# GOVERNANCE OF INSURANCE FIRMS, A COMPARATIVE STUDY BETWEEN THE SAUDI AND THE INTERNATIONAL INSURANCE REGULATIONS: EMPIRICAL FINDINGS

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## ABSTRACT

This paper attempts to explore corporate governance from the *Sharia'h* Islamic perspective. It's also compares between western and Islamic corporate governance models, as well as *takaful* corporate governance. It is also important to highlight the challenges that faces the right implementations of corporate governance such as asymmetry of Information which been covered on this paper. IFSB (Islamic Financial Services Board) and IAIS (International Association of Insurance Supervisors) have also spent a quite good efforts to standardize the *takaful* industry, of which been covered here. Importantly, no studies have been conducted to systematically document the framework efficiency of the *takaful* corporate governance system. This paper attempts to fill the gap. The paper reports results on the perceptions of 420 participants of *takaful* Operators "TOs" in Saudi Arabia. Participants were questioned to confirm the healthy conditions of the corporate governance system of nine major TOs in Saudi Arabia. Conditions such as proper relationships between company's management, its board, its shareholders, and other stakeholders. Satisfying participants return on investments considered another important factor for healthy corporate governance system. Another corporate governance benchmark includes corporate discipline, transparency, independence, accountability, responsibility, fairness and social responsibility to participants. Accuracy of disclosure on all material matters regarding the insurer, including the financial situation, performance, ownership and governance arrangements are also included in this paper as a benchmark to assure the accuracy of corporate governance system. The research findings indicate that participants have overall weak satisfaction indications about the quality of corporate governance system on these selected nine TOs. Accordingly, it's highly recommended for the TOs to spend more efforts to launch a framework that could enhance their corporate governance system.

**Keywords:** Corporate Governance System, *Takaful*, Saudi Arabia, Ethical Problem.

## INTRODUCTION

An early definition of corporate governance was provided by Fuller (1954: 477) in relation to the economics concept as "good order and workable arrangements". The second definition, based on Commons (1932: 4), "is the means by which order is accomplished in a relation in which potential conflict threatens to undo or upset opportunities to realize mutual gains. These definitions make clear that the concept can be applied to a variety of organizations and institutions, and not limited to economic activities, and can be used in a variety of political and social science."

The World Bank has defined the concept of governance, broadly, as the political and institutional factors affecting structural adjustment (Frischtak and Atiyas, 1996). OECD has also defined governance from the particular viewpoint of donor institutions as denoting the use of political authority and exercise of control in a society in relation to the management of its resources for social and economic development (OECD, 1995).

The word governance has been traced back to the Greek etymological root of the word *kybernan*, to the Latin *gubernare* and to the Old French *governer*, which means to 'steer', 'guide' or 'govern'[1]. Additionally, Arabic officially translates governance as *hawkama* (Chapra and Ahmed, 2002; Sourial, 2004; Lewis, 2005).

Proper governance arrangements are considered as preconditions for the workings of a market economy; however, what is also required is a culture of business. Hence, the system of corporate governance interacts with a number of other factors that shape the business environment and thus influences business outcomes. Corporate governance involves the conditions needed by any organized society engaged in productive activities. Such society needs to establish conditions or rules related to business organization, conditions related to (entry and establishment, form of business enterprise, ownership, financing, operation, exit and closure) (Lewis and Iqbal, 2009).

Accordingly any weakness in the connections between these stakeholders can lead to substantial diversion of assets by managers in many privatized firms, and a non-existence of external capital supply to firms, such as in Russia (Boycko, Shleifer, and Vishny, 1995). A considerable amount of evidence has also documented a prevalence of managerial behaviour that does not serve the interest of investors (Shleifer and Vishny, 1997). Therefore, a good corporate governance system should protect the rights of investors and policyholders by providing answers to how corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. How do the suppliers of finance get managers to return some of the profits to them? How do they make sure that managers do not steal the capital they supply or avoid investing that money in bad projects? How do suppliers of finance control managers? (Shleifer and Vishny, 1997). Alnemer (2013) asserts that corporate governance can be defined as a set of rules and behaviour that determine the manner in which the companies are managed and controlled, strategically managing the relations between the managers, members of the supervisory Authority and the Board of Directors, members / shareholders and other stakeholders.

Corporate governance in all companies, including insurance companies, includes the rules, regulations and institutions that regulate the way in which the governance and control of these companies is performed and implement them in practice. In terms of protecting policyholders in the insurance business, IAIS (2003; 2004) has identified corporate governance as the manner in which the board of directors (BoDs) and senior management oversee the insurers' business. It encompasses the means by which members of the board and senior management are held accountable and responsible for their actions.

It's been noticed that many empirical studies examine the effect of corporate governance on the performance of industrial firms (e.g., Prowse, 1998; Rajan and Zingales, 1998; Vafeas and Theodorou, 1998; Core *et al.*, 1999).While much public and academic interest has been directed at nonfinancial service industries, little attention has been paid to the insurance industry. This research will focuses on the relation between corporate governance and the ideal performance that can be achieved towards policyholders of the *takaful* firms. Hence, Alnemer (2015c) appoint that Corporate governance shall includes corporate discipline,

[1] The Macquarie Encyclopaedia Dictionary, 1990.

transparency, independence, accountability, responsibility, fairness and social responsibility. Alnemer (2015a) also asserts on the accuracy of disclosure on all material matters regarding the insurer, including the financial situation, performance, ownership and governance arrangements, as part of a corporate governance framework, corporate governance also includes compliance with legal and regulatory requirements. Alnemer (2015c) also stresses on treating participants fairly, as TOs might act against the interests of participants. This problem is observed particularly in proprietary structure company, where the BoDs and senior management are considered as shareholder representatives, hence they have fiduciary duty to maximise shareholders value. The company management should have similar fiduciary duty towards the participants. However, as participants lack representation and due to inadequate information environment, TOs management may have ample room for the maximisation of value for the shareholders at the expense of the participants' interests.

It is important for the *takaful* operators (TOs) to implement an innovative cultural environment for better information transformation between upper and lower management levels, and to achieve better communication with the participants Alnemer (2015a). TOs should adopt the best available corporate governance practices as outlined in the international standards bodies for insurance and *takaful* industries. The system should suit stakeholders' needs and wants by providing better communication channels between participants and TOs to achieve better protection to participants' rights (Alnemer, 2015a).

This paper will compare the ideal meanings and definitions of corporate governance with the empirical findings of four published papers that touch on what can be considered as an important pillars of corporate governance. In all, this paper deals with the protection approach of the participants of the *takaful* insurance in Saudi Arabia in accordance with some of the corporate governance common theory. These four papers mainly deals with proper disclosure mechanisms for the *takaful* firms, enough knowledge and education level of the *takaful* products required to be on poses by the *takaful* participants, complying with the preferences that been raised by the *takaful* participants, and satisfying *takaful* participants by all means. Accordingly, Section 2, explains corporate governance models. Section 3, compares the western corporate governance approaches with the Islamic approach. Section 4, explores the challenges that faces corporate governance proper implementations. Section 5, highlight the IFSB efforts to standardize corporate governance approaches on the *takaful* insurance industries. Section 6, explain the process of sampling framework and the empirical method. Section 7, gives a contextualization approach for the research findings. Finally, section 8 draws conclusions.

## CORPORATE GOVERNANCE MODELS

Most of the differences between systems of corporate governance around the world stem from the differences in the nature of legal obligations that managers have towards financiers as well as the differences in how courts interpret and enforce these obligations (Manne, 1965; Easterbrook and Fischel, 1983). Such debates about corporate governance tends to focus on two alternative paradigms or models, with an innovated Islamic model that been modified from the conventional stakeholder model.

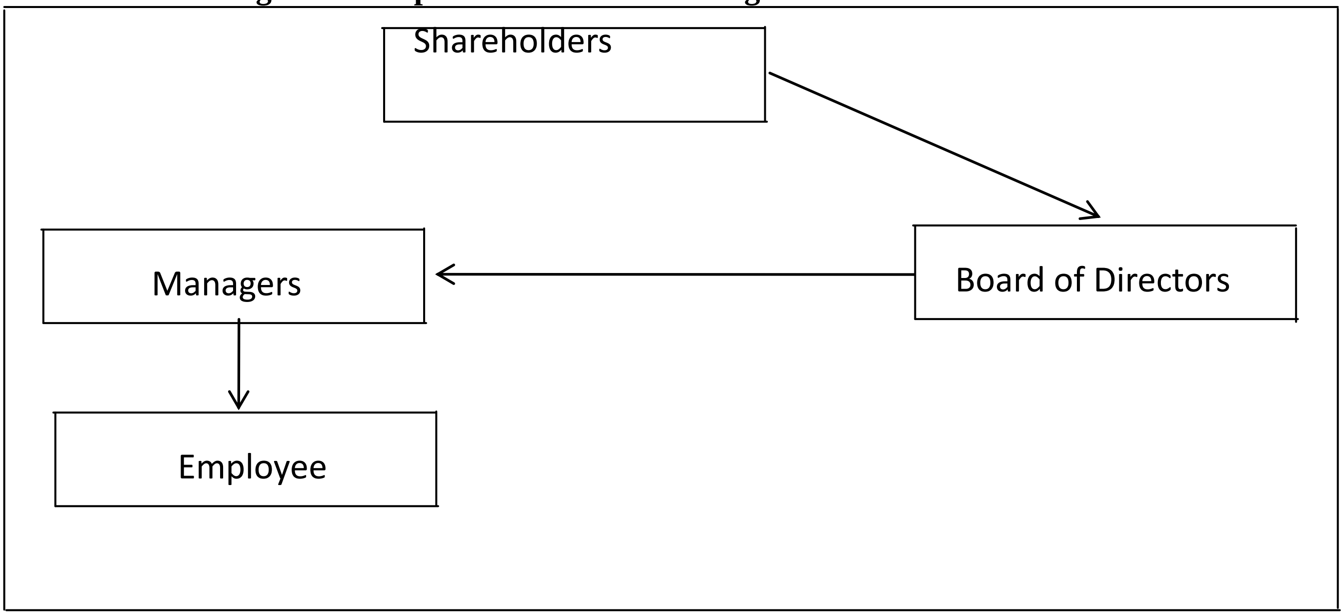
### The Anglo-Saxon Model

Also known as a market-based system or a shareholder value system or principle agent model, it is considered the most dominant theory used in the United States and the United

Kingdom, which is characterized as a relationship between corporations and investors who are concerned about short-term returns (Frank and Mayer, 1994). “The shareholder value system has been the dominant academic view of corporations for many years that are concerned with shareholder value only” (Miller, 2004: 2).

Cernat (2004) explained, as shown in Figure 1 below, that this model is based on the corporate concept of the fiduciary relationship between the shareholders and the managers which is motivated by profit-oriented behaviour. This is derived from the belief of market capitalism in which the interest and the market can function in a self-regulating and balanced manner. Accordingly, share ownership is widely dispersed and shareholders influence on management will be weak, hence the main focus of the Anglo-Saxon system is to protect the interests and rights of shareholders along with typical capital market and ownership features.

**Figure 1: Corporate Governance - Anglo-Saxon Model.**



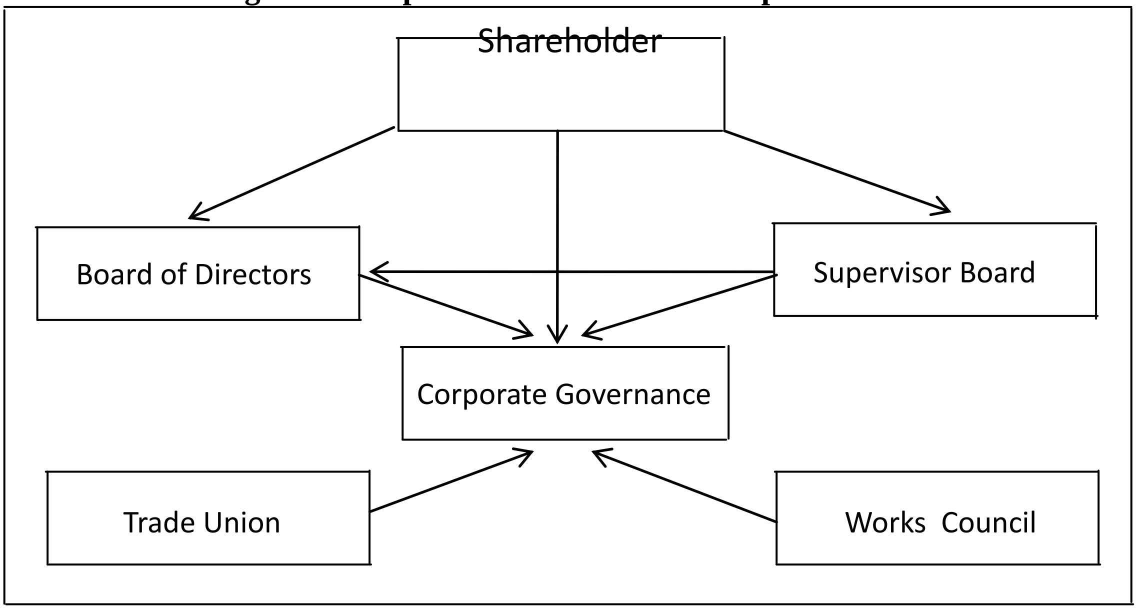

Source: **(**Cernat, L., 2004: 153).

**The European Model**

The continental European or stakeholder model gives consideration to a number of classes of stakeholder including shareholders, creditors and employees. In this system, companies raise most of their external finance from banks that have close, long-term relationships with their corporate customers. The model is focused on a relationship-based model that maximizes the interests of a broader group of shareholders (Adams, 2003: 4). The European model of corporate governance is practiced by the majority of European countries where many large firms are part of the social and economic structure. The European model implies that all stakeholders have the right to participate in corporate decisions that affect them, that managers’ fiduciary duty is to protect the interests of all stakeholders, while the objective of corporations is to promote the interests of all stakeholders and not only shareholders (Mirakhor *et al*, 2004: 46).

The special attribute of the European model of a corporate governance system is the practice of the two-tier system which has been used in Germany and France. The system, as per Figure 2 below, would comprise of an outside supervisory BoDs and a separate management board of executive directors - a structure in which the two boards meet separately (Yvon and Salma, 2005: 7). The same concept has been practiced in France where boards of directors and managers have a duty not only to the company itself but to the employees, trade unions, work councils and to the public at large (Snyder, 2007: 238- 239).

**Figure 2: Corporate Governance - European Model**




Source: (Cernat, L., 2004: 153).

This ongoing debate over the two models has recently been critically reviewed by Letza *et al* (2004: 257) who argued that:

> "The current dichotomised and theoretical approach used in corporate governance research, which presupposes two extreme and opposite ideal models, cannot fully explain the complexity and heterogeneity of corporate reality".

This view is given support in a review of the failure of Enron (Deakin and Konzelmann, 2004) in which they concluded that effective corporate governance would result from directors being regarded as stewards of the longer-term interests of the company.

In fact, the subject of corporate governance is of enormous practical importance. Even in advanced market economies, there is a great deal of disagreement on how good or bad existing governance mechanisms are. For example, Easterbrook and Fischel (1991), Romano (1993), Shleifer and Vishny (1997) made a very optimistic assessment about the United States', Germany's, and Japan's corporate governance systems. These countries have some of the best corporate governance systems in the world, because they are governed through a combination of legal protections that give investors power from expropriation by managers and by concentrated ownership (ownership by large investors). Thus a good corporate governance system should combine some type of large and small investors with a legal protection for both sets of rights, In fact, the opinion of authors who voted that the U.S. corporate governance system is strong, was consolidated with the passage of the Gramm Leach Bliley Act in late 1999 which allowed U.S. banks to enter the insurance business and mandated a greater reliance on internal corporate governance to control the actions of financial institutions (Wang, Jeng and Peng, 2007).

In terms of the insurance industry, Macey and O'Hara (2003) believe that the insurance industry confronts a different set of agency costs and may lack adequate corporate governance controls as a result of the distinctive nature of its assets and liabilities, the special character of its ownership structure, fewer hostile takeovers, and a higher degree of financial leverage.

Therefore, the corporate governance research needs to recognise the complexity and heterogeneity of corporate reality even within the Anglo-Saxon model; this is why most of the international organisations such as OECD, IAIS, and IFSB agree that there is no single model of corporate governance that can work well in every country and for all types of business. Thus each organization should develop its own model that caters for its specific needs and objectives (OECD, 2004; IAIS, 2004; IFSB, 2008, 2009a).

## THE ISLAMIC AND *SHARI'AH* CORPORATE GOVERNANCE MODEL

*Shari'ah* governance on the other hand, is the way of conducting activities in accordance with *Shari'ah.* It entails "the institution pledge not to engage in interest-based debt transactions, not to conduct pure financial transactions disconnected from real economic activity, not to participate in transactions where there is exploitation of any party, and not to participate in activities regarded as harmful to society" (Grais and Pellegrini, 2006: 1).
IFSB (2009b: 2) also identifies "*Shari'ah* Governance System" as:

> "A set of institutional and organisational arrangements through which an IIFS ensures that there is effective independent oversight of *Shari`ah* compliance".

means that Islamic banks have a fiduciary responsibility towards their customers to comply with *Shari'ah* rules and principles at all times (IFSB, 2009b). Accordingly, TOs must duly observe their fundamental obligations towards participants, particularly with regard to compliance with *Shari`ah* rules and principles; *Shari`ah* governance must remain an inherent feature of TOs (IFSB, 2009a).

Corporate governance is one of the most vital elements of any corporation's development and it is even more challenging to the Islamic finance system on account of the additional risk involved when compared to the conventional banking system. For example, a depositor would be exposed to various kinds of risks when an Islamic bank involves itself in risk-sharing modes such as *mudarabah* and *musharakah* (Chapra, 2007: 338). However, despite the fact that conventional corporate governance models are based on attaining maximum profitability, economic efficiency and fair dealing in accordance with moral standards it seems very difficult to use for the Islamic model on account of the following:
(i) Western ethical foundations stem from a secular humanist rather than a religious moral basis, (ii) Western corporate culture in its basic or modified model is based on self-interest rather than the interests of society, and (iii) Available corporate governance models are based on agency theory rather than on stewardship theory (Davis, Schoorman and Donaldson, 1997).

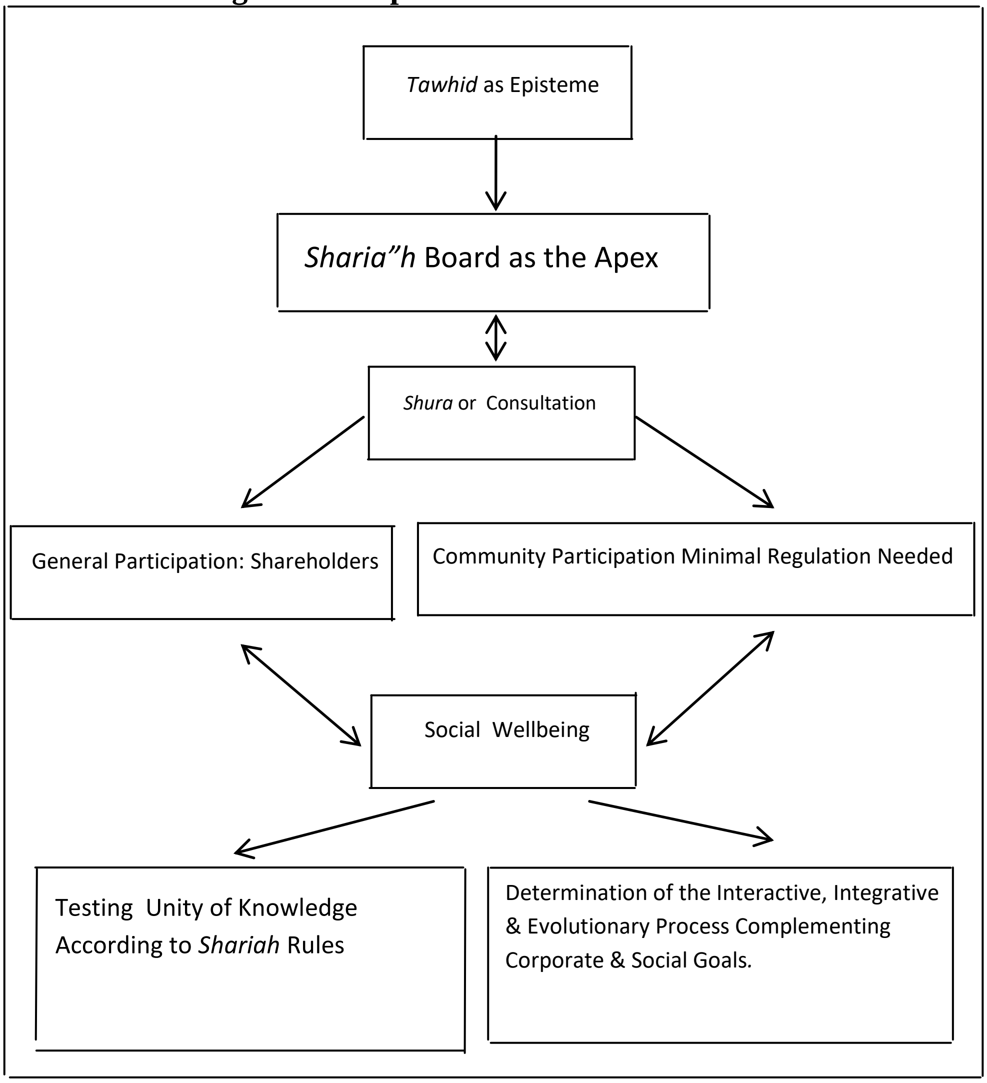
On the other hand, scholars believe that the basis of Islamic corporate governance emanates from the Islamic concept of *tawhid*, or the oneness of God (Allah) (Al-Faruqi, 1982). Nienhaus, (2003: 290) states that "Islamic corporate governance should be value-oriented and promote the principle of fairness and justice with respect to all stakeholders". While Chapra and Ahmed (2002); Mirakhor *et al*, (2004) suggest adopting the stakeholders' model with some modifications. Other scholars argue that Islamic corporate governance is a modified model of the stakeholder-oriented model, which may adopt different elements of corporate governance that are based on the principle of *shura* or consultation where all stakeholders share the same goal of *tawhid* (Choudury and Hoque, 2004).

Figure 3 below represents Choudhury and Hoque's arguments (2004), that there are four principles of Islamic corporate governance which were originally embedded in the *Quran* and *Sunnah.* These principles are an extension of *tawhid* via interactive, integrative and evolutionary processes to the interacting environmental factors; the principles are justice, productive engagement of resources in social, economic activities, and recursive intention amongst the above stages.

Other scholars argue that Islamic corporate governance is a system based on *shura*, *hisba*, and the *Shar'iah* supervisory process and religious audit. The holy *Quran* clearly mandates that any decision involving more than one party should access and consult on the basis of principles of *shura*, that *shuratic* decision-making procedures should provide a vehicle for ensuring that corporate governance activities and strategies are fully discussed and a consensus seeking consultative process is applied. Thus directors and senior managers would be expected to listen to the opinions of other executives before making a decision. *Shura* members would include, as far as possible, representatives of shareholders, employees, suppliers, customers. Also other stakeholders including the community should also play a role in providing mutual cooperation to protect interests as a whole and to stimulate the social wellbeing function for social welfare (Choudhury and Hoque, 2004).

*Hisba* offers a framework of social ethics that encourages and monitors correct and positive ethical behaviour, such as *ihsan* (goodness), *tawakkal* (trust in God), *amanah* (honesty), *infaq* (spending to meet social obligation), *sabr* (patience) and *istislah* (public interest) (Lewis, 2005). *Shari'ah* or Islamic auditing on the other hand, considers a device to solicit juristic advice, and to monitor compliance with *Shari'ah* law by a means of implementing the principles of Islamic economics, which has a direct impact on corporate practices and policies such as *zakah* (the alms tax), and the prohibition of malpractices such as *riba* (usury) and speculation. Also, it should help avoid negative values such as *ihtikar* (hoarding), *zulm* (tyranny), *bukhl* (miserliness), *hirs* (greed), *iktinaz* (hoarding of wealth) and *israf* (extravagance).

**Figure 3: Corporate Governance – Islamic Model**




Source: (Choudury & Hoque, 2004: 80)

Accordingly, there are two main institutions involved in the above process of corporate governance namely, the *Shari'ah* board and the constituents of the *Shura*'s group of participants *i.e.* all the stakeholders.

## *TAKAFUL* CORPORATE GOVERNANCE MODEL

The debate in corporate governance literature has mainly focused on whether corporate governance should focus exclusively on protecting the interests of shareholders or stakeholders (Many and O'Hara, 2003). Thus, good corporate governance is a mechanism that encourages management to work towards the interests of the shareholders, by establishing an effective risk management system, audit committee, a visionary BoDs representing the interest of shareholders and investments account holders (IAH), adequacy of information to shareholders and IAH, *etc* (IFSB, 2009c).

The situation of participants and shareholders in a *takaful* undertaking is comparable to that in Islamic banks where two principals exist *i.e.* shareholders and IAH. In both types of institutions the management is the agent, with the absence of control over other governance rights for both participants and IAH. Accordingly, it is likely that the management would

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prioritize shareholders' interests because (i) shareholders have control of the governance organs in both institutions, *takaful* and Islamic banks, that shareholders will have the power to appoint the TO management, and (ii) there are no incentive structures to make the management act in the interests of participants or the IAH. Such behaviour would cause a conflict of interest between shareholders and participants (Archer, Karim, Nienhaus, 2009). Also Greuning and Iqbal, (2007: 29) stated that,

> "IAH are like quasi-equity holders but without participation in the governance of the Islamic bank. As a result, IAH do not have any direct recourse to the bank to protect their rights".

According to Grais and Pellegrini (2006a), IIFS offer three categories of depositors or IAH accounts: Current, Restricted investment Accounts (RIA) and Unrestricted investment Accounts (UIA). The most similar account to the participants in the *takaful* scheme is UIA holders, since they enter into a *mudaraba* contract with the institution, bearing the risk of the performance of the investment pool, except for misconduct. The UIA holders do not have an institutional voice in the conduct of business, and delegate the appointment of their agent to another principal whose interests may not always accord with theirs.

Furthermore, because the *takaful* hybrid structural scheme is combined of mutual and proprietary, simultaneously following the principles of *taawun*, *tabarru* and the prohibition of *riba*, then a conflict of interest may appear. As TOs are considered the custodian of a *takaful* fund they might exert a good amount of discretion to determine the range of products, pricing, terms and conditions of contracts. An additional conflict arises due to an agency problem; the separation between TOs and participants' funds will raise an asymmetric information and insufficient power of the participants to monitor TOs as a result of lack of representations (Hussain, 2009). Hence, a clear separation is required in Family *takaful* between the assets of the Participant Risk Fund (PRF) and those of the Participant Investment Fund (PIF), as well as between the assets of the T*akaful* Fund and those of the shareholders' funds. Therefore, the accumulation of investment profits in the PIFs requires transparent methods of profit calculation and accounting, and an efficient accounting system to record the declared PIF's profit and credit it to the respective *takaful* PIF (IFSB, 2009a).

However, because proper management of participants underwriting and investment funds determines, among other factors, the returns of shareholders, then shareholders should have a long-term interest in monitoring the performance of the BoDs so that it exercises proper control over management in order to look after the interests of the participants. Such a practice is used by the Islamic banking system to attract IAH, known as vicarious monitoring; shareholders can also minimize their equity as much as they can to mobilize IAH funds to benefit from generated profits under *mudarabah* mechanisms (Archer, Karim, and Nienhaus, 2009). However, the situation would be different in the case of short-term opportunisms or in the absence of effective competition, since it would encourage the benefits of shareholders at the expense of participants (Archer, Karim, and Nienhaus, 2009).

While, the BoDs would serve the interests of shareholders by setting the *wakalah* fee and *mudarib* share of the profit at a level that would give the shareholders a return on their equity comparable to similar instruments in the market. They must, however, bear in mind that they have enough funds to meet participants' claims and to achieve a surplus and to pay or avoid deficit. Thus, by adhering to such a balance, shareholders would exert enough discretion toward participants; in return participants would show similar loyalty toward the company. An alternative action that might be utilised by the BoDs to satisfy participants and IAH is similar to what is currently being used by the Islamic banking system as described by Archer, Karim, and Nienhaus (2009).

(i) Profit Equalization Reserve (PER) which is an amount set aside from the income of both IAH and shareholders before the allocation of the bank's share as *mudarib* to smooth the profit of IAH to match the returns of instruments in the market, thereby encouraging IAH to retain the funds with the bank to manage them on their behalf. (ii) Displaced commercial risk, that banks would ask shareholders to give up part or their entire *mudarib* share to the IAH to motivate them into continuing to place their funds with the bank. This technique is comparable to the situation in *takaful* where shareholders in TOs have to provide capital baking in the form of a standby *qard*-loan facility to finance an underwriting deficit. The difference, however, is that shareholders in banks will not require a refund for their loan, unlike the case in a *takaful* scheme.

Another method that can be used by the TOs simulating those used by the deposit insurance schemes approach to satisfy participants, is what is known as Investment Risk Reserve (IRR) which is likely to encourage management to engage in excessive risk-taking (Grais and Pellegrini, 2006b). However, such a technique might raise the moral hazard awareness of policyholders. Any losses would be financed by the IAH fund and shareholders which could increase the management's risk appetite to a higher level than that of the IAH. The IRR is appropriated from profits after the calculation of the *mudarib* share which is unaffected, while in the case of a loss, *mudarib* share is zero irrespective of the size of the loss. Even if a loss arose due to misconduct and negligence, it could wrongly be absorbed by the IRR, although, according to the *mudarabah* contract it should be borne by the shareholders. It would indeed be difficult for IAH to be aware of such occurrences because of the absence of either adequate disclosure or adequate governance structures to prevent such practices (Grais and Pellegrini, 2006b).

## COMPARISON BETWEEN WESTERN AND ISLAMIC CORPORATE GOVERNANCE MODELS

For decades the managed corporation[2] model of Western corporate governance has dominated the American corporate arena, it has a legacy of the rise of large public companies and dispersed share ownership (Pound, 1995). In this model the managers lead and directors and shareholders follow. Boards and shareholders are kept at a distance from the corporate decision-making process and strategy and policy settings. Boards have the job of hiring managers and firing/rewarding them depending on company performance, while shareholders have the sole function of replacing board members should the corporation not perform well. Hence, the Anglo-Saxon model focuses more on prioritizing shareholders' value alone, while the European model protects all the stakeholders' interests and rights. Islamic corporate governance on the other hand, rejects rationality and rationalism as the episteme of *Shari'ah* corporate governance and replaces it with the episteme of *tawhid* or the oneness of Allah (Hasan, 2009). The ultimate goal of Islamic corporate governance is to protect the interests and rights of all stakeholders by complying with *maqasid al-Shari'ah* (Chapra, 2007). Thus, Islamic corporate governance considers *Shari'ah* to be the governing law of all affairs of the corporation which leads to the establishment of the *Shari'ah* board as part of the corporate governance institution.

[2] Managed model is another name of the Anglo-Saxon Model (Pound, 1995).

## CORPORATE GOVERNANCE CHALLENGES

The main challenge of corporate governance arose from the implications of separating ownership (shareholders) and control (management) of an industrial corporation, in a situation known as an agency problem (Fama and Jensen, 1983).This was supported by the emergence of large firms with dispersed shareholdings in certain countries such as USA and UK (Berle and Means, 1932). The problem arose because the owners were not able to control the management due to asymmetry of information, since the management is much better informed about the firm’s condition and prospects than the owners. Smith (1776: 700) outlined the problem as follows:

> “The directors of joint stock companies are managers of other people's money, hence, it cannot be expected that their actions will be taken with same vigilance as if they are the owners of the company. Therefore, negligence and profusion will always exist in the management of the company”.

Managers might expropriate investors and shareholders resources by entrenching themselves and stay on the job even if they are no longer competent and qualified (Ruback, 1983; Shleifer and Vishny, 1989). However, when managers cannot expropriate resources outright and they have the right not to return money to investors as discussed by Jensen and Meckling (1976) then managers will go ahead with investments that will assure their benefits despite the fact it might be costly for investors. Investors are not guaranteed to get paid if managers, in case of shortage in funds, believe that the future benefit of being able to raise external funds are lower than the cost of paying what the investors already promised. Such a problem unravels so that there is no possibility of external finance because the fact that the legal enforcement contract virtually does not exist, the phenomena is explained as managers paying initial investors with money raised from later investors, thereby creating an illusion of high return (Eaton and Gersovitz, 1981; Bulow and Rogoff, 1989).

In countries like USA and UK, the relevant political philosophy is neo-liberalism, which requires less intervention by the government in the capital market and allows the market to regulate itself giving more priority and protection to shareholders over other interested parties of corporation (Deakin, 1999). Thus, policyholders are always kept in a disadvantageous position, policyholders are treated as ‘customers’ rather than ‘stakeholders’ which leaves them dependent on market forces and competition for protection of their rights (Archer, Karim, and Nienhaus, 2009).

Such treatment exists on account of a lack of product transparency and problems relating to information asymmetry which blunts the effectiveness of market forces (Archer, Karim, and Nienhaus, 2009). While, neo-corporatism is related to stakeholder theory based on the combination of a society's culture and history as well as cultural and social changes that occur with modernisation, economic development and industrialisation.

Unlike neo-liberalism and pluralism, under neo-corporatism the government plays a central role in regulating and organizing the social and economic interests of society such as employers’ organisations and labour unions. Hence, if a neo-corporatist position is adopted, then the issue of control rights for participant’s policyholders has to be considered.

## The Challenge of Information Asymmetry and Stakeholders (FSA Reform)

In United Kingdom, the reform of corporate governance arrangements for life insurers were undertaken after the failures of Equitable on December 8th 2000, as a result of illegal allocation of terminal bonuses between groups of with-profit[3] policyholders, which led the company to reduce terminal bonuses to meet guaranteed annuity claims. However, the claim is not solely responsible for the crises, since the claim of £1.5 billion should not have brought down a society with funds of £32 billion. The problem was a culture of manipulation and concealment of the true state of the company's financial position by the previous senior management team which had allowed a bonus policy to develop (Dewing and Russell, 2001). Despite the clear responsibility placed on the appointed Actuary to inform the board in that regard, the appointed Actuary failed to report to the board, while the board additionally failed to check society policy. As a result, the board found itself in 2000 and 2001 without full knowledge and understanding of the developing position which led to financial weakening (Dewing and Russell, 2001).

Accordingly, one of the important suggestions to prevent this failure to encounter in future is to rely on the regulator to ensure that the continued relevance of the regulatory tools is regularly assessed and implemented, especially in a constantly developing industry. Government also has a responsibility to inform and educate consumers about the nature of the financial system (Dewing and Russell, 2001).

The FSA (2000) has suggested four regulatory objectives: market confidence, public awareness, policyholder protection, and reduction of financial crime. The new regulations will mainly set a minimum amount of capital required to be held by insurers and to provide more protection to policyholders by increasing the accountability of actuaries, auditors and the board, and improves information flows, both in terms of quality and quantity. The FSA has also launched the Financial Capability Steering Group, which will examine the approach to consumer education, since the UK is considered as the world pioneer to incorporate consumer education as a key statutory objective of the financial services regulator (FSA, 2003).

The FSA suggests special corporate governance arrangements for with-profits review to resolve the breadth of discretion of management in managing the fund. Accordingly, the FSA has constructed rules and guidance in relation to treating with-profits policyholders fairly according to the FSA's Conduct of Business Handbook (COBS 20) and the associated Principles: Principle 6, Customers' interests, Principle 7, Communications with clients, and Principle 8, Conflicts of interest (FSA, 2010). The purpose of the guidance principles and rules is to examine the insurance company to support:

I. With-profits policyholders' interests are properly protected.
II. Policyholders receive sufficiently comprehensive, timely and clear information to enable them to view their balance at the fund.

[3] With-profits policies are long-term in nature, where the insurers use the premiums to invest in a pooled of fund, made up of a range of assets; accordingly, it will be a share of profit and loss, and it will be a share in any distributions from the inherited estate, the with-profit will also work as a general investment/savings vehicle (FSA, 2001).

III. Policyholders receive fair payouts and firms apply policy conditions fairly and proportionately to ensure all classes of policyholders are treated fairly.
IV. Policyholders only bear costs that are incurred in the running of the fund.
V. Investments are appropriate to the with-profits fund and do not prevent policyholders from receiving fair pay-outs or bonus distributions.
VI. New business is written on terms that, at a minimum, are unlikely to make existing with-profits policyholders materially worse off (FSA, 2010).

With proposed changes in the role of actuaries, the FSA has removed responsibility for making key decisions on asset allocation and distribution in with-profits funds from the appointed actuary and transferred it to the company BoDs to take full responsibility for its decisions (FSA, 2003). Furthermore, the board's responsibility toward actuarial valuation has increased so that the appointed actuary no longer certifies nor confirms any aspects of regulatory return; this responsibility is in the hands of the board. The boards now will be fully informed of the company important issues, and to provide fair treatments to policyholders, since the actuaries might be put in a position of advocating a shift towards one group of stakeholders (*ex.* policyholders at the expense of shareholders). The FSA has also identified several points of reform towards three roles for actuaries: (i) actuarial function, (ii) with-profit actuary, and, (iii) reviewing actuary (FSA, 2003).

The role of with-profits Actuary will be an advisor to the board. The with-profit Actuary will advise BoDs on the methodology and calculation of the valuation of policyholder liabilities. The reviewing Actuary will report directly and privately to the auditor, giving his/her reasonableness of the valuation of liabilities by the firm, the methods used and the economic, market and actuarial assumptions. As a result, it is not permitted that the Actuary holds a position on the board, because he/she may provide input into other business decisions (FSA, 2003).

The FSA has also imposed certain changes in the rules of the auditors, in that the auditors are now responsible for the audit of liabilities, so that auditors no longer rely on the calculations previously certified by appointed actuaries (FSA, 2003). Auditors are now required to make use of the advice of the reviewing Actuary and to state they have done so in their audit opinion. This change in reporting was described by the FSA as realistic reporting; the new reporting system should increase confidence of users.

## IFSB EFFORTS TO STANDARDIZE THE TAKAFUL INDUSTRY

In an effort to standardise the *takaful* industry, the IFSB has conducted an agreement of development and implementations of the IAIS Core Principles (ICPs) and practice guidelines on the *takaful* industry in order to achieve a number of objectives. One of these objectives is to provide appropriate levels of consumer protection in terms of both risk and disclosure (IFSB, IAIS, 2006). Since, most of the IAIS (2011) Core Principles (ICPs) tend to highlight the correct way of dealing with policyholders both before a contract is entered into through to the point at which all obligations under a contract have been satisfied. A very important core principle of IAIS is (Corporate Governance, ICP 7) focusing on the BoDs because they are supposed to be in charge of insurer performance. One of their many functions is to set out policies that address conflicts of interest, the fair treatment of policyholders and information sharing with stakeholders, while senior management should provide direction on a day-to-day basis in accordance with the firm objectives and policies that were set out by the BoDs.

Accordingly, as the ICPs codes are considered vital to bring protection to policyholders and to provide the required stability to the insurance industry, the IFSB has launched in 2005 a development agreement called the (JWG)[4] with IAIS concerning the applicability of IAIS core principles ICPs issued in 2003 (recently 2011) to the regulatory and supervisory standards for the *takaful* industry, and relying on OECD guidelines for insurers' governance issued in 2005 (recently 2011).

## IFSB STANDARDS AND GUIDELINES FOR *TAKAFUL* OPERATORS

IFSB (2008) has identified several premises and objectives that serve the interest of all parties involved in a *takaful* business arrangement. Accordingly, six guiding principles divided into three parts are put forward for adoption and implementation by TOs. The guiding principles should apply to all *takaful* undertakings, irrespective of their legal status, or operational models. These parts are focused on the reinforcement of good governance practices as in insurance companies while addressing the specificities of *takaful* companies, a balanced approach that calls for their fair treatment of all stakeholders, and an impetus for a more comprehensive prudential framework for *takaful* undertakings. As far as this study is concerned, the following represents some of IFSB recommendations related to dealing fairly with the participants of the *takafull* scheme (IFSB, 2008):

It must address the rights and interests of stakeholders, and assign compliance mechanisms of underwriting and investment according to identified legal and regulatory frameworks. The TOs should also design a balance of governance mechanisms that satisfies all stakeholder parties *i.e.* shareholders and participants. Such a balance environment will create a good and strong culture of governance. The mechanisms will be structured so that a clear segregation of the *takaful* participants' funds from the TOs shareholders' funds will be declared to avoid information asymmetry, misalignment of the incentives of the principal and agent, which results in a reconciliation between shareholders and participants (IFSB, 2008).

TOs shall put in place an appropriate code of ethics requiring employees and agents to observe high standards of integrity, honesty and fair dealing. Thus, codes observation should be conducted periodically via an adequate system that can monitor compliance with this code and to effectively address any dishonourable behaviour. They should strive to assure that the code of ethics is properly delivered by whoever promotes or advertises the *takaful* product, such as a conventional bank with a *takaful* window, brokers, agents, actuaries, representatives, *etc*. In terms of investment activities, TOs should strictly adhere to Islamic ethical codes.

Furthermore, for long-term *takaful* contracts especially family *takaful* plans where long-term relationships are established between *takaful* participants and the TOs, an adequate code of ethics and conduct should be observed by the representatives of the TOs at the point of contract and after the point of contract. For example, in the case of family *takaful* investment products, the pre-contract illustration should be clearly expressed and presented for better understanding and appreciation by *takaful* participants who may not be familiar with *takaful* terminology (IFSB, 2008).

*Takaful* participants must recognize in which structure the company is operating *i.e.* is the company totally established in a mutual structure, or hybrid structure with a proprietary

[4] Joint Working Group.

company as TO, rather than a pure mutual. Under the mutual structure, participants can vote for the appointment of the board and/or the management, while they cannot achieve such goals when the *takaful* scheme is run as a proprietary scheme. However, it should be noted that experience with mutuals in conventional insurance suggests that effective governance by participants can be difficult once they grow above a certain size. In this situation, management may effectively become autonomous (IFSB, 2008). The TOs must establish a mechanism of checks and balances that gives participants appropriate powers to review their PRF and PIF. This ensures the TOs adherence to interest protection while satisfying the mutual assistance scheme among the participants (IFSB, 2008).

## RESEARCH DESIGN

*Takaful* participants are considered the main source of accumulating surplus in the *takaful* fund as they are the main stakeholders and their equity consists of ownership of the underwriting activities and the investment funds. As such, they have a claim on assets of these funds in case of liquidation and they are entitled to have their claim paid if there are enough underwriting funds to finance payout. They are also entitled to share in the distribution of any investment and underwriting surplus. However, the only right that participants can exert on the *takaful* scheme is to vote with their feet by discontinuing their contractual relationship with the company in case of dissatisfactions. Accordingly, as Saudi Arabia remains the largest *takaful* market in the GCC, *takaful* participants in Saudi Arabia were identified to be the main research population for this study. The targeted populations were clients of all TOs in Jeddah, Saudi Arabia, since a number of large TOs have their headquarters in Jeddah. The researcher, with the support of an 8-survey distributer team, has managed to distribute the questionnaires among 9 branches of 3 TOs[7] in Jeddah. The targeted participants are those with a family *takaful* policy. Thus policyholders are expected to have a long-term contract with the TOs and expected to have periodic financial returns (Underwriting Surplus & Investment Return). The participants should not possess *takaful* contracts that belong to corporations, *i.e.* the *takaful* contracts are between the TOs and the participants' directly[8].

Therefore, questionnaire was chosen as the method by which the survey was completed. Questionnaires are a useful tool for investigating patterns and trends in data and are frequently used with success in management, marketing and consumer research (Easterby-Smith *et al.,* 1991). Most of the survey questionnaire was designed with close-ended type questions. The closed-ended or forced-choice type of question is preferable in this research because it will increase the response rate, since it is easier and faster to be answered by the prospective respondents, especially when using a phone-call approach. A drop-off of a self-administered survey questionnaire and telephone calls techniques were used to collect participants' responses. Accordingly, a total of 500 questionnaires were distributed, of which 420 completed questionnaires were received, where 120 questionnaires were rejected, leaving 300 completed and usable questionnaires for the research, yielding a usable response rate of 60 %. The responses yielding a usable rate reflected the success of using these types of questionnaires to attain the aims and objectives of the study. The survey were based on the researcher's readings of comprehensive topics, which address several researchers suggestions and findings and are based on the imposed polices and standards by the international *takaful* and insurance regulators such as AAOIFI, IFSB, IAIS, OECD, *etc*. These policies and standards have one main goal which is to provide proper protection to insurance policyholders, whether the insurance contract is Islamic or conventional. These policies and standards are a part of corporate governance rules towards participant protection which will be achieved by satisfying customer perceptions, needs, wants and preferences which in a way enhance customer satisfaction levels. In terms of policies and regulations, great emphasis was noticed towards satisfying participants' desires to gain financial return and to strictly comply with the *Shari'ah* rules.

## CONTEXTUALISATION OF RESEARCH FINDINGS

On this section, a comparison had been made with what considered ideal definitions of corporate governance with the empirical findings of four different papers that touch on what can be considered as an important pillars of corporate governance. This has one main aim, to find proper protections for *takaful* participants. In which, Lewis and Iqbal (2009) asserts that CG is a system that identified the conditions or rules related to business organization, conditions related to (entry and establishment, form of business enterprise, ownership, financing, operation, exit and closure). While, Tricker (1984) also defined corporate governance as a set of processes by which companies are run. While, Zingales (1995) argues that corporate governance is a system by which directors and managers act in the best interests of outside investors (creditors and shareholders'). IFSB (2009a) also asserts that the TOs should disclose a framework of the *takaful* models which should address the rights and interests of stakeholders, and assign compliance mechanisms of underwriting and investment according to identified legal and regulatory frameworks. Alnemer (2015a) also asserts that a proper disclosure mechanism should be exists for a successful corporate governance system for the *takaful* companies, as a disclosure mechanism considered a hub where all company activities are generated from. However, Alnemer (2015a) empirical findings have found that 276 (92 %) participants have scored low to moderate perceptions with takaful companies to have a proper disclosure mechanism. Such figures reflect a shortfall on TOs' ability to adopt an active disclosure mechanism that can convey participants' financial benefits. Such findings been supported by the empirical findings of alnemer (2015d) as 174 (58 %) participants replied with 'strongly not satisfied' and 'not satisfied', respectively with the profits and income generated from participants investment accounts, while 134 (45 %) participants replied 'strongly not satisfied' and 'not satisfied', respectively with the ways and methods used to distribute investment returns among them.

On the other hand, OECD (2004: 11) defined corporate governance as "a set of relationships between company's management, its board, its shareholders, and other stakeholders". Shleifer and Vishny (1997) define corporate governance as a means of satisfying providers of finance to corporations such that they get returns on their investment. Kaplan and Norton (2000) also claim that corporate governance is intended to establish a connection between directors, managers, employees, shareholders, customers, creditors, and suppliers to the corporation. IAIS (2003; 2004) has also identified corporate governance as the manner in which the board of directors (BoDs) and senior management oversee the insurers' business. It encompasses the means by which members of the board and senior management are held accountable and responsible for their actions. IFSB (2008) asserts that TOs should structure a corporate governance framework that specifies the strategic, operational roles, responsibilities, functions of all organs of the firms including but not limited to the BoDs and its committees, the management, *Shari'ah* governance function (whether in the form of a *Shari'ah* Supervisory Board, as well as the internal and external auditor. However, alnemer (2015a) empirical findings has showed that 276 (92%) participants indicated that the company did not disclose ways to let them review their benefits; 287 (96 %) participants indicated that the company did not use the internet to communicate with them; 206 (69 %) participants indicated that the company is communicating with them by letter and 287 (96 %)

participants indicated that the company did not communicate with them at all. Accordingly, it is recommended that the insurers to companies to let go of the old fashioned paper handling approaches and to establish an active disclosure mechanism that uses the best available IT system to properly disseminate information to the public and to the current customers. In terms of exploring participants' knowledge of TOs key personnel, such as BoDs, shareholders, and others. Surprisingly, all 300 participants were unable to identify any organs of the company, which indicated two possible scenarios: (i) participants are not interested to know the company organs or (ii) *takaful* operators did not disclose the company organs to the public (Alnemer, 2015b). Furthermore, participants were asked to reflect as to whether they understand the kind of financial discretion activities shareholders can exert on the participants' fund. Surprisingly, all 300 participants responded 'don't know' to this question (Alnemer, 2015b). The study also clarifies participants' preferences of TOs' *Shari'ah* compliance. Accordingly, participants were asked if the validity of participants' fund will be affected if SSB was given less time to judge the assets portfolio and 120 (40 %) participants replied with 'agree' and 'strongly agree', respectively. A follow-up question was asked to participants as to their preferences on whether they would like to be given the chance to select the SSB members to which 179 (59.7 %) participants answered with 'agree' and 'strongly agree', respectively. This indicates that participants might require more disclosure on the *Shari'ah* pronouncements/resolutions for the participants' fund.

A considerable amount of evidence has also documented a prevalence of managerial behaviour that does not serve the interest of investors (Shleifer and Vishny, 1997). Therefore, a good corporate governance system should protect the rights of investors and policyholders by providing answers to how corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. How do the suppliers of finance get managers to return some of the profits to them? How do they make sure that managers do not steal the capital they supply or avoid investing that money in bad projects? How do suppliers of finance control managers? (Shleifer and Vishny, 1997). However, Alnemer (2015b) empirical findings has shown those participants' responses to distinction between different types of surplus from the underwriting activities as some companies distribute surplus to participants in the form of net underwriting surplus, while others distribute it as gross underwriting surplus. The used method to distribute underwriting surplus should be disclosed to participants. However, 226 (75.3%) participants replied with 'no' when asked if they can distinguish between types of underwriting surplus which reflects participants' low level of awareness of the technicality of the distribution benefits. Participants' awareness in this matter can make a great difference on their purchasing decisions. If the TOs distribute the net underwriting surplus then participants' expected benefits can be reduced as they will be charged extra percentage as incentive for the good performance of the *takaful* operators. Furthermore, participants were challenged to reveal the conditions that allowed them to share with other participants in the underwriting surplus. Some companies will not allow participants who claimed to share the underwriting surplus, while allowing others. Thus the company should reflect these policies to the participants. The results indicate that 280 (93.3 %) of participants are unaware of the company surplus distribution policies for those who made claims. participants' were also asked to clarify their knowledge of expenses, fees, and *qard hasan* since TOs should advise participants on the types of fees that they are going to charge the participant's fund, such as *wakalah* upfront fees, investment management fees, *etc*. However, the survey indicates that 298 (99.3 %) of participants are not aware of the charged fees (Alnemer, 2015b). While, 281 (93.7 %) of participants have no idea in what circumstances they will be legally required by the company to pay additional contributions to the participants' fund, which indicates an information gap between participants and TOs (Alnemer, 2015b). Furthermore, participants were also asked to clarify if the TOs had called them before recovering a deficit encountered in the participants' fund and 272 (90.7 %) of participants replied 'no'. such findings was supported by the empirical findings of alnemer (2015d), as participants were asked to clarify whether they will be satisfied if the Operator calls on them to pay an additional contribution to recover a deficit on the participant's fund. 201 (67 %) of participants replied with 'strongly not satisfied' and 'not satisfied'. Participants have also shown their dissatisfaction with the incentives deduction from participants fund for good performance in generating underwriting surplus and investment return. 135 (45 %) of participants replied 'strongly not satisfied' and 'not satisfied'. This finding implies three possible scenarios: (i) The financial position of the Saudi TOs are strong enough that they do not encounter a deficit in the fund. (ii) The TOs do not put the burden on participants in case of shortage encountered in the fund and they might compensate this shortage from shareholders' funds by providing *qard* loan. However, they will forward any future underwriting surplus and/or future investment return from the participants' fund to the shareholders' accounts. (iii) TOs might gradually increase participants' regular contributions, to recover the fund deficit. This fact might not be mentioned to the participants to keep the good reputation of the company among participants (Alnemer, 2015b).

Corporate governance in all companies, including insurance companies, includes the rules, regulations and institutions that regulate the way in which the governance and control of these companies is performed and implement them in practice. Corporate governance can also defined as a set of rules and behaviour that determine the manner in which the companies are managed and controlled, strategically managing the relations between the managers, members of the supervisory Authority and the Board of Directors, members / shareholders and other stakeholders (Alnemer, 2013). Hence, on Alnemer (2015b) an exploration has been made to finds out whether participants have enough knowledge of the used model principles. The results showed that 281 (93.7 %) of participants replied 'yes', which indicates that *takaful* company were conveying the necessary information to participants in regards to their products, policies and principles. The findings also explores participant's knowledge with regards to the principles and models of the *takaful* fund has been explored by forwarding two main questions which reflect their knowledge about the fund they are participating in. The first question aims at exploring participants' awareness of the model they are participating in and only 11(3.7 %) participants knew that *wakalah* is the used operating model, while the majority of 147 (49 %) participants chose to pick 'don't know' to answer the question. Participants were also challenged to identify if they are aware of a system that identifies a minimum durations or initial stages, required by the TOs to cancel the contract. Surprisingly, 297 (99 %) participants answered 'no', *i.e.* there is no minimum duration to cancel the contract. However, *takaful* companies will usually indicate a minimum cancellation or surrender period before the maturity of the contract, disobeying this period will expose participants to bear a charge. Participants were also asked on (Alnemer, 2015d) to clarify whether they are satisfied with the shareholders ownership share in the company and 62 % of the participants' replied with neutral 23 % of the participants replied with 'satisfied' and 'strongly satisfied' against 15 % of the participants who replied with 'strongly not satisfied' and 'not satisfied'

Furthermore, for long-term *takaful* contracts especially family *takaful* plans where long-term relationships are established between *takaful* participants and the TOs, an adequate code of ethics and conduct should be observed by the representatives of the TOs at the point of contract and after the point of contract. For example, in the case of family *takaful* investment products, the pre-contract illustration should be clearly expressed and presented for better understanding and appreciation by *takaful* participants who may not be familiar with *takaful* terminology (IFSB, 2008). Hence, the empirical findings of Alnemer (2015a) reflect participants' clarifications as to whether the company communicates with them to discuss their rights in receiving an underwriting surplus and investment return. Their answers were broadly optimistic, 40.7 % and 2.0 % of participants, respectively stated that they 'agree' and 'strongly agree' with the notion that TOs discussed their rights to receive underwriting surplus with them. Also 41.3% and 1.7% respectively stated that they 'agree' and 'strongly agree' with the notion that TOs discussed their rights in receiving investment return with them. Such a result complements participants' answers, as 256 (85.3 %) participants are buying their *takaful* policy for the expected financial benefit. Therefore, it is obvious that participants are more interested in the financial benefits of buying the *takaful* policy rather than for any other reasons. Also, TOs were successful at reflecting the benefits behind buying a *takaful* policy. Furthermore, participants were asked to clarify, whether the *takaful* company had communicated with them regarding their targeted expectations. Hence, their answers were similar: 42.3 % and 1.7 %, respectively of total participants stated that they 'agree' and 'strongly agree' with the notion, while 37.0 % stated that they 'disagree'. Furthermore, when participants were asked to clarify whether the *takaful* company communicates with them regarding their policy in the *takaful* fund, regarding such issues as their expected benefits in the fund, duration of the contract, *etc.*, their answers were quite similar. 42.7% and 1.3 %, of the total participants, respectively stated that they 'agree' and 'strongly agree' with the notion, while 37.0 % stated that they 'disagree' with it.

## SUMMARY AND CONCLUSION

This paper has provided a comprehensives review on the Corporate Governance polices and regulations as per the international insurance organization (IAIS, OECD, IFSB, and AAOIFI). This paper has also identified the main issue related to corporate governance *i.e.* the agency problem, which is a result of the existing ownership separation between the owner (shareholders) and the controller (management), since management is much better informed about the firm's condition and prospects than the owners, which causes asymmetry of information. The current paper reflects the failures of Equitable insurance company which was the result of the failure of the company senior management to convey the required information about the company financial position to the BoDs, with an obvious missing role of the company actuaries to inform the BoDs of the current financial positions of the company which caused the insurance company to declare bankruptcy.

This paper also distinguished between the types of roles that the government can adopt to control the financial system in the country – that the government can either follow the Neo-corporatism or Neo-Liberalism system. Furthermore, insurance companies can adopt a certain corporate governance to run their business, that the companies can follow the Anglo-Saxon Model, the European Model or the Islamic corporate governance Model.

To resolve the issue of the agency problem in the *takaful* industry which might cause denial of some of the participant's rights, the IFSB and the IAIS (2006) has conducted a Joint Working Group, which aims to implement the IAIS conventional insurance core principles into a suitable set of core principles that can suit the *takaful* insurance industry, since most of the IAIS (2011) Core Principles are aimed to provide better treatment of policyholders. The IFSB (2008) has also made a couple of recommendations which eventually will serve the financial benefits of the contributed participants. This paper also highlighted some of the FSA roles that give better protection to policyholders. Finally and most importantly this paper have made a comparison between the ideal definitions of corporate governance with the empirical findings of four different papers that touch on what can be considered as an important pillars of corporate governance. Hence, a shortfall been noticed on TOs' ability to adopt an active disclosure mechanism that can convey participants' financial benefits. Another shortfall been rose that there is a weak in communications with participants, since it's been recommended for the TO's to adopt a smart IT system to properly disseminate information to the public and to the current customers, which in a way enhances participants knowledge about their right in the *takaful* fund. This paper also showed the dissatisfaction position of *takaful* participants with the used way to distribute financial benefits among them.

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