operator Company as a «Joint Stock Co.»**

- **Undertakes ;**

A - To manage the Fund

B - To run the underwriting transactions as ;

1. **Collecting the Fees**
2. **Payment of Compensations to the participants whose insured asset is damaged**

1. RELATIONSHIP BETWEEN THE FUND AND THE OPERATOR COMPANY AS AGENT (=WAKIL)

THE TAKAFUL FUND

- A Seperate «Accounting Entity owned by the participants by Participation Fees (Tabarru)

• ACTS AS A
«PRINCIPAL»

**IN AGENCY (= WAKALA) CONTRACT
FOR BOTH ACTIVITIES**

THE OPERATOR COMPANY

- A Seperate entity owned by the shareholders of the Operator Company as a «Joint Stock Co.»

- Undertakes **THE FOLLOWING AS AN AGENT (=WAKIL) ;**

A - To manage the Fund

B - To run the underwriting transactions as

1. Collecting the Fees

2. Payment of Compensations to the participants whose insured asset is damaged

**RELATIONSHIP BETWEEN
THE FUND AND THE OPERATOR COMPANY
IF THE OPERATOR COMPANY UNDERTAKES TO MAKE THOSE TWO ACTIVITIES AS A
MUDAREB (Entrepreneur in a Mudaraba Partnership Contract)**

THE TAKAFUL FUND

- **A Separate «Accounting Entity» owned by the participants by Participation Fees (Tabarru)**

- **This Fund IS THE CAPITAL OWNER,
THE OPERATOR COMPANY *Manages the FUND as mudarib***

The Profit is shared

NOT SO PRACTICAL since the Operator Company renders a SERVICE

THE OPERATOR COMPANY

- **A Separate entity owned by the shareholders of the Operator Company as a «Joint Stock Co.»**
 - **Undertakes the following as MUDARIB (= Entrepreneur);**



A - To manage the Fund

← B - To run the underwriting SERVICES for transactions as

1. **Collecting the Fees**
2. **Payment of Compensations to the participants whose insured asset is damaged**

3. HYBRID model

Wakālah + Mudarabah Method

*Under this model,
the Wakālah contract is adopted for underwriting activities,
while the Mudarabah contract is employed for the investment
activities.*

The Operator Company acts as either «Mudareb» or «Agent»

Mudareb

- *Fits more to managing the Funds (Investment Activities)*
- *Also Possible for underwriting according to IFSB 8*

Agent

- *Fits more to underwriting activities*
- *Also Possible for managing the Funds according to IFSB 8*

RELATIONSHIP BETWEEN THE FUND AND THE OPERATOR COMPANY IN HYBRID MODEL

THE TAKAFUL FUND

- A Separate Entity owned by the participants by Participation Fees (Tabarru)

THE OPERATOR COMPANY

- A Separate entity owned by the shareholders of the Operator Company as a «Joint Stock Co.»
- Undertakes ;

THE Fund ACTS AS CAPITAL OWNER
IN CONTEXT OF MUDARABA CONTRACT

The Operator Company Manages the FUND as mudareb
The Profit is shared



A - To manage the Fund as MUDAREB ;

PRINCIPAL FOR UNDERWRITING

Pays some fees for the Service of the Operator Company



B - To run the underwriting transactions as an Agent

1. Collecting the Fees
2. Payment of Compensations to the participants whose insured asset is damaged

STANDARD SETTING ORGANIZATIONS FOR AUDITING & FINANCIAL REPORTING

CONVENTIONAL

- **IASB** *International Accounting Standards Board*
- **IAASB** *International Auditing and Assurance Standards Board*

ISLAMIC

- **AAOIFI** *Accounting and Auditing Organization for Islamic Financial Institutions*

STANDARDS BY AAOIFI

**«Accounting and Auditing Organization
for Islamic Financial Institutions» issues Standards on 5 areas :**

1. Standards on Islamic Law (Sharia Standards)

2. Accounting Standards

3. Auditing Standards

4. Governance Standards

5. Ethics Standards

AAOIFI Standards Relevant to Islamic Insurance

Accounting

(is effective until 01 January 2025)

- **FAS 12.** *General Presentation & Disclosure in the Financial Statements*
- **FAS 13.** *Disclosure of Bases for Determining & Allocating Surplus and Deficit*
- **FAS 15.** *Provisions & Reserves*
- **FAS 19.** *Contributions*

LAW STANDARDS

- **SS 26.** **ISLAMIC INSURANCE**
- **SS 41.** **ISLAMIC REINSURANCE**

AAOIFI-FAS 12

2/1 The complete set of financial statements

The complete set of financial statements that should be prepared by the company should consist of the following:

a) A statement of financial position (the balance sheet).

b) A statement of policyholders' revenues and expenses. 

c) An income statement.

d) A statement of cash flows.

e) A statement of changes in owners' equity (the shareholders).

f) A statement of policyholders' surplus (or deficit). 

g) A statement of sources and uses of funds in the Zakah and charity fund.

h) Notes to the financial statements.

i) Any statements, reports and other data which assist in providing information required by users of financial statements if required by the profession provided they do not contradict Shari'a rules and principles. (para. 2)

FAS 12

Prg.4. Presentation and Disclosure in Each Statement

4/1 Statement of financial position

***The statement of financial position should include the company's assets, its liabilities, owners' equity and policyholders' equity. (para. 34)**

***Significant items of assets, liabilities, policyholders' equity or owners' equity should not be combined on the face of the statement of financial position without disclosure. (para. 36)**

AAOIFI- FAS 12 Prg. 4 / 1 Disclosure should be made on the face of the statement of financial position of the following assets with separate disclosures in the notes to the financial statements of assets jointly financed by the owners' equity and policyholders' equity and those exclusively financed by each of them wherever possible:

a) Cash and cash equivalents.

b) Contributions receivable.

c) Reinsurance receivables.

d) Deferred sales receivables.

■ *Murabaha.*

■ *Salam (goods sold using Salam contract).*

■ *Istisna'a.*

e) Investment securities.

f) Mudaraba financing.

g) Musharaka financing.

h) Investments in other entities' capital.

i) Investment in real estate.

j) Assets acquired for leasing.

k) Fixed assets, with disclosure of significant types and related accumulated depreciation.

(l) Other assets, with disclosure of significant types. (para. 39)

AAOIFI- FAS 12 Prg. 4 / 1

Disclosure should be made on the face of the financial statements or on the notes to the financial statements of the following liabilities:

- a) *Unearned contributions.*
- b) *Outstanding claims.*
- c) *Claims incurred but not reported.*
- d) *Other provisions.*
- e) *Reinsurers and other parties share of outstanding claims.*
- f) *Reinsurance credit balances:*
 - *Insurance cash balances.*
 - *Retained unearned contributions/premium.*
 - *Retained outstanding claims.*
- g) *Declared but undistributed profits attributable to owners' equity.*
- h) *Zakah and taxes payable.*
- i) *Other liabilities. (para. 40)*

FAS 12

Prg.4/2 Statement of policyholders' revenues and expenses

The financial period covered by the statement of policyholders' revenues and expenses should be disclosed. (para. 44)

To the extent applicable the following information should be disclosed on the face of the statement of policyholders' revenue and expenses, or on the notes to the financial statements:

a) Gross contributions.

b) Reinsurance share of contributions.

c) Changes in unearned contributions.

d) Earned contributions for the financial period.

e) Commission earned from reinsurance for the financial period.

f) Reinsurance profit sharing commission of the previous financial periods.

g) Gross claims paid.

h) Reinsurance share of gross claims paid.

i) Other parties share of gross claims paid.

j) Insurance business acquisition cost.

k) Changes in outstanding claims.

l) Changes in reinsurance share of outstanding claims.

m) Provisions for outstanding court cases or any other matters.

n) Any other expenses.

o) Investment income.

p) Remuneration of the party managing insurance operations.

q) Remuneration of the party managing policyholders' funds and owners' equity funds.


r) Surplus or deficit resulting from technical operations. (para. 45)

4/6 Statement of the policyholders' surplus (or deficit)

The period covered by the statement of policyholders' surplus (or deficit) should be disclosed. (para. 61)

*Disclosure should be made in the face of the statement of **policyholders' surplus (or deficit)** of the following:*

- a) Surplus or deficit balance at the beginning of the period.*
- b) Surplus or deficit for the period.*
- c) Gross surplus or deficit.*
- d) Distributions to policyholders during the period.*
- e) Balance of surplus or deficit at the end of the financial period. (para. 62)*



AAOIFI Financial Accounting Standard 42
Presentation and Disclosures in the Financial Statements of Takaful
Institutions

Effective date

13. This standard shall be effective on the annual financial statements of the Takaful institutions beginning on or after 01 January 2025. Early adoption of the standard is permitted if adopted alongside FAS 43 "Accounting for Takaful: Recognition and Measurement", provided that FAS 1 "General Presentation and Disclosures in the Financial Statements" has already been adopted or is simultaneously adopted.

Transitional provisions

14. The application of this standard, per se, may not require significant change in any accounting policy. However, the adoption of this standard, along with the FAS 1 "General Presentation and Disclosures in the Financial Statements", FAS 43 "Accounting for Takaful: Recognition and Measurement", and the necessary references to other AAOIFI FASs may require significant changes in accounting policies. The respective transitional provisions, if any, as prescribed by relevant AAOIFI FASs, shall apply to a Takaful institution while adopting this standard for the first time.

Amendments to other standards

15. This standard supersedes the earlier FAS 12 "General Presentation and Disclosures in the Financial Statements of Islamic Insurance Companies".

1

AAOIFI Financial Accounting Standard 43
Accounting for Takaful: Recognition and Measurement

Effective date

134. This standard shall be effective on the financial statements of the Takaful institution for the annual financial reporting period beginning on or after 01 January 2025. Early adoption of the standard is permitted if adopted alongside FAS 42 "Presentation and Disclosure in the Financial Statements of Takaful Institutions".

Amendments to other standards

136. This standard supersedes the following standards:
- a. FAS 13 "Disclosure of Bases for Determining and Allocation Surplus or Deficit in Islamic Insurance Companies";
 - b. FAS 15 "Provisions and Reserves in Islamic Insurance Companies"; and
 - c. FAS 19 "Contributions in Islamic Insurance Companies".

FAS 42 IN6

IN6 This standard (FAS 42 “Presentation and Disclosures in the Financial Statements of Takaful Institutions”) brings significant changes from its predecessor standard (FAS 12 “General Presentation and Disclosures in the Financial Statements of Islamic Insurance Companies”), inter alia, in the following aspects:

a. it is aligned with the AAOIFI Conceptual Framework for Financial Reporting (Revised 2020)

Financial Accounting Standard No. (1)

General Presentation and Disclosure
in the Financial Statements of Islamic
Banks and Financial Institutions



AAOIFI Conceptual Framework for Financial Reporting
(Revised 2020)

g. the standard has been aligned with the requirements of FAS 1 “General Presentation and Disclosures in the Financial Statements”.

FAS 42 Appendix B: Minimum components of the financial statements of a Takaful institution

Application and scope B1 :

The requirements of this appendix shall apply to a Takaful institution for the purpose of preparation of its financial statements, in addition to the relevant requirements of FAS 1 “General Presentation and Disclosures in the Financial Statements” which covers “Requirements applicable on all institutions”.

FAS 1 “General Presentation and Disclosures in the Financial Statements”

2. General Provisions

2/1 The complete set of financial statements

The complete set of financial statements that should be published by Islamic banks should consist of the following:

- a) A statement of financial position (balance sheet);
- b) An income statement;
- c) A statement of cash flows;
- d) A statement of changes in owners' equity or a statement of retained earnings;
- e) A statement of changes in restricted investment;
- f) A statement of sources and uses of funds in the Zakah and charity fund (when the bank assumes the responsibility for the collection and distribution of Zakah);
- g) A statement of sources and uses of funds in the Qard fund,
- h) Notes to the financial statements; and
- i) Any statements, reports and other data which assist in providing information required by users of financial statements as specified in the Conceptual Framework for Financial Reporting by Islamic Financial Institutions. (para. 2)

AAOIFI Financial Accounting Standard 42

**Presentation and Disclosures in the Financial Statements of Takaful
Institutions**

BUSINESS MODEL OF TAKAFUL BUSINESS



Contractual Relationships Between Parties



Rights and Obligations of different stakeholders



*FAITHFULLY PRESENT INFORMATION RELATED TO ARRANGEMENTS
RELEVANT TO THE STAKEHOLDERS*

Change in the structure of the Takaful Business Actors by FAS 42

FAS 12

Actors :

*Islamic Insurance Company
(implicitly it is Operator Company)*

Policyholders

*The Fund is Embedded in the
Operator Co.*

FAS 42

Actors :

Takaful Institution

Takaful Operator

Participants' Investment Fund

Participants' Takaful Fund

Terminology in FAS 42

Previously

1. Takaful or Islamic Insurance used interchangeably (BC7)

2. Premium (BC 7)

3. Participant or Policyholder used interchangeably (BC16)

New by FAS 42

1. Takaful Institution (BC 7)

2. Contributions from Participants (BC 7)

3. Participant (BC 16)

- *Necessity of segregation is organized differently*

Reporting Entity in FAS 12: *Islamic Insurance Company*

«Investments item» on the Balance Sheet of the Insurance Co. Comprises both «Policyholders' Investment» and «Owners' Equity investment» which the breakdown is given among footnotes

Policyholders' equity is included in the Statement of Financial Position of the Insurance Co. among the sources, Owners' Equity of the Insurance Company and Policyholders' equity are separately disclosed.

*Additional Financial Statements are required, titled :
«Statement of Policyholders' Revenues and Expenses» &
«Statement of Policyholders' surplus (or deficit)»*

Introduction of new definitions by FAS 42

For TAKAFUL

For TAKAFUL INSTITUTION

For TAKAFUL OPERATOR

For PARTICIPANTS' INVESTMENT FUND – PIF

For PARTICIPANTS' TAKAFUL FUND - PTF

Necessity of segregation is organized differently

Reporting Entity in FAS 42:

Takaful Institution

FAS 43 Part A: Structure of Takaful

5. A Takaful institution has a unique structure and **includes a Takaful operator, a participants' Takaful fund, and at times (particularly in the case of a family Takaful institution), a participants' investment fund.**

Takaful operator

6. The Takaful operator **manages Takaful operations** based on a remunerated Wakala (agency) contract. The Takaful operator may also assume the responsibility of investing the assets of the participants' Takaful fund (PTF) and participants' investment fund (PIF) through Mudaraba or an investment agency (Al-Wakala Bi Al-Istithmar).

9. Takaful operator, PTF and PIF are **distinct reporting entities**, although in most cases, the PTF and / or PIF are virtual entities.

FAS 42 - BC11 The PTF may be considered to be a **virtual entity**, like a virtual waqf entity or virtual sukuk entity

TAKAFUL INSTITUTION

an entity possessing the LICENCE OF PRACTICING takaful-FAS 42 6h

TAKAFUL OPERATOR

FAS 42 6 i. *Takaful operator* – in the specific context of this standard, represents the function of the Takaful institution whereby it manages the PTF and the PIF, and from an accounting perspective, represents the residual part of the Takaful institution duly owned by and representing the equity, rights and obligations of the shareholders (or the principal owners) of the Takaful institution, **excluding the PTF and PIF.**

OFF BALANCE SHEET DISCLOSURE

OF THE TAKAFUL INSTITUTION

FAS 42 IN 6 c. *the PTF and PIF are considered to be off-balance-sheet assets under management, therefore, separate from the Takaful operator;*

TAKAFUL INSTITUTION defined in FAS 42

FAS 42 6h. *Takaful institution – is an entity possessing the license of practicing Takaful (at times referred to as Islamic insurance) business in line with the requirements of Shari’ah principles and rules.*

The institution undertakes its operation based on a remunerated Wakala (agency) contract.

In addition to managing the Takaful operations, the institution also assumes the responsibility of investing the assets of the fund through Mudaraba or investment agency

***The notion “Takaful institution”,
unless the context suggests otherwise,
includes the Takaful operator and the participants’ funds***

TAKAFUL OPERATOR defined in FAS 42

FAS 42 6i. Takaful operator – *in the specific context of this standard, represents the function of the Takaful institution*

*whereby it manages the PTF and the PIF, and
from an accounting perspective,*

represents the residual part of the Takaful institution

*duly owned by and representing the equity, rights and obligations of
the shareholders (or the principal owners) of the Takaful institution,*

excluding the PTF and PIF.

Change

While FAS 12 keeps the PARTICIPANTS' FUND* inside the Islamic Insurance Company

FAS 42 creates a new entity called, « TAKAFUL INSTITUTION» comprising both the Operator and the Fund/s

**** participants' fund is not defined, instead there is a separate item among the sources of the Insurance Company as «Policyholders' Equity» and Investments of the Insurance Co. includes Policyholders' investment***

STRICT DISTINCTION IS NEEDED

TAKAFUL OPERATOR

*PARTICIPANTS' TAKAFUL
FUND*

PTF

*PARTICIPANTS' INVESTMENT
FUND*

PIF

FAS 42 Prg.IN6 c: The PTF and PIF are considered to be
«OFF BALANCE SHEET ASSETS UNDER MANAGEMENT»

FAS 12

On the Balance Sheet of Operator Company as «Policyholders' Equity».

Neither PTF nor PIF is defined

FAS 42

Off Balance Sheet

Required 2 new Statements as :

1. Statement for the Managed PTF

includes

Separate Statements for Financial Position and

Financial Activities of the Managed PTF

2. Statement for the Managed PIF

The complete set of financial statements

FAS 42 highlights the reporting entity as «Takaful Institution»

FA 12 Prg. 2/1 The complete set of financial statements

- a) *A statement of financial position (the balance sheet)*
- b) *A statement of policyholders' revenues and expenses*
- c) *An income statement*
- d) *A statement of cash flows*
- e) *A statement of changes in owners' equity (the shareholders)*
- f) *A statement of policyholders' surplus (or deficit).*
- g) *A statement of sources and uses of funds in the Zakah and charity)*
- h) *Notes to the financial statements*
- i) *Any statements, reports and other data which assist in providing information required by users of financial statements if required by the profession provided they do not contradict Shari'a rules y the profession provided they do not contradict Shari'a rules and principles.*

FAS 42- Prg.8. A complete set of financial statements of a Takaful institution shall comprise the following:

- a. *Statement of financial position of the Takaful institution as at the end of the financial reporting period;*
- b. *Statement of income and other comprehensive income of the Takaful institution for the financial reporting period;*
- c. *Statement of changes in owners' equity of the Takaful institution for the financial reporting period;*
- d. *Statement of cash flows of the Takaful institution for the financial reporting period;*
- e. *Statement of financial position of the managed PTF, separately for the general and family Takaful operations, as at the end of the financial reporting period;*
- f. *Statement of financial activities of the managed PTF, separately for the general and family Takaful operations, for the financial reporting period;*
- g. *Statement of managed PIF for the financial reporting period;*
and
- h. *Notes, comprising significant accounting policies and other explanations*

Presentation and disclosures in the financial statements

*Main Reporting entity is **Takaful institution***

FAS 42 .9. *Financial statements shall present fairly the financial position, financial performance, financial activities and cash flows of the Takaful institution, including the Takaful operator and the managed funds.*

FAS 42.8. A complete set of financial statements of a *Takaful institution* shall comprise the following:

- a. statement of financial position *of the Takaful institution* as at the end of the financial reporting period;
- b. Statement of income and other comprehensive income *of the Takaful institution* for the financial reporting period;
- c. Statement of changes in owners' equity *of the Takaful institution* for the financial reporting period;
- d. Statement of cash flows *of the Takaful institution* for the financial reporting period;

For the sake of **STRICT DISTINCTION**

FAS 42.10. :

*The assets, liabilities and owners' equity,
as well as, income and expenses, gains and losses
of the Takaful institution (in its capacity as Takaful operator)
shall be presented separately
from the assets, liabilities and surplus / deficit, and
related income and expenses,
gains and losses of the managed PTF or the managed PIF.*

For the sake of **STRICT DISTINCTION**

Accounting policies and estimates

12. In addition to the accounting policies required to be disclosed according to “Part 1: Applicable on all institutions” of FAS 1 “General Presentation and Disclosures in the Financial Statements”,

a Takaful institution shall also disclose the significant accounting policies including those pertaining to the managed PTF and the managed PIF, inter-alia, with regard to:

FAS 42.12.a. segregating, recording and reporting the assets pertaining to the managed PTF, as well as, the managed PIF, separately from the Takaful operators’ funds;

FAS 42.12.e. accounting for transfers between funds and / or Takaful operator and derecognitions;

FAS 42 IN6 d. *Statements for the managed PTF and the managed PIF have been introduced, some of which were not part of the earlier FAS, including separate statements for the financial position and financial activities of the managed PTF*

Participants' Takaful Fund PTF

FAS 42 6 c. *PTF) is the fund created by (or on behalf of) the participants with the objective to share risk and whose management has been undertaken by the Takaful institution. The fund is entitled to the contributions and returns (if any), subject to direct expenses, provisions and reserves related to the Takaful operations and the surplus (or deficit) arising thereon.*

FAS 8 e: Statement of Financial Position of the managed PTF as at the end of the financial reporting period

FAS 8 f : Statement of Financial Activities of the Managed PTF for the financial reporting period

Participants' Investment Fund PIF

FAS 42 6 b. *PIF is the fund managed by the Takaful institution on behalf of participants, collectively, with the objective of making investments and earning returns thereon, based on Mudaraba or Al-Wakala Bi Al-Istithmar (investment agency).*

FAS 8 g. statement of managed PIF for the financial reporting period;

*Statement of financial position of the managed PTF,
separately for the general and family Takaful operations,
as at the end of the financial reporting period*

General considerations

*FAS 42.B23 :The following matters shall be considered while preparing
the statement of financial position of managed PTF:*

- a. the statement of financial position of the managed PTF shall include
the PTF's assets,
PTFs' liabilities and
the PTF's net assets;*

*Statement of financial activities of the managed PTF,
separately for the general and family Takaful operations,
for the financial reporting period*

FAS 42.B28, the following information along with appropriate details shall be disclosed on the face of the statement of financial activities of the managed PTF, or in notes to the financial statements:

- a. recognised Takaful contributions (separately disclosing gross contributions received or receivable);*
- b. recognised Takaful costs (disclosing Wakala fee, benefits paid or payable and other costs etc.);*
- c. re-Takaful net result (gain or loss) (disclosing contributions, benefits and commission etc.);*
- d. Takaful gross margin ((a)-(b)-(c));***
- e. income from investments, differentiating between:*
 - i. income from Sukuk;*
 - ii. income from placements with Islamic banks and other financial institutions;*
 - iii. investments in shares and other securities;*
- iv. fair value gains and losses on investments;*

Statement of managed PIF for the financial reporting period

FAS 42.B34 :*The statement shall segregate **managed assets by source** (e.g., those from managed investment accounts or investment units in managed investment portfolios).*

In addition, *the statement shall segregate investment portfolios by type.*

FAS 42.B38 :*Notes to the statement of managed PIF shall include the following:*

- a. *the nature of the relationship between the Takaful operator and owners of the investments either as Mudarib or as investment agent along with significant terms and conditions of such arrangement; and*
- b. *b. the rights and obligations associated with each type of investment account or investment unit.*

AAOIFI Conceptual Framework for Financial Reporting Prg.50.
Off-Balance Sheet assets under Management

*Off-Balance Sheet assets under Management
include funds or assets held, managed, administered or otherwise dealt
with in an arrangement that gives the institution
A FIDUCIARY RESPONSIBILITY But not CONTROL*

CONCLUSION

- 1. When the ownership of the premiums (contributions) is not transferred to the insurance company, it is necessary to segregate participants' fund from the assets&equity of the insurance company.*
- 2. Strong need for segregation between «Participants' Fund» and the «Takaful Institution/Takaful Operator» **requires a comprehensive FINANCIAL REPORTING SYSTEM for transparency.***
- 3. The new financial accounting standards of AAOIFI relevant to the takaful business aims to organize the structure of the Takaful in details.*
- 4. Several entities are intertwined and preparation of various financial statements are proposed.*
- 5. By January 2025, for those prefer to adopt AAOIFI accounting standards for takaful, although some confusion may be expected, it will bring more transparency to the takaful business.*

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4. *INCEIF, Takaful-Realities & Challenges, Pearson Malaysia, Malaysia, 2012*
5. *Yusof, M.F., Ismail, W.Z.W., Naaim, A.K.M., Fundamentals of Takaful, IBFIM, Malaysia, 2011*

- Thanks for Your Patience...

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APPENDIX

Financial Accounting Standard No. (12):
General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies

(Name of Company)
Statement of Financial Position
as at xxx*** year xxx*** (last year)

	Note	xxx (year) Monetary Unit	xxx (last year) Monetary Unit
Assets			
Cash & cash equivalents	(8)	13,720	—
Investments	(9)	65,680	—
Contributions receivables		6,000	—
Fixed assets (net)	(10)	4,500	—
Development cost	(11)	800	—
Total assets		90,700	—
Liabilities, policyholders' equity and owners' equity			
Liabilities			
Outstanding claims	(12)	4500	—
Unearned contributions	(13)	21,600	—
Reinsurance balances		—	—
Dividends payable		840	—
Other liabilities		500	—
Zakah payable		1,350	—
Taxes payable		1,140	—
Total liabilities		29,930	—
Policyholders' equity		9,900	—
Owners' equity			
Authorized & paid-up capital	(14)	50,000	—
Legal reserves	(15)	320	—
Retained earnings		450	—
Total owners' equity		50,870	—
Total liabilities, policyholders' equity and owners' equity		90,700	—

(* The attached notes from No. () to No. () form an integral part of the financial statements.

Finansal Durum Tablosu

Varlıklar

- Nakit ve Nakit eşdeğerleri
- Yatırımlar * (not 9)
- Katlı Pay Alacakları
- Duran Varlıklar
- Gelirne Mülkiyet

TOPLAM VARLIKLAR

YÜKÜMLÜLÜKLER, POLİÇE SAHİPLERİNİN HAKLARI, ÖZKAYNAKLAR

Yükümlülükler

- Henüz Ödenmemiş tazmin talepleri
- Kazanılmamış Katkı Payları
- Reassurans Bakiyeleri
- Ödenecek Kâr Payları
- Diğer Yükümlülükler
- Ödenecek Zekat Borçları
- Ödenecek Vergiler

POLİÇE SAHİPLERİNİN HAKLARI

ÖZKAYNAKLAR

- Çıkarılan & Ödenmiş Sermaye
- Yasal Yedekler
- Dağılmamış Kârlar

TOPLAM ÖZKAYNAKLAR

TOPLAM YÜKÜMLÜLÜKLER, POLİÇE SAHİPLERİNİN HAKLARI, ÖZKAYNAKLAR TOPLAMI

Financial Accounting Standard No. (12):
General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies

(Name of Company)
Statement of Policyholders' Revenues and Expenses⁽⁵⁾
for financial year ended on *** (year) and *** (last year)

	xxx (year) monetary unit	xxx (last year) monetary unit
Insurance revenues		
Gross contributions	180,000	—
Less Reinsurers' shares	(126,000)	—
Net retained contributions	54,000	—
Less changes in unearned contributions	(21,600)	—
Earned contributions	32,400	—
Reinsurance commissions	37,800	—
Total insurance revenues	70,200	
Insurance expenses		
Paid claims	15,000	—
Recovered claims from reinsurers and other parties	(11,400)	—
Net paid claims	3,600	—
Outstanding claims at end of financial period	21,000	—
Less recoverable outstanding claims from reinsurers and other parties	16,500	—
Net outstanding claims Remuneration of owners' equity for managing	4,500	—
Insurance operations	45,000	—
Acquisition cost	9,000	—
Total insurance expenses	62,100	
Net surplus from insurance operations	8,100	
Investment income		
Total investment income	2,000	—
Less owners' equity share for the management of Investment portfolio	(200)	—
Net investment income	1,800	
Surplus of revenues over expenses	9,900	

(*) The attached notes from No. () to No. () form an integral part of the financial statements.

(5) Assuming that owners' equity are the managing party of the insurance operations and investments.

POLİÇESAHİPLERİNİN GİRELİLERİ VE GİDERLERİ

Sigorta Gelirleri

Bürüt Katkı payları

(Eksi) Reassurans Payları

Net Dağıtılmamış Katkıpayları

(Eksi) Kazanılmamış Katkı paylarında değişim

Kazanılmış Katkıpayları.....+

Reassurans Komisyonları.....+

Toplam Sigorta Gelirleri

SIGORTA GİDERLERİ

Ödenen Tazminat Talepleri.....15,000

Reassurans ve diğer partilerden Geri alınan Tazminat Talepleri 11,400

Net ödenen Tazminat Talepleri.....3,600

Dönem sonu Karşılanmamış Tazminat Talepleri.....21,000

(Eksi) Reassurans ve diğer partilerden Geri alınabilecek , ödenmemiş tazminat talepleri.....16,500

Operatör (Özkaynak) yönetiminden getiri4,500...?*

Sigorta Operasyonları.....45,000

Edinme Maliyeti.....9,000

Toplam Sigorta Giderleri**62,100**

Sigorta Operasyonlarından Net Artan **8,100**

Yatırım Geliri

Toplam Yatırım Geliri.....2,000

(-) Opeartör Şirket (Özkaynak)Payı.....(200)

Net Yatırım Geliri.....1,800

GİDERLERİ AŞAN GELİR FAZLASI.....9,900

Finansal Muhasebe Standardı NO: 12

İslami Sigorta Şirketlerinin Finansal Tablolarında Genel Sunum ve Açıklamalar

POLİÇE SAHİPLERİNİN FAZLAI (AÇIĞI) TABLOSU

Financial Accounting Standard No. (12):
General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies

(Name of Company)
Statement of Policyholders' Surplus (or Deficit)
for financial year ended on *** (year) and *** (last year)

	xxx (year) monetary unit	xxx (last year) monetary unit
Surplus balance at beginning of period	000	—
Surplus for the current financial period	9,900	—
Total surplus at end of the period	9,900	—
Distribution to policyholders	2,600	—
Balance of retained surplus at end of period	7,300	—

Dönembaşı Fazla Kalanı...00

Cari Finansal Dönem Fazlası:9,900

Dönemsonu toplam Fazla..: 9,900

Polİçe sahiplerine dağıtım....2,600

D.sonu Dağıtılmamış Fazla.. 7,300

OPERATÖR ŞİRKETİN GELİR TABLOSU

General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies

(Name of Company)
Income Statement
for financial year ended on *** (year) and *** (last year)

	Note	xxx (year) Monetary Unit	xxx (last year) Monetary Unit
Revenues			
Investment revenues		3,000	—
Owners' equity remuneration for managing insurance operations	(19)	45,680	—
Owners' equity share for managing investment portfolio	(19)	200	—
Total revenues		48,200	—
Expenses			
General expenses		43,800	—
Development costs	(6)	200	—
Total expenses		44,000	—
Income before Zakah		4,200	—
Zakah payable		(1,350)	—
Income before Tax		2,850	—
Tax		(1,140)	—
Net Income		1,710	—

Operatör Şt.'in Kendi.....
öz kaynaklarından Yatırım Gelirleri3,000

**Operatör Şirketin Sigorta Faaliyetlerini
Yönetmesi
karşılığı Poliçe Sahiplerinden.:45,000**

→
**Tekafül Primlerinden oluşan fonu
Yönetme karşılığı Poliçe Sahiplerinden.: 200**

TOPLAM.....: 48,200

Cash Flow Statement for the years ended ***(year) and ***(Last year)		
	xxx (year) Monetary Unit	xxx (last year) Monetary Unit
Cash flow from operation		
Net income	1,710	—
Policyholders' surplus of revenue	9,900	—
Depreciation of fixed assets	500	—
Development costs	200	—
Net income before changes in operating capital	12,310	—
Increase in fixed assets	(5,000)	—
Increase in development costs	(1,000)	—
Increase in contribution receivable	(6,000)	—
Increase in other payable	500	—
Increase in outstanding claims	4,500	—
Increase in unearned contribution	21,600	—
Increase in Zakah payable	1,350	—
Increase in taxes payable	1,140	—
Net cash from operations	29,400	—
Cash flow from Investment		
Increase in investment	65,980	—
Increase (or decrease) in cash and cash equivalent	(36,280)	—
Cash and cash equivalent at beginning of period	50,000	—
Cash and cash equivalent at end of period	13,720	—

(*) The attached notes from No. () to No. () form an integral part of the financial statements.

NAKİT AKIŞ TABLOSU

- Dolaylı Yöntem
- Gelir Tablosundan Aldığı Net Gelir (Kâr)'a
- Poliçe Sahipleri Gelir Fazlası'nı Eklemiş (9,900)