

9th Annual

Islamic Finance Summit

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Khairul Nizam, AAOIFI

International Islamic Finance Standards – for Islamic
Insurance and Reinsurance



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AAOIFI Standards

Standards

AAOIFI has issued:

- 41 Shari'a standards (incl. on Islamic Insurance and Islamic Reinsurance).
- 26 accounting standards (incl. 4 on Islamic Insurance).
- 5 auditing standards.
- 7 governance standards.
- 2 codes of ethics.
- In addition, new standards are being developed and existing standards reviewed.

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AAOIFI Standards

Standards
on Islamic
insurance
and
reinsurance

- Shari'a standard on Islamic Insurance.
- Shari'a standard on Islamic Reinsurance.
- Accounting standards for Islamic Insurance Companies:
 - General Presentation and Disclosure in Financial Statements.
 - Disclosure of Bases for Determining and Allocating Surplus or Deficit.
 - Provisions and Reserves.
 - Contributions.



AAOIFI هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية
Accounting & Auditing Organization for Islamic Financial Institutions

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AAOIFI Standards

Shari'a
standard on
Islamic
insurance

- **Contractual relationships in Islamic insurance:**
 - **Musharaka (partnership) amongst participants).**
 - **Wakala (agency) for operational management.**
 - **Mudaraba (investment management) for investment activities.**
- **Corresponding Shari'a principles for the above.**

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AAOIFI Standards

Shari'a
standard on
Islamic
reinsurance

- Follows same rules and principles in Shari'a standard on Islamic insurance.
- Allows following forms of reinsurance:
 - Selective risk reinsurance.
 - Comprehensive reinsurance.
- Sample of Islamic reinsurance agreement is included in the Standard.

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AAOIFI Standards

Accounting standards on Islamic insurance and reinsurance

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

- Complete set of financial statements, including statement of policyholders' surplus (or deficit), and sources and uses of Zakah and charity funds.
- General disclosures including those on earnings or expenditure prohibited by Shari'a.
- Treatment of changes in accounting policies, changes in accounting estimates, etc.

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AAOIFI Standards

Accounting standards on Islamic insurance and reinsurance

2. Disclosures of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies

- General disclosures on contractual relationship between policyholders and insurance operations manager.
- Disclosure on accounting policies regarding the party that meets general and administrative expenses.
- Disclosures on allocation of profit generated from investment of policyholders' funds; and on treatment of current deficit and/or cumulative deficit.

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AAOIFI Standards

Accounting standards on Islamic insurance and reinsurance

3. Provisions and Reserves in Islamic Insurance Companies

- Accounting rules for technical provisions such as unearned contributions provisions, outstanding claims, and claims incurred but not reported.
- Accounting rules for deficit reserves and equalization reserves.
- Recognition, measurement, and presentation of those provisions and reserves; and disclosures on basis for determining provisions and reserves.

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AAOIFI Standards

Accounting standards on Islamic insurance and reinsurance

4. Contributions in Islamic Insurance Companies

- Recognition, measurement, and presentation for contributions made on the basis of donation by policyholders.
- Disclosure on accounting policies for treatment of contributions.
- Disclosure on accounting policies for withdrawal of policyholder and cancellation of insurance policy.
- Presentation of 'Statement of Policyholders' Revenue and Expenses'.

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AAOIFI Standards

Review of standards

- All 4 accounting standards on Islamic insurance are being reviewed.
- The review is to take into account, amongst others, current market practices, prevailing conventional international standards, and international best practices.
- The review is to be carried out in consultation with the industry – comments and inputs are needed.

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Appendix

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Overview of AAOIFI

- AAOIFI is responsible for developing and issuing standards for international Islamic finance industry.
- Supported by over 200 institutional members from over 45 countries.
- Members are central banks, regulatory authorities, financial institutions, accounting & auditing firms, legal firms, etc.

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Overview of AAOIFI *(continued)*

- AAOIFI has issued a total of 81 standards comprising:
 - 41 Shari'a standards
 - 26 accounting standards
 - 5 auditing standards
 - 7 governance standards
 - 2 codes of ethics.
- In addition, new standards are being developed and existing standards reviewed.

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Overview of AAOIFI *(continued)*

- AAOIFI standards have been followed by leading Islamic financial institutions in, amongst others, Bahrain, Brunei, Dubai International Financial Centre, France, Indonesia, Jordan, Kuwait, Lebanon, Malaysia, Pakistan, Saudi Arabia, Qatar, Qatar Financial Centre, South Africa, Sudan, Syria, United Arab Emirates and United Kingdom as well as in Africa, Central Asia and North America.
- Also adopted by Islamic Development Bank Group.

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Overview of AAOIFI *(continued)*

- Technical understanding and application of standards is supported by AAOIFI's professional development qualification programs:
 - Certified Shari'a Adviser and Auditor (CSAA).
 - Certified Islamic Professional Accountants (CIPA).
- Technical application of standards is further supported by AAOIFI's contract certification program.

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Thank you

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