A Comparative Study on Takaful Governance between Malaysia and Brunei Darussalam

Nafisah Ruhana1,*, Nur Haziyah Haji Abdul Halim2, Ledy Mahara Ginting3, Sarah Amalina binti Azizul Rahman4

1Department of Accounting, Politeknik Negeri Bandung, Bandung, Indonesia
2Jabatan Hal Ehwal Syariah, Kementerian Hal Ehwal Ugama, Bandar Seri Begawan, Brunei Darussalam
3Kantor Perwakilan Bank Indonesia Aceh, Banda Aceh, Indonesia
4Maverick International Schools, Selangor, Malaysia

Research article
Received 5 January 2023; Accepted 20 February 2023
*Corresponding author: nafisah.ruhana@polban.ac.id

Abstract: The aim of this study is to compare takaful governance in Malaysia and Brunei since both countries known for their strong support of takaful. This is to highlight the impact of respective governance on the overall takaful industry in each country. Moreover, the objective of this study is to gain a comprehensive understanding of the governance practices of takaful operators in Malaysia and Brunei. The study will examine a number of important governance mechanisms in both countries and draw comparisons between the governance practices of takaful operators in Malaysia and Brunei. This study use qualitative and descriptive research method to examine and identify similarities and differences in takaful governance between Malaysia and Brunei Darussalam. This is to provide better understanding on how corporate governance for takaful operators influence the takaful operations in both countries. This paper will also emphasized on the key mechanisms of takaful governance and highlighting their duties and responsibilities. This study finds that Malaysia’s guide to corporate governance for takaful operators is more fully developed due to its longer-established market. However, corporate governance for takaful operators in both countries is largely similar. Some aspects of Brunei’s corporate governance were found to mirror Malaysia’s practices.

Keywords: takaful, governance, board of directors, senior management, shariah committee

1. Introduction

Life events such as death and fire are experiences that can either be expected or unexpected. Given this, risks and catastrophes are a possibility for everyone. Islam requires us to find ways to prevent adversities and minimize losses. This is where Takaful plays its role. Generally, The Arabic word 'kafala' is the root of the word takaful, which refers to caring for one’s needs ( Malaysian Takaful Association, 2019). In the contemporary world, Takaful is seen as one of the essential mechanisms of risk management. The global acceptability of takaful has increased, and in 2017 it reached US$46 billion with a compound annual growth rate (CAGR) of 6% (Reuters, 2018). The Takaful industry has also been recognized to have healthy growth
As a risk management mechanism, it manages and mitigates future risks of loss by providing financial coverage. It assists individuals in managing risks by sharing them with other participants to meet the cost of loss. While ensuring and protecting people from risks, takaful businesses are also exposed to several types of risks, such as shariah and operational risks. Proper governance should strongly be applied to ensure the overall health of any takaful operators. Good governance should be at the heart of any successful business, including takaful. The presence of governance is essential not only to assist takaful operators in achieving their objectives but also to assist the business in managing risks, maintaining legal and ethical performance, and ensuring shariah compliance in the eyes of shareholders, regulators, and the wider community.

Accordingly, governance is significant for takaful operators in any country to maintain and enhance their reputation as an Islamic insurance company adhering to Shariah rules and principles. This study will compare takaful governance in Malaysia and Brunei Darussalam since both counties are among the strong supporters of takaful. This is to highlight the impact of respective governance on the overall takaful industry in each country. Additionally, this study aims to achieve several objectives as follows:

1) To understand the governance of takaful operators in Malaysia and Brunei.
2) To observe several significant governance mechanisms in Malaysia and Brunei.
3) To compare the governance for takaful operators between Malaysia and Brunei.

2. Literature Review

2.1. Corporate Governance for Takaful

Corporate governance, as defined by the Cadbury Committee in 1992, is the process that governs and controls businesses. Its goal is to create a framework for the business that establishes goals, provides the tools to achieve them, and tracks performance (Ajili, 2018). A strong corporate governance system has many advantages, according to the Center for International Private Enterprise (2002), including better access to capital and financial markets, increased accountability and transparency, better performance, protection of shareholders' investments, decreased corruption, and improved marketability of goods and services. Corporate governance's main objective is to support wise and competent management that can guarantee the company's long-term prosperity. It is generally accepted that businesses that are managed well tend to perform better.

Odierno H. S. (2009) defines corporate governance as a group of policies, laws, and other legal requirements that directly affect how a business is managed and supervised. Corporate governance serves to protect the interests of all parties, including shareholders and stakeholders, while ensuring the efficiency and consistency of the takaful operator. As a result, maintaining corporate governance is thought to be essential for maintaining the takaful operator's effectiveness and stability. Moreover, Corporate Governance also ensures that necessary conditions for takaful operators are being applied, such as the takaful model, the relationship with shareholders and policyholders, risk management, and the company's interest. An excellent corporate governance strategy for takaful can enhance stakeholders' loyalty and the company's credibility.

Takaful has a distinct feature compared to conventional insurance; it has to consider the Shariah aspect in every decision, policy, and facility that will be applied. The foundation of takaful requires the company to complete the basic concept of insurance, such as capital risk assessment, transparency, adequacy, and solvency. Nonetheless, a Shariah governance framework is needed by the takaful operators to ensure that their corporate governance is
Sharia compliance. The aim of Sharia is to guarantee that the fund is administered in compliance with Sharia principles. Takaful operations are additionally governed by the Accounting and Auditing Organization for Financial Instruments (AAOIFI), which has established four standards pertaining to corporate governance. These standards encompass the following aspects:

1) Sharia Supervisory Board
2) Sharia Review
3) Internal Sharia Review
4) Audit and Governance Committee (AGC) for Islamic Financial Institutions.

To have good corporate governance, takaful operators must comply with these four (4) principles of fairness, accountability, responsibility, and transparency. The regulators need to implement a fair legal framework for the complete protection of stakeholders to achieve good corporate governance.

2.2. Overview of Takaful Industry in Malaysia

In addition to conventional insurance, Bank Negara Malaysia (BNM) also governs the takaful sector in Malaysia. The primary aims of regulation are to promote technical soundness, reliability, and solvency of takaful operators to boost competitiveness in the market. It also facilitates mutual support between participants to face similar risks (Odierno H. S., 2010). Financial institutions registered in Malaysia, including takaful operators, are obliged to adhere to robust corporate governance standards through the BNM's policy document as mandated by the Financial Services Act 2013 (FSA) sections 47(1) and 58(4) and the Islamic Financial Services Act 2013 (IFSA) sections 29(2), 57(1), and 67(4).

In 1984, the first Takaful Act was established, led by the first Takaful operator in Malaysia, Syarikat Takaful Malaysia. Takaful Act 1984 was created using Insurance Act 1963 as a basic guideline, eliminating the element of riba, gharar, and maysir and modifying them to become Shariah compliant. Since then, the Takaful Act 1984 has governed Takaful operators in Malaysia until recently, when Islamic Financial Services Act 2013 replaces it.

In the past, the Islamic banking sector and the takaful industry were governed by separate Acts. The introduction of IFSA 2013 combines the regulation for both Islamic Banking and Takaful. IFSA 2013 has incorporated sharia requirements which add strain on Takaful operators. There are several salient features in the introduction of the Islamic Financial Services Act 2013 (IFSA 2013) toward the Takaful industry:

1) Under IFSA 2013, Takaful operators with a composite license are required to separate their Family and General Takaful business, resulting in a single licensed Takaful business and a Re-Takaful operator.
2) Takaful operators to be published as a public company
3) Takaful operators are required to set up a Financial Holding Company, and it is also subject to the requirements under IFSA
4) Minimum capital requirements for Takaful operators are no longer defined in the governing act and will be specified by Regulator depending on the complexity of the business
5) A new prudential requirement that requires the provision of Qard Hassan to become compulsory in cases where there is a deficit in the risk fund.

Takaful updated regulation in Malaysia:

1) The updated Risk-Based Capital Framework for Takaful Operators (RBCT) introduces changes to the capital requirements for takaful operators. Previously, the regulation
stipulated a fixed capital requirement of RM100 million. However, under the new RBCT framework, the capital requirement is determined by the regulator, and the specific capital requirement is currently unknown.

2) Updated of Takaful Operational Framework (TOF): Previously, Takaful operators were not permitted to distribute any surplus from the risk fund to the operator’s fund. In the recent update, the Shariah Advisory Council (SAC) of BNM decided that the surplus in the risk fund could be distributed to Takaful operators despite the outstanding Qard position in the risk fund.

3) The Revised Guideline on Operating Costs of Family Takaful Business (OCC Guideline) brings changes to the way operational costs are handled by family takaful operators: Before the revision, family takaful operators were charging the operational cost directly to participants’ risk fund. The updated guideline requires limitations on agency compensation and management expenses.

2.3. Development of Takaful Industry in Malaysia

Due to the presence of riba' (interest), gharar (uncertainty), and maysir (gambling) factors, the Malaysian National Fatwa Committee ruled in 1972 that life insurance was an invalid contract and was therefore void. Because of that, the government elected some committees in 1982 to help with the setup. The establishment of an Islamic bank in 1983 increased the demand for Shariah-compliant financial services among the Muslim public, who were seeking alternatives to conventional financial services that were in line with their religious beliefs and values. The parliament endorsed Takaful Act in 1984 with Syarikat Takaful Malaysia Berhad as the pioneer takaful operator and Bank Islam Malaysia (BIMB) Holding Berhad as their major shareholders (Malaysian Takaful Industry after Two Decades).

Bank Negara Malaysia implemented a three-phase strategy to foster the growth of the Takaful industry in Malaysia. The initial phase, spanning from 1984 to 1992, focused on establishing the foundation. As previously mentioned, this phase commenced in 1984 with the introduction of a dedicated regulatory law known as the Takaful Act 1984. Simultaneously, the first takaful operator, which remains the sole pure takaful operator listed on the Malaysian stock exchange Bursa Malaysia, was established. The Takaful Act 1984 continues to govern takaful business operations, mandating the registration of takaful operators and the formation of shariah committees to ensure ongoing adherence to shariah principles (Prime Minister's Department, 1984). In May 1988, Bank Negara Malaysia was entrusted with the responsibility of regulating and supervising both the insurance and takaful industries.

Phase two of the stable mode commenced in 1993 and lasted until 2000, marking a significant development in the Takaful industry with the entry of another takaful operator, Malaysia National Insurance (MNI) - Takaful Sdn. Bhd, which began its operations. This period also witnessed strong collaboration among Takaful operators, including the formation of the ASEAN Takaful Group in 1995 and the establishment of ASEAN Retakaful International (L) Ltd in 1997 within the International Offshore Financial Centre in Labuan. These initiatives facilitated cooperation among takaful operators in Malaysia and the neighboring countries of Brunei, Indonesia, and Singapore. Furthermore, in 1997, members were appointed to the National Shariah Advisory Council for Islamic Banking and Takaful. Subsequently, in November 1998, MNI - Takaful underwent a name change to Takaful Nasional Sdn. Bhd.

Phase three, also known as the high growth mode, started from 2001 until 2010. This phase began with the establishment of the Islamic Banking and Finance Institute Malaysia in February 2001, followed by the Financial Sector Master Plan (FSMP) in March 2001, which included a plan to enhance the capacity of takaful operators and strengthen the legal, shariah, and regulatory framework. The section of the FSMP related to Islamic banking and takaful
provided a roadmap to realize Malaysia's vision of becoming the international center of Islamic finance. During this phase, the takaful industry experienced a significant development with the establishment of the Malaysian Takaful Association (MTA) in 2002, aimed at improving industry self-regulation and promoting higher cooperation among the players in developing the industry through uniformity in market practices. Mayban Takaful Berhad and Takaful Ikhlas Sdn. Bhd commenced operations in July 2002 and July 2003, respectively, further contributing to the industry's growth. In November 2004, regulators approved Commerce Asset-Holding Berhad to conduct takaful business.

The success of the takaful industry in Malaysia can be attributed to the significant role and support of the government, which has been instrumental in promoting its growth. The government has created an environment that is favorable for the development of the industry and has provided clear guidelines for its progress. The Malaysian takaful industry has shown impressive growth rates, outpacing conventional insurance, which is a testament to its success. During the early stages of the industry’s institutional setup, a single takaful operator was allowed to offer both general and family takaful, which is different from the current market structure.

Until now, based on the annual report of Malaysian Takaful Association 2022, the number of takaful operators in Malaysia has reached 15 companies, 14 of which are included in the category of family takaful and 1 is in the general takaful category. Additionally, there are also 4 retakaful operators. The market penetration of the takaful family experienced single digit growth, which increased by 8% from 18.6% in 2021 to 20.1% in 2022. This increase shows that the takaful industry in Malaysia continues to grow despite the pandemic as people pay more attention to safety of their lives.

### 2.4. Takaful products in Malaysia

The Takaful industry is segmented into two main categories: family takaful and general takaful. According to Malaysian Takaful Associations, family takaful grows faster than general takaful. They are also growing faster than their conventional counterparts. Based on the Fitch Ratings Report 2018, in the first half of 2018, the family takaful increased by 12.9% compared to 5.4% in life insurance and a general takaful increase of 7.1% compared to an increase in general insurance of 0.9%.

![Figure 1. Family Takaful and General Takaful Gross Contribution and Growth](source: The Edge Market, 2019)

The takaful industry in Malaysia is making steady progress compared to conventional insurance. In the first half of 2017, family takaful accounted for 30.5% of the total new business
premiums in the life market, showing an increase from 28.8% at the end of 2016. Similar to this, general takaful increased from 12.2% to 12.8% of the total general insurance market within the same time frame. Family takaful made up more than 60% of all new business in Malaysia in the takaful sector.

![Figure 2. Coverage Offered in Malaysia’s General Takaful](source: The Malaysian Reserve, 2019)

Above is the coverage offered in general takaful; 60% of the total product contribution comes from motor takaful. It is because of the growth in motor takaful contribution generated by Syarikat Takaful Malaysia Berhad's online sales portal called "click for cover". The total amount of online sales contribution is RM40 million. There is an increase of about 20% - 25% for online sales. However, there is no significant increase in the earnings. Syarikat Takaful Malaysia Berhad aims to seek further market penetration and strengthen its existence in the industry in the next five years. STMB CEO Datuk Mohd Hassan said, "Takaful Malaysia is enhancing its digital strategy to keep pace with the ongoing digital revolution and meet the increasing expectations of consumers, as the takaful industry is expected to grow rapidly and exceed the growth of its conventional counterpart, driven by digital transformation and innovation".

2.5. Overview of Takaful Industry in Brunei Darussalam

Thirty-seven years ago, the insurance industry was long established before the takaful industry in Brunei Darussalam (Bashir & Mail, 2011). The takaful industry was founded only a quarter of a century ago, with the establishment of Insurance Islam TAIB on March 3, 1993. Since then, takaful has been perceived as a viable alternative to conventional insurance and has garnered substantial support from the government.

Similar to conventional insurance, the takaful industry in Brunei Darussalam is governed and supervised by the Authority Monetary Brunei Darussalam (AMBD) in which the registration, regulations, and supervision of takaful companies are monitored by a dedicated AMBD’s Takaful/Insurance Unit (TIU) (AMBD, 2016). Besides regulating and supervising insurance and takaful companies, TIU aims to promote transparency and fairness amongst participants, insurers, and intermediaries. Thus, TIU is responsible for promoting market development for this particular industry.

Takaful companies in Brunei are regulated under the Takaful Order 2008, which this legislation regulates the activities of the takaful industry in the county. Furthermore, it ensures shariah compliance in any takaful plan being offered. Thus, Takaful Order 2008 provides the
legal platform for any takaful operators in Brunei. Apart from adhering to Takaful Order 2008, takaful companies in Brunei must also have sound corporate governance as stipulated in the ‘Corporate Governance for Insurance Companies and Takaful Operators’ issued by AMBD. Furthermore, under Section 54 of AMBD Order 2010, all financial institutions, including takaful companies in Brunei, must also conform to the Syariah Governance Framework (SGF) to ensure shariah compliance in their operations (AMBD, 2018).

2.6. Development of Takaful Industry in Brunei Darussalam

Brunei Darussalam is a small country in Southeast Asia with a population of just around 420,000. It is located on the northwest coast of Borneo island, surrounded by the Malaysian state of Sarawak. It runs under Malay Islamic Monarchy, with the population of Muslims around 67% of their population. With the sultanate constitutional, Brunei Darussalam widely adopts the practices and teachings of Islamic principles in its people’s daily lives, such as in the food and financial services industries.

The insurance industry market in Brunei Darussalam is relatively small in a market with just about 420,000 people. Thus, this insurance sector’s contribution to GDP remains below 2%. Nevertheless, this industry is slowly showing its existence. Islamic Finance Development Report 2017 by Thomson Reuters shows that Brunei Darussalam is among the top 10 countries in the takaful industry based on its takaful assets right under Bahrain.

![Figure 3. Top Countries in Takaful Assets](source: Thomson Reuters, Islamic Finance Development Report 2017)

Brunei Darussalam had four takaful operators until quarter four of 2018, with the total asset of takaful operators reaching BND543.9 Million; this number of takaful assets rose by 2.40% from BND491.8 million in 2017. The table below contains the total asset of the combined insurance industry in Brunei Darussalam.

| Table 1. Total Asset of the combined insurance industry in Brunei Darussalam |
Further can be seen from the above table that recently, takaful operators have outperformed conventional Insurance companies by having positive growth. In contrast, insurance companies showed declined/ negative growth assets in quarter four of 2018. The positive growth trends signify the potential for takaful companies to broaden the market for Islamic financial products and enhance their ability to compete with well-established conventional insurance companies. Furthermore, these trends reflect a rise in public awareness and a growing interest in takaful.

The total gross premium collected by takaful companies in the general/ non-life sector over the past three years (2015, 2016, 2017) has performed better than conventional insurance. Takaful companies have overtaken the conventional insurance industry in the non-life sector. At the same time, the total gross premium collected by takaful companies in the life/ family takaful sector is still less than conventional insurance. Thus, conventional insurance still dominates the life/ family takaful market.

Insurance and Takaful: General/Non-Life Gross Premium (BND$ Millions)
Brunei Darussalam's takaful industry is considered comparatively young when compared to the conventional insurance sector in the country. Brunei Darussalam opened the first takaful operator in 1993, establishing takaful TAIB as a subsidiary company of Perbadanan Tabung Amanah Islam Brunei (TAIB) but later, in 1997, changed its name to Insurance Islam TAIB. The establishment of Insurance Islam TAIB is to provide insurance services in accordance with Islamic principles. Brunei Darussalam wants to practice Islamic principles daily as the country is an Islamic state. A report by Chief Delegate Bandar Seri Begawan at 29th EAIC 2018 in Manila recorded that today Brunei Darussalam has 4 (Four) takaful operators consisting of 2 (two) family takaful and 2 (two) general takaful. Syarikat Takaful Brunei Darussalam is a leading company in the takaful industry now, having two subsidiaries, namely Takaful Brunei Am (TBA), which offers general and non-life takaful and Takaful Brunei Keluarga (TBK) offers family takaful. Moreover, the earlier established insurance, Insurance Islam TAIB, has general and family takaful companies. These companies compete with 7 (seven) other conventional Insurance companies in the country.

Although takaful companies started in the early 1990s, they performed well. The demand for this industry is there. Matsawali et al. (2012) examined public preference between takaful and conventional insurance products. Among the 131 respondents, 61.8% said they prefer takaful, 34.4% prefer conventional insurance, and the rest 3.8% say they are unsure. Matsawali et al. (2012) conclude that most public prefers takaful. However, their understanding of this type of insurance is just knowing that takaful is an Islamic type of insurance and the approach will be executed under Islamic principles.

Takaful companies in Brunei Darussalam have gained a relatively large share of the insurance market of Brunei. It is hoped that being more transparent about their activities and treating their takaful holders as shareholders will improve their trust and popularity among takaful holders and potential takaful holders and achieve the goals of Islamic insurance.

3. Research Methodology

This research is qualitative and descriptive, where the authors will qualitatively study and identify the similarities and differences between takaful governance in Malaysia and Brunei Darussalam. This is to understand better how corporate governance for takaful operators influences the takaful operations in both countries. This paper will also emphasize the critical mechanisms of takaful governance and highlight their duties and responsibilities. This research is mainly done through a library and online by gathering information and data from books, conference papers, past literature, and journal articles.

4. Findings

Weak corporate governance can be viewed as a threat to the operation and performance of any
organization. Corporate governance's prime purpose is to ensure individuals' accountability in an organization by reducing the risk of agency costs and asymmetry information. Furthermore, corporate governance is used to monitor corporations' actions, policies, and decisions. For Islamic financial institutions, including takaful operators, having robust shariah governance and adhering to it is crucially important not just to ensure better performance but it reflects the business reputation as an Islamic insurance company. Given this, shariah compliance should be held as an ultimate objective; hence, a proper process, way, and governance are undoubtedly significant.

In Malaysia, all financial institutions, including takaful operators, are mandated to implement effective corporate governance based on the policy document by BNM. This requirement is stipulated in Sections 47(1) and 58(4) of the Financial Services Act 2013 (FSA) and Sections 29(2), 57(1), and 67(4) of the Islamic Financial Services Act 2013 (IFSA), and the policy document has been in effect since 2016. Having one corporate governance guideline applicable to all financial institutions in Malaysia has emphasized in detail the core duties and responsibilities of the board and its management. In general, Malaysia’s corporate governance is believed to have provided specific content outlining the essential mechanisms of corporate governance, such as the board and senior management, while emphasizing transparency and ethics. Thus, this is developed, and robust guideline is believed to have assisted financial institutions toward good corporate governance.

In contrast to Malaysia, in Brunei Darussalam, every insurance and takaful company is obliged to comply with the dedicated "Corporate Governance Guidelines for Insurance Companies and Takaful Operators," as stated in Section 88 of the Insurance Order 2006 and Section 90 of the Takaful Order 2008. Despite the centered guidelines on insurance and takaful companies, the content and outline are similar to Malaysia’s. While Malaysia has provided a detailed and thorough outline of the mechanisms constituting corporate governance, Brunei generally has provided a simple and brief guideline to corporate governance. This is believed to have provided flexibility on the governance of insurance and takaful companies in Brunei as it is a newly established guideline issued by AMBD in 2018.

4.1. **Malaysia’s Jurisdiction**

Malaysia has provided a universal and comprehensive guideline to corporate governance as issued by BNM under its policy document for all financial institutions in the country. It provides the functions and responsibilities of the main mechanisms of corporate governance, such as the board of directors, and senior management, while emphasizing ethical values and transparency in the governance. The fundamental mechanisms of corporate governance in takaful operators can be illustrated below:

a. **Board of Directors (BoD)**

   Besides ensuring and promoting sustainable growth and financial soundness in Malaysia, BoD is required to promote Shariah compliance as outlined in the Shariah Governance Framework for Islamic Financial Institutions. The relationship and communication between BoD and the Shariah committee are strictly being emphasized as it will affect the reputation of takaful operators. While recognizing their distinct duties, BoD’s ultimate responsibilities lie in providing clear direction and control regarding business and risk strategies. In terms of composition, the board must always comprise the majority of independent directors and maintain it. Given this, independent directors should have liberty in their character and judgment and must not be tied to any associations that might influence their judgment.

b. **Senior Management (SM)**

   The policy document specifies that the Chief Executive Director (CEO) is responsible for
the daily operations of the takaful operator. To qualify for a senior management position, candidates must meet certain requirements. The policy document also highlights the importance of maintaining a clear separation between ownership and management of the takaful operator by explicitly stating that a significant shareholder cannot hold a senior management position. Takaful operators are required to provide a robust succession plan by defining a clear process for appointing and removing senior management and senior officers, as well as the assessment of candidates to avoid conflict on the succession of senior management.

c. Shariah Committee (SC)

To guarantee adherence to shariah principles in all aspects of takaful operations, the board is responsible for establishing a clear relationship with the Shariah Committee (SC). The duty of SC will only be limited to shariah matters in terms of the takaful business, activities, and products offered.

4.2. Brunei Darussalam’s Jurisdiction

The notice on corporate governance for insurance companies and takaful operators issued by AMBD states that the key components of the corporate governance structure for takaful operators in Brunei Darussalam include a Board of Directors, senior management, and Shariah Committee.

a. Board of Directors (BoD)

The primary purpose of the Board of Directors (BoD) in takaful operators in Brunei Darussalam is to ensure that the operators are safe and sound and comply with the relevant laws. The BoD is accountable for helping establish the company's direction and overseeing its management and activities. Furthermore, the Board of Takaful operators is accountable for fostering Shariah compliance to meet the requirements outlined in Shariah governance guidelines provided by the Authority and the Shariah Financial Services Board (SFSB). The Board must establish a clear relationship with the takaful operator's Shariah Advisory Committee. While the Shariah Committee holds specific responsibilities related to Shariah matters, the Board retains overall responsibility for directing and controlling the takaful operator's business and risk strategies.

Regarding the composition, members of the Board should possess expertise in pertinent financial industry strategies, risk management, and overall operations. The composition of the Board should consist of a minimum of one-third independent directors. It is prohibited for any director to hold any management position, other position, or business affiliation with the company.

b. Senior Management (SM)

Along with BoD, the presence of senior management in takaful operators is another factor that contributes to the safety and soundness of the operations and compliance with governing laws. The primary responsibilities of senior management include carrying out the decisions made by the Board, as well as managing and supervising the day-to-day operations of the takaful operators.

The Senior Management (SM) of takaful operators in Brunei Darussalam is composed of the Chief Executive Officer (CEO) or Managing Director (MD) and those who report directly to them. SM may delegate certain responsibilities to Key Persons in control functions, who are responsible for overseeing operational management across the takaful operator. These Key Persons may include the Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Compliance Officer (CCO), Chief Internal Auditor (CIO), and Chief Actuary (CA).
Senior Management (SM) supports the Board by supplying pertinent, precise, and timely information, enabling the Board to supervise the management and activities of insurance companies, evaluate policies, and ascertain whether the companies are operating within a suitable control framework.

c. Shariah Committee (SC)
The Brunei Darussalam takaful operators SC is responsible for the shariah issue.

4.3. Summary of Comparative Takaful Governance between Malaysia and Brunei Darussalam

Table 2. Summary of Comparative Takaful Governance between Malaysia and Brunei Darussalam

<table>
<thead>
<tr>
<th>Differences</th>
<th>Malaysia</th>
<th>Brunei Darussalam</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Differences</td>
<td>Comprehensive &amp; complex</td>
<td>Brief and Simple</td>
</tr>
<tr>
<td>Detailed Structure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Universal Corporate governance guideline to all financial institution</td>
<td>Corporate governance guidelines are dedicated to insurance and takaful operator</td>
<td></td>
</tr>
<tr>
<td>effect Corporate governance guideline effective since 3 August 2016</td>
<td>effective date on 1 January 2018</td>
<td></td>
</tr>
<tr>
<td>Related Act</td>
<td>FSA &amp; IFSA 2013</td>
<td>Insurance Order 20016 and Takaful Order 2008</td>
</tr>
<tr>
<td>Board of Directors (BoD)</td>
<td>Board must comprised of the majority of Independent</td>
<td>Board must comprised of ⅓ of independent director</td>
</tr>
<tr>
<td></td>
<td>Clearly outlines the steps involved in selecting and removing board members and independent directors.</td>
<td>Do not mention how independent directors are appointed and removed.</td>
</tr>
<tr>
<td>Management</td>
<td>Denoted by senior management or senior or senior officer</td>
<td>Denoted by senior management or managing director</td>
</tr>
<tr>
<td></td>
<td>Responsible for overseeing how financial institutions are run on a daily basis</td>
<td>In charge of guiding and supervising the efficient administration of the insurer, within the authority granted to them by the board and relevant legislation.</td>
</tr>
<tr>
<td></td>
<td>Emphasizing on the function of senior management in in enabling the board to carry out its oversight duties by providing relevant information in a timely manner.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Clearly states the appointment &amp; removal senior management</td>
<td>Does not states the process of appointment and removal of senior management</td>
</tr>
<tr>
<td>Shariah Committee (SC)</td>
<td>Clearly emphasized in the relationship between the board and SC</td>
<td>Few elaboration on the relationship between the board &amp; SC</td>
</tr>
</tbody>
</table>
5. Conclusion

It is certainly recognized that corporate governance is essential for any financial institution, including takaful operators. It facilitates a smooth flow of information and promotes decision-making at all levels. Furthermore, corporate governance ensures the proper and efficient functioning of the takaful operator. Compliance with shariah has also been strictly prioritized as it affects the reputation and image of takaful operators. Hence, the Shariah committee has a huge role in the overall governance of takaful operators. In ensuring the performance of takaful operators, Malaysia and Brunei have made corporate governance mandatory for all takaful operators. Since the market for takaful in Malaysia has long been established, it can be identified that Malaysia’s guide to corporate governance has fully developed as compared to Brunei. Detailed and robust corporate governance is believed to have provided takaful operators with clear guidelines for establishing their corporate governance framework. Given this, Malaysia’s takaful industry’s performance has developed tremendously. Although Brunei has dedicated corporate governance to insurance and takaful companies, it is believed that a gap still exists that needs to be improved for better takaful governance. Furthermore, the disclosure of corporate governance positions is rather lacking in Brunei. This paper identifies that some aspects of corporate governance in Brunei are mirroring Malaysia. Hence, this paper concludes that the corporate governance for takaful operators in Malaysia and Brunei has no major differences.

References

governance.html


