

ACCOUNTING PRACTICES AMONG TAKAFUL OPERATORS IN MALAYSIA: A COMPARATIVE ANALYSIS

By

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1.0 Introduction

Takaful is a fast growing and developing industry. The main reason for the growth and development was the opportunity to offer an Islamic and *Shari'ah* compliant alternative to conventional Insurance. The idea of having a *Shar'iah* based insurance system promulgated from the desire of the followers of Islam to conduct their day to day affairs in accordance with the teachings of Islam and within the Islamic law framework. Under the *Takaful* system, members agree to share the burden and also provide financial equanimity in relation to the defined losses to be paid out. Although there is a common thread governing both *Takaful* and conventional insurance, but the operational frameworks differs slightly. In the *Takaful* system, the elements of *riba'* (interest), *gharar* (uncertainty) and *maysir* (gambling) are avoided, which *shari'ah* scholars observed are prevalent in conventional insurance and thus deemed not adhering to the principles of the *shari'ah*

On the whole, in relation to regulations and supervision, *Takaful* operations in Malaysia are regulated and supervised by Bank Negara Malaysia (BNM), the central bank of Malaysia. Malaysia has also provided the legal validity for the establishment of *Takaful* operators by enactment of the *Takaful* Act 1984. The Act, together with the rules, regulations, guidelines and circulars issued govern *Takaful* business in Malaysia. There are also *shari'ah* base standard that have been produced by Accounting and Auditing Organizations for Islamic Financial Institutions (AAOIFI). Generally, the regulatory and accounting framework used by *Takaful* Operators is relatively new compared to conventional insurance. There is a real need to develop a comprehensive regulatory and accounting framework in order to address the unique features of *Takaful*.

The three primary objectives in this study are first, to explore the nature of *Takaful* and its difference with conventional insurance from a conceptual and operational perspective. Second, to examine *Takaful* accounting reporting and regulations in Malaysia and third, to discover the accounting and reporting standards used by the *Takaful* Operator in Malaysia.

This research is expected to help in providing a precise finding of the operator treatment to surplus and *zakat* which is useful for future research in related area such as *zakat* accounting and surplus treatment for *Takaful* operators.

2.0 LITERATURE REVIEW

2.1 *Takaful* and conventional insurance

Takaful is an alternative to the conventional system especially for Muslims that exist today in the Islamic finance market as it combines all the Islamic principles, rules and law of Islam. According to Kwan (2007), *Takaful* is based on the principles of shared responsibility and mutual cooperation for the protection of members in the event of loss. It means that, under the *Takaful* system, members of society mutually and voluntarily agree to contribute money to support a common goal of providing mutual financial aid to the members of the group in relation to specific needs. The underlying concept is the element of mutual agreement among the participants of the scheme. *Takaful* is an Arabic word stemming from the word '*kafal*' which means to take care of one's need (Ali, 2006). It basically means joint guarantee. The basic idea of the Islamic insurance is that, it is a financial transaction of a mutual cooperation between two parties to protect one of them from unexpected future material risk (Billah, 2007).

The basic concept of *Takaful* is not contrary so much to conventional insurance although the operational frameworks are really different. Khan (2000) as quoted in Liaquat (2006) defines insurance as a risk transfer mechanism whereby the individual or the business enterprise can shift

some of the uncertainties of life on the shoulder of the other. According to Ali (2000), insurance is to act as a transfer mechanism, to provide peace of mind and protect against losses. Either can handle risk; assumption, combination, transfer, or loss prevention activities. Insurance schemes utilize the combination method by persuading a large number of individuals to pool their risks into a large group to minimize overall risk. On the other hand, as we look into the definition of *Takaful*, it can be understood that *Takaful* used the concept of joint guarantee, mutual cooperation and solidarity. As it also called Islamic Insurance, as the name implies, the insurance that is Islamic means it conforms to Islamic Law (Ismail, 1998). Insurance that conforms to *shari'ah* or *shari'ah* compliant must necessarily follow the sources of *shari'ah*. Kwon (2005) explained that to make the insurance conform to the *shari'ah*, *Takaful* must be policyholder-oriented, not shareholder-oriented. Besides, the contract must be of certainty; that is, the length of the policy period is finite and the amount of premium and the benefit should be known.

There are three main problems that have been highlighted in the conventional insurance especially life insurance (Lewis, 2005). First, there are elements of *gharar* (uncertainty) in conventional insurance since the benefits or premiums that have to be paid depend on the outcome of future events that are not known at the time of signing contract. According to Azman (1997), *Gharar* could exist in insurance in 4 forms: *Gharar* in the outcome, *Gharar* in the existence, *Gharar* in the results of the exchange and finally *Gharar* in the contract period. Ali (2006) clarifies that *gharar* is objected to in any transaction as because it is said to undermine the element of consent necessary for a valid contract. He argued on how there can be mutual consent when one party, because of inadequate information, does not have the correct impression of the material aspects of the contract. According to Engku Ali and Odierno (2008), the existence of *gharar* may deny the contracting parties from equal bargaining power and may result in the inability to make informed decisions as they do not adequately understand the attributes or consequences of the contract. They further mentioned that it should be noted that the prohibition of *gharar* does not strictly apply to charitable and unilateral contract. Thus, the existence of *gharar* in charitable and unilateral contracts is generally tolerated and does not render the contract void or voidable.

Second, conventional insurance is regarded as *maysir* (gambling) because policy holders are held to be betting premiums on the condition that the insurer will make payment (indemnity) consequence to the circumstances of a specified event (Rahim, Lewis and Hassan, 2007). In conventional insurance, the participants will contribute a small sum of money depends on the policy with the hope of gaining larger sums of money and when there is no loss occurred at all, the participants will losses all the premium which has been paid (Tan and Farouq, 2006). On the other hand, if there are loss occurred, the company will be in deficit because the amount of claims is higher than the contributions. In *Takaful*, the nature of its operation is based on mutual cooperation and not enrichment at the expense of another. Both the donor and the donee benefit from the mutual indemnity scheme together (Engku Ali and Odierno, 2008).

The third problem is the elements of *riba'*. There is a practice of *riba'* (interest) and other related practices in the investment activities of the conventional insurance which contravene the rules of *shari'ah* (Akhter, 2009). According to Billah (2001) the distinction between conventional insurance and *Takaful* is more visible with respect to investment of funds. While insurance companies invest their funds in interest-based avenues and without any regard for the concept of *halal* or *haram*. *Takaful* companies undertake only *shari'ah* compliant business and the profits are distributed in accordance with the initially agreed ratios in the *Takaful* contract.

Takaful uses the concept of risk-sharing which is considered as an important element in Islamic Finance (Al-Omar, 1996). This is supported by Hameed (2000) who states that conventional insurance company is a risk taker, whilst the *Takaful* Company is mainly a manager of fund. Under conventional insurance, insurance is a risk transfer mechanism by which an organization can exchange its uncertainty for certainty. The uncertainty experiences would include whether loss will occur, when it will take place, how severe it will be and how many there may be in a year. Insurance offers the opportunity to exchange this uncertain loss with certain loss, i.e. the insurance premium. The organizations or individuals agree to pay fixed premium and in return, the insurance company agree to meet any loss which fall within the terms of the policy. Exchange of uncertain loss with certain loss as it is done in conventional insurance is falls exactly into the *gharar*, meaning and it is

not allowable in Islam. In *Takaful* therefore, there is no transfer of risk from participants to the *Takaful* operator. Risks are shared among participants under a mutual guarantee scheme or *Takaful* scheme. It is part of the merely as *wakeel's* (agent) role to make the scheme works. It is part of the operator's role to ensure that each participant pays equitable contribution, as well to ensure that the unfortunate ones who suffer a loss will get proper compensation.

The fundamental difference lies in the fact that in the *Takaful* concept, the contribution is paid on the basis of *tabarru'* (Ahmad, 2003). This changes the contract because with *tabarru'*, it is the participants themselves who are carrying the risk and not the *Takaful* Operator. The *Takaful* operator is clearly not the owner of the fund but truly its custodian. As such, the *Takaful* operator cannot use the contributions except as intended by the donors i.e. for mutual help. By including the concept of *tabarru'*, the element of *gharar* would be eliminated, which consequently eradicate *maysir* from the transaction. This is because with *tabarru'*, the contract is no longer that of exchange, thus eliminating the problem of deliverability. In addition, the *tabarru'* factor also inculcates the spirit of solidarity, brotherhood and mutual help.

Other differences in *Takaful* are *Takaful* operators invest their funds in financial instruments, which are not forbidden by Islam. However, for conventional insurance, they have the freedom to invest in any financial instruments as long as they will gain a profit. Generally, *Takaful* operators will maintain two separate and distinct accounts - one known as the Participants Fund or policyholders fund and the other one is known as the Shareholders Fund. The term will use interchangeable in this paper. This is different with conventional insurance which only uses one account and they did not make any separation between the operators and participants' funds. In addition, *Takaful* companies must have *Shari'ah* Supervisory Council to monitor their operation to make sure they do not engage in forbidden practices such as *riba'*. *Shari'ah* audit report will be prepared and disclosed to ensure they are operating in compliance to the *shari'ah*. All the differences that have been described above can be summarized in the table below:

Table 2.1: Summary of differences between *Takaful* and insurance

	Takaful	Insurance
Contract	Based on mutual cooperation	Based on commercial factors (sales and purchase)
Concept	Free from the elements of interest (<i>Riba</i>), gambling, (<i>Maysir</i>), and uncertainty (<i>Gharar</i>)	Includes elements of interest (<i>Riba</i>), gambling, (<i>Maysir</i>), and uncertainty (<i>Gharar</i>)
Contribution/ premium	All or part of the contribution paid by the participant is donation to the <i>Takaful</i> Fund, which helps other participants by providing protection against potential risks	The premium paid is owned by conventional insurance companies in exchange for bearing all expected risks
Risk	<i>Takaful</i> used the concept of risk-sharing	Conventional insurance company bear the risk alone
Profit sharing	Based on <i>mudharabah</i> and <i>wakalah</i>	Interest practice
Investment	Invest in <i>shari'ah</i> compliance fund	Not necessarily invest in <i>shari'ah</i> compliance fund
Segregation of fund	Full segregation between the Participants <i>Takaful</i> Fund account and the shareholders' accounts	No segregation of fund and all considered belong to shareholders
Role of Takaful operator/ Insurance company	<i>Takaful</i> Operator is the manager of funds	Conventional insurance company is the risk taker

2.2 The available of Takaful Accounting Standards

2.2.1 Rules and Guidelines by Bank Negara Malaysia

There are a few guidelines that have been issued by BNM which cover all aspects in the operation of Takaful namely as Minimum Paid-up Capital Requirement for Takaful Operators, Anti-Money Laundering and Counter Financing of Terrorism, Stress test to be conducted by Takaful Operators, Guidelines on related party transactions for Takaful Operators, Guidelines on the Governance of *Shari'ah* Committee for the Islamic Financial Institutions, Internet Takaful, Appointment of External Auditors by Takaful and Retakaful Operators, Guidelines on Investment Management for Takaful Operators, Guidelines on Introduction of New Products for Insurance Companies and Takaful Operators, Guideline on Takaful operational framework and lastly Guidelines for Takaful accounting which is known as GPT 6.

The GPT 6 guideline addresses the requirements on the application of Financial Reporting Standards (FRS) and information to be disclosed in the financial statements of *Takaful* Operators. This guideline will bring financial reporting requirements for *Takaful* operators further in line with FRS requirements. It is emphasized in this guideline that *Takaful* operators should ensure that financial statements are prepared in accordance with FRS as approved by MASB to the extent that the standards are consistent with *shari'ah* principles and subject to any general or specific direction or other prescription in the guidelines. *Takaful* operators should present the financial statements according to the following minimum component:

- i. Statement of financial position
- ii. Statement of comprehensive income
- iii. Statement of changes in equity
- iv. Statement of cash flows
- v. Family *Takaful* statement of financial position
- vi. Family *Takaful* statement of comprehensive income
- vii. General *Takaful* statement of financial position
- viii. General *Takaful* statement of comprehensive income
- ix. Explanatory notes which consists of *Takaful* contract liabilities, investments, Reinsurance/*Retakaful* assets, *Takaful* receivables, other receivables, *Takaful* payables, other payables, impairment provision, Expenses liabilities, Gross and net earned contribution, Gross and net benefits and claims, Investment income, Fees and commission expenses, CEO and Directors' remuneration, Amount and nature of earnings from sources which are not permitted by *shari'ah* and how they dispose of the assets generated by prohibited earnings and lastly *zakat*.

2.2.2 AAOIFI Standards

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is an Islamic international autonomous non-for-profit corporate body that prepares accounting, auditing, governance, ethics and *Shari'ah* standards for Islamic financial institutions and the industry. Professional qualification programs (notably CIPA, the *Shari'ah* Advisor and Auditor "CSAA", and the corporate compliance program) are presented now by AAOIFI in its efforts to enhance the industry's human resources base and governance structures.

AAOIFI was established in accordance with the Agreement of Association which was signed by Islamic financial institutions on 1 Safar, 1410H corresponding to 26 February, 1990 in Algiers. Then, it was registered on 11 Ramadan 1411 corresponding to 27 March, 1991 in the State of Bahrain. As an independent international organization, AAOIFI is supported by institutional members (200 members from 45 countries, so far) including central banks, Islamic financial institutions, and other participants from the international Islamic banking and finance industry, worldwide.

AAOIFI has gained assuring support for the implementation of its standards, which are now adopted in the Kingdom of Bahrain, Dubai International Financial Centre, Jordan, Lebanon, Qatar, Sudan and Syria. The relevant authorities in Australia, Indonesia, Malaysia, Pakistan, Kingdom of Saudi Arabia, and South Africa have issued guidelines that are based on AAOIFI's standards and

pronouncements. Currently, there are 3 relevant standards that are related to *Takaful* or Islamic Insurance which are:

1. Financial Accounting Standard (FAS) No. 12 (General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies) which includes :
 - i. A statement of financial position;
 - ii. A statement of policyholder's revenue and expenses;
 - iii. An income statement;
 - iv. A statement of cash flow;
 - v. A statement of changes in owners' equity (Shareholder);
 - vi. A statement of policyholders' surplus (deficit);
 - vii. A statement of sources and uses funds in the *zakah* and charity fund;
 - viii. Notes to the financial statement which are includes of :
 - a. Incorporation and activities
 - b. Major accounting policies which consist of general, recognition of revenue, receivable and investments, transaction and balances in foreign currencies, unearned contribution, outstanding claims, depreciation, employees end service of benefit, development cost, cash and cash equivalent
 - c. Changes in accounting policies
 - d. Supervision of regulatory agency
 - e. *Shari'ah* supervisory board
 - f. *Zakah* and tax treatment
 - g. *Zakat* based
 - h. Cash and cash equivalent
 - i. Investment
 - j. Net fixed assets
 - k. Development cost
 - l. Outstanding claims
 - m. Unearned contribution
 - n. Authorized and paid up capital
 - o. Legal reserves
 - p. Comparative figures
 - q. Disclosure of significant subsequent events
 - r. Earning and expenditures prohibited by *Shari'ah*
 - ix. Any statement, reports and other data which assist in providing information required by users of financial statements if required
2. Financial Accounting Standard (FAS) No. 13 (Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies)
3. Financial Accounting Standard (FAS) No. 15 (Provision and Reserves in Islamic Insurance Companies)

These standards however, have never been enforced on operators for their adoption by BNM but it did indirectly allowed operators to adopt AAOIFI standards on a voluntary basis (Suhaimi, Hameed and Aniza, 2005).

2.4 Comparison between AAOIFI Standards and GPT 6

2.4.1 Accounting and reporting for Contributions

Contribution is the amount paid by participants based on the concept of *tabarru'*. It becomes the revenue or income to *Takaful* fund and become liability to the *Takaful* operator. In both AAOIFI and GPT 6, they have the same requirement for the disclosure of contributions. In the notes of financial statement, it is required for *Takaful* operator to disclose the amount of gross contributions and how they derived to the amount of net earned contributions. The statement of comprehensive income for

general *Takaful* and family *Takaful* should have the amounts of gross contributions and net earned contributions. In the statement of financial position or balance sheet of the *Takaful* operators, unearned contributions should be recorded. Unearned contributions are amount deducted from the contributions paid by policyholders because they relate to the next financial period and are therefore are not recognized as revenue for the current financial period in which the insurance policy has been issued.

2.4.2 Accounting and reporting for Claims

Claims and settlement costs that are incurred during the financial year are recognized when a claimable event occurs and the company is notified. For the treatment of claims, in both standards; AAOIFI and GPT 6, they have the same requirements. Claims should be disclosed in each of *Takaful* funds revenue account. Claims or benefits are included of paid or payable such as for death, surrender, medical and others. The provisions of claims also should be disclosed in each of *Takaful* fund balance sheet as liabilities. Provision is made for the cost of claim together with related expenses incurred but not reported at balance sheet date.

2.4.3 Treatment for underwriting surplus/deficit

In AAOIFI standards, the requirement for the disclosure of underwriting surplus or deficit is more detailed than what is required in GPT 6. Instead, in AAOIFI, it have its own separate section; FAS 13 which was purposely incorporated for the determining and allocating of surplus or deficit in Islamic Insurance Companies. It is required in the standard for *Takaful* operator to provide the statement of policyholders' Surplus or deficit (Appendix B). The *Takaful* operator itself should disclose the methods that they applied in allocating the underwriting surplus and the *shari'ah* basis applied in the notes. Among the methods are:

- i. Using pro-rata share of contributions without distinguishing between those who made claims or not during the financial year or
- ii. Allocation among policyholders after deducting the claims paid during the financial period; or
- iii. Allocation between policyholders and shareholders or
- iv. Allocation using other methods

Other requirements of disclosure in the notes of financial statements include the basis that govern the contractual relationship between the policyholders and shareholders, party that manage the insurance operations and the remuneration it receive, party that manages the investment policyholders' fund and shareholders' funds, and the remuneration received, basis applied by the company in determining the remuneration of the party manage the company investments on the basis of *Mudharabah* or *Wakalah* and basis applied by the company in allocating the profit generated from investing policyholders' fund and shareholders' fund. Besides, the disclosure also should be made if there is any deduction from the remuneration paid to the party that manages the investment insurance operations or any expenses borne by the party that manages the investment funds. These are all among the important elements that required to be disclosed in the notes of financial statement.

However, in GPT 6 guidelines, there is no requirement regarding the disclosure of detail on the underwriting surplus or deficit as per in AAOIFI. In GPT 6, there is only the minimum requirement for *Takaful* Operator to mention in the income statement how they had derived the amount of surplus or deficit. In notes also, they are not required to mention on the underwriting surplus or deficit in detail.

2.4.4 Accounting and reporting or Zakat

In AAOIFI, it is required for *Takaful* operators to provide the statement of sources and uses of funds in the *zakat* and charity fund. In this statement, the period covered should be disclosed. Disclosure also should be made of the company's responsibility for payment of *zakat* on behalf of owners and whether the company collects and pays *zakat* on behalf of their policyholders. Besides, the important elements that should be disclosed are the funds paid by the company from the *zakat* and charity fund during the period and of funds available in the fund at the end of period. The amount of

zakat payable then should be disclosed in the statement of financial position of the *Takaful* Operators. Then, it should be deducted from the gross income in the income statement before arriving at the amount of net income.

In GPT 6, the requirement of treatments for *zakat* is not as detailed as what is required in AAOIFI. Under the disclosure requirement of GPT 6, it is not required for *Takaful* operator to provide the statement of sources and uses of funds in the *zakat* and charity fund. They have to provide the amount of *zakat* payable in income statement and the methods used to compute the amount of *zakat* payable under the notes of financial statement.

2.4.5 Accounting and reporting for *retakaful*

Retakaful is one way of managing risk for *Takaful* operator. As part of good risk management, *Takaful* operators must have in place effective *retakaful* management strategy which is appropriate to the overall risk profile of the *Takaful* business. *Takaful* operators are also expected to monitor, review and update the *retakaful* management strategy on a regular interval in response to changes in the *Takaful* funds' risk profiles. Based on GPT 6 guidelines, *Takaful* operators need to disclose the *retakaful* or reinsurance assets in the notes of financial statement. However, in AAOIFI, these are not emphasized on *retakaful* as what required in GPT 6 guidelines.

2.4.6 Accounting and reporting for management expenses

Management expenses are all the expenses that are related to the cost of managing fund of the shareholders. According to the guidelines by Bank Negara Malaysia, *Takaful* operators shall ensure that management expenses are paid from the shareholders' fund. *Takaful* operators shall not pay expenses out of the *Takaful* fund, except if these are direct claims related expenses or direct investment related expenses. From this, we can understand that in GPT 6, the payment for management expenses is paid by the shareholders and it was recognised in the shareholders' fund as incurred. In GPT 6 also, it requires the disclosure of the details of management expenses in notes of financial statement such as the amount salaries and bonuses, audit fees, directors' fees, outsourcing fees, advertising cost, bank charges and so on. However, in AAOIFI, there are no specific requirements on management expenses as what required in GPT 6 guidelines.

2.4.7 Separation of account for operators and participants

Both AAOIFI standards and GPT 6 guidelines require the financial statements to be disclosed separately between the policyholders and shareholders. In the set of financial statements, there should be the balance Sheet, income statement, cash flow statement and statement of changes in equity for the operators or shareholders. The balance sheet and revenue account for each fund; family *Takaful* and general *Takaful* should be provided separately.

2.4.8 Disclosure requirements

In term of disclosure requirement, both AAOIFI and GPT 6 guidelines have the same disclosure requirement which includes of statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows, family *Takaful* of financial position, family *Takaful* statement of comprehensive income, general *Takaful* statement of financial position, general *Takaful* statement of comprehensive account and the explanatory notes. However, AAOIFI required the preparation of additional statement of sources and uses of funds in the *Zakah* and charity fund. In AAOIFI guidelines, the guidelines provided are more detailed and it contains all the important elements in reporting for *Takaful*. Besides, it provides the example on how the actual statement should be prepared as a guideline to the operator. However, if we compared to the GPT 6 guidelines, it just provided the minimum disclosure and does not covers the important elements in detail.

Overall, when comparing AAOIFI standards with GPT 6, AAOIFI is less detailed in terms of accounting treatment over certain areas of the Islamic insurance operations (e.g. *Retakaful*), but more holistic, focused and specific in some other relatively important reporting areas which are vital to the unique nature of the Islamic insurance operations (Suhaimi, Hameed and Aniza, 2005). However, if we see in terms of scope, AAOIFI standards cover almost all of the areas covered under GPT6. The areas which AAOIFI standards are smaller in scope relative to GPT6 are on the specific accounting treatment on reinsurance, management expenses and acquisition costs, which AAOIFI does not specifically provides. Suhaimi, Hameed and Aniza (2005) opined that, this is perhaps because such areas are rather technical and variations of practice are still acceptable so long as it is within the

boundary of *Shari'ah*. They further state that this will make AAOIFI standards more universal and flexible, thus increasing its acceptability level. However, AAOIFI standards are argued to be more holistic, focused and specific compared to GPT6. This can be proven by the existence of AAOIFI FAS 13 and 15 which covers comprehensively the specific and important areas of surplus or deficit in Islamic insurance companies and provisions and reserves respectively. In terms of explanatory note required by AAOIFI, we can see it is more detailed and comprehensive.

However, there are also some issues that are not covered and addressed by AAOIFI and these where the enhancement should be done in order to improve the standards and make it comprehensive and complete. Here, we can say that most of the guidelines in GPT 6 resemble AAOIFI, but it is just the minimum disclosure requirement by AAOIFI.

Table 2.1
Summary of comparison between AAOIFI and GPT 6

	AAOIFI	GPT 6
Accounting and reporting for contributions	Disclosed in Takaful funds revenue account	Disclosed in Takaful funds revenue account
Accounting and reporting for claims	Disclosed in Takaful funds revenue account	Disclose in Takaful funds revenue account
Treatment for underwriting surplus/deficit	Required detail disclosure which includes the methods in allocating the surplus, bases that govern the relationship between the policyholders and shareholders, party that manages investments, remuneration basis, profit allocation, any deduction or any expenses	Less detailed required to disclose on income statement on how to derive to the amount of surplus/deficit
Accounting and reporting for zakat	Required detail disclosure such as period covered and provide statement of sources and uses funds in the <i>zakat</i> and charity fund	Required to provide the amount of <i>zakat</i> payable in income statements and the methods to compute amount of <i>zakat</i>
Accounting and reporting for retakaful	Less detailed required for <i>retakaful</i>	Required to disclose the <i>retakaful</i> or reinsurance assets in the notes of financial statement
Accounting and reporting for management expenses	Less detailed required for management expenses	Required the disclosure the details of management expenses in the notes of financial statements such as amount of salaries and bonuses, audit fee, director fees, outsourcing fees, advertising cost and so on.
Separation of account for shareholders and policyholders	Financial statements should be disclosed separately between shareholders and policyholders such as balance sheet, income statement, cash flow statement and changes in equity statements	Financial statements should be disclosed separately between shareholders and policyholders such as balance sheet, income statement, cash flow statement and changes in equity statements
Disclosure requirement	Should disclose statement of financial position, statement of	Should disclose statement of financial position, statement of

	comprehensive income, statement of changes in equity, statement of cash flows, family <i>Takaful</i> of financial position, family <i>Takaful</i> statement of comprehensive income, general <i>Takaful</i> statement of financial position, general <i>Takaful</i> statement of comprehensive account, statement of sources and uses funds in the <i>zakah</i> and charity fund and explanatory notes.	comprehensive income, statement of changes in equity, statement of cash flows, family <i>Takaful</i> of financial position, family <i>Takaful</i> statement of comprehensive income, general <i>Takaful</i> statement of financial position, general <i>Takaful</i> statement of comprehensive account and the explanatory notes.
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3.0 RESEARCH METHODOLOGY

In this research, the primary data collection methodology adopted is using document analysis. By using document analysis, the data is being examined and interpreted to obtain understanding on certain issues. This study requires the researcher to review the annual report for all the *Takaful* Operators in Malaysia. As to date, there are 10 *Takaful* Operators which are listed by Central Bank in Malaysia as a licensed *Takaful* Operator. However, in this study only 7 *Takaful* Operators will be used as samples. This is because the researcher could not get the annual report for HSBC Amanah *Takaful* Berhad since they are public limited company and they claim that their annual report is confidential except for their clients. For the other 2 *Takaful* operators; AIA AFG and Great Eastern *Takaful*, they are relatively new and just started their operation at the end of 2010. Below is the table of 7 *Takaful* Operators and the date of incorporation for each operator:

Table 3.1
Table of sample used

No.	<i>Takaful</i> operators	Date of Establishment
1	Syarikat <i>Takaful</i> Malaysia Berhad	22 nd July 1986
2	Etiqa <i>Takaful</i> Berhad	September 1991
3	<i>Takaful</i> Ikhlas Sdn Bhd	18 th September 2002
4	MAA <i>Takaful</i> Berhad	6 th May 2006
5	Hong Leong Tokyo Marine <i>Takaful</i> Berhad	19 th June 2006
6	Prudential BSN <i>Takaful</i> Berhad	2006
7	CIMB Aviva <i>Takaful</i> Berhad	2006

4.0 ANALYSIS AND DISCUSSION

4.1 Presentation and disclosure

In term of presentation and disclosure, based on the analysis all the *Takaful* operators in Malaysia namely as Syarikat *Takaful* Malaysia Berhad (STMB), *Takaful* Ikhlas Sdn. Bhd (TISB), Hong Leong Tokio Marine *Takaful* (HTLMT), CIMB Aviva *Takaful* (CIMB), Etiqa *Takaful* Berhad (Etiqa), Prudential BSN *Takaful* Sdn. Bhd (BSN) and MAA *Takaful* Berhad (MAA) are adopting GPT 6. They managed to provide all the minimum disclosure requirements by GPT, which are the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows, family *Takaful* of financial position, family *Takaful* statement of comprehensive income, general *Takaful* statement of financial position, general *Takaful* statement of comprehensive account and the explanatory notes. They do not provide any additional statements as proposed by AAOFI.

As for the explanatory notes, they have provided for the financial statements, they have also disclosed all the necessary information as required by GPT 6, including *Takaful* contract liabilities, investments, *Takaful* receivables, other receivables, *Takaful* payables, other payables, impairment provision, expenses liabilities, gross and net earned contribution, gross and net benefits and claims, investment income, fees and commission expenses, CEO and Directors' remuneration and *zakat* except for reinsurance/*Retakaful* assets and the amount and nature of earnings from sources or by means which are not permitted by *shari'ah*. So, here the researcher makes an assumption that they don't have any income or earnings which are not permissible from the *shari'ah* perspective. However, there are 2 *Takaful* Operators which did not disclose the information on *zakat* which are HLTMT and BSN. They are probably do not make any *zakat* payment for the current year. Besides, when observing each of the operators' bases for preparation of financial statement, all claimed that they are following the guidelines by BNM which is GPT 6. So, it is clearly stated that in term of preparing the financial statement, all operators adopt GPT 6.

4.2 Accounting and reporting for contribution

In term of treatment for contributions, all *Takaful* operators disclosed amount of contributions in the revenue account for policyholders' which are divided into family *Takaful* fund and general *Takaful* fund. They also reported the amount of gross contributions before deriving to the amount of net contribution. According to the accounting policies, contribution income for family *Takaful* fund is recognized as soon as the amount of contributions can be reliably measured. Contributions are the amount paid by the participants based on the concept of mutual co-operations. Contribution income generally represents contribution in the *Takaful* fund itself and also the investment linked funds. For general *Takaful* fund, the contributions are recognized in a financial year in respect of risk assumed during that particular financial year. In the revenue account for family *Takaful* fund and general *Takaful* fund, the amount of gross contribution is reported before deriving to the net contribution. The amount of *retakaful* must be deducted from the amount of gross contribution before getting the net contribution amount. For general *Takaful* revenue account, the net contribution then, will be deducted to all net claims incurred, *wakalah* fees and commissions earned before arriving at the conclusion on whether there is surplus or deficit on that particular period.

There should be the amount of unearned contribution reserves (UCR) reported in the balance sheet of general *Takaful* fund if there is any. UCR represents the portion of net contribution income of *Takaful* certificates written that relates to the unexpired periods of certificates at the end of the financial year. There are several methods that are commonly used in determining the actual UCR such as 1/365th methods or non-annual certificates. Based on the analysis, all operators which represent 100% of the operators disclosed amount of gross and net contributions in Family *Takaful* revenue account and General *Takaful* revenue account. However, for the information on UCR, only 4 operators have the information in the balance sheet and the notes. The other 3 *Takaful* Operators; STMB, Etiqa and MAA did not make the disclosure for UCR and the details in the notes and this due to the absence of UCR for the current year.

4.3 Accounting and reporting for claim

Claims should be disclosed in the revenue account of policyholders for general *Takaful* fund and reported as net claims incurred. Generally, all *Takaful* operators disclose the amount of net claims incurred in their general *Takaful* revenue account. The details of net claims incurred should be then disclosed in the notes of financial statement. Based on the analysis done, all operators manage to disclose the needed information.

Another important element to be reported is provisions for outstanding claims. Basically, this provision for outstanding claims should be reported in the balance sheet for both general *Takaful* fund and family *Takaful* fund. The provision of outstanding claims consists of a provision for disability cases and a provision for other benefit cases. The disability claims provision involves periodic payments and is usually due long term. From this study, it shows that all *Takaful* operators disclose the amount of provision for outstanding claims in their balance sheet under the liabilities. Based on the accounting policies, for general *Takaful* fund, the amount of outstanding claims is the best to estimates of the expenditure required together with related expenses less recoveries to settle the present obligation at the balance sheet date. For family *Takaful* fund, claims and settlements cost that

are incurred during the financial year are recognized when a claimable event occurs and the insurer is notified. Claims and provisions for claims are arising on family *Takaful* policies including settlement cost and less *retakaful*, recoveries.

Based on the analysis done, all operators manage to disclose all the required information for claims. Among the required information are the disclosure for amount of net claims incurred in General *Takaful* revenue account, the details of net claims incurred in the notes of financial statement, the disclosure for amount of provision for outstanding claims in General *Takaful* balance sheet and Family *Takaful* balance sheet.

4.3 Underwriting surplus/deficit

For general *Takaful* fund, *Takaful* underwriting surplus are determined for each class of *Takaful* business after taking into account *retakaful*, commissions, unearned contributions, claimed incurred and management expenses. Surplus is distributable in accordance with the term and conditions prescribed by the *shari'ah* committee of the company. All *Takaful* operators managed to disclose the amount of surplus in their general *Takaful* fund.

As for the family *Takaful*, any surplus or deficit is determined by the annual actuarial valuation of family *Takaful* fund. Any actuarial deficit will be made good by the shareholders' fund via benevolent loan or *Qard Hassan*. Surplus distributable to participants is determine after deducting claims/benefits paid and payable, *retakaful* provisions, reserves, commissions and management expenses and it is distributed accordance with the terms and condition prescribed by the *shari'ah* committee of the company. Based on the analysis, all operators have reported for the amount of underwriting surplus in their family *Takaful* fund.

Generally, all operators manage to provide the information as required for underwriting surplus or deficit. There are 4 disclosure that is required to be make which are disclose the amount of underwriting surplus in General *Takaful* revenue account and Family *Takaful* revenue account and distribution of underwriting surplus of General *Takaful* fund and Family *Takaful* fund in the notes of financial statement .However, for the information which is distribution of underwriting surplus of General *Takaful* fund in the notes of financial statement, none of operators manage to disclose that information. Each operators *Takaful* use different approach to report on the underwriting surplus or deficit:

- i. BSN had disclosed the amount of surplus distributed and attributable to the participants under notes no 13 (Family *Takaful* fund) and they do not disclose detail for general *Takaful* fund
- ii. TISB had disclosed the amount of profit allocated to participants from normal surplus under notes no 22 (Family *Takaful* fund) and they did disclose the amount of unallocated surplus carried forward. For general *Takaful* fund, there is deficit for the period
- iii. STMB had disclosed the amount of net surplus attributable to participants for the financial year under notes under 19(General *Takaful* fund) and the profit attributable to participants was disclosed under notes no 18(Family *Takaful* fund)
- iv. Etiqa do not disclosed the amount distributed to the participants from the underwriting surplus for general *Takaful* fund, but they show the amount of profit allocated to participants under note no 11 (Family *Takaful* Fund)
- v. CIMB had disclosed the amount distributed to participants from surplus under notes no 5 for Family *Takaful* fund and notes no 4 for general *Takaful* fund
- vi. HLTMT had disclosed the amount distributed to participants from surplus under notes no 17 b for Family *Takaful* fund and notes no 17 a for general *Takaful* fund
- vii. MAA had disclosed the amount distributed to participants from surplus under notes no 12 for Family *Takaful* fund and notes no 11 for general *Takaful* fund

Based on the observation as described above, most of the *Takaful* operators only disclose the amount of surplus attributable and distributable to the participants without disclosing in detail how it is distributed and methods of distribution. Some of operators do not disclose at all the distributable amount. In sum, there is should be clear guidelines on how the operators should disclose the information for their underwriting surplus.

4.4 Accounting and reporting for *zakat*

In term of accounting and reporting for *zakat*, every *Takaful* operator should disclose the amount of *zakat* payable in the income statements. The methods of computation of *zakat* also should be reported in the notes of financial statement.

Based on the analysis, majority of *Takaful* operators managed to pay *zakat* and disclose the amount of *zakat* payable in the income statement. BSN and HLTMT do not disclose the amount of *zakat* payable and clearly showed that there are not paying *zakat* in 2009. Majority of *Takaful* operators only have minimum disclosure on *zakat* and they do not provide the detailed explanation on the computation of *zakat*. It can be stated that in term of accounting and reporting *zakat*, majority of the operators following the GPT 6 guidelines which require only minimum disclosure. However, there are still 2 operators which failed to do so. This is because no strict regulations imposed by BNM regarding the obligation to pay *zakat* for the operators. In the GPT 6 guidelines, there are only minimum requirements that should be followed.

BNM should more concern on the issues of *zakat* by issuing comprehensive guidelines for the operators. By taking an example from AAOIFI requirement, it is good encouragement for the operators if they can provide the statement of sources and uses of funds in the *zakat* and charity fund. In this statement, the period covered should be disclosed. Disclosure also should be made of the company's responsibility for payment of *zakat* on behalf of owners and whether the company collect and pays *zakat* on behalf of their policyholders. Besides, the important elements that should be disclosed are the funds paid by the company from the *zakat* and charity fund during the period and of funds available in the fund at the end of period. The amount of *zakat* payable then should be disclosed in the statement of financial position of the *Takaful* Operators. Then, it should be deducted from the gross income in the income statement before deriving to the amount of net income. In sum, for accounting and reporting for *zakat*, there is a need for major improvement and the requirements in AAOIFI standard can be guidance for the regulators in issuing more favorable guidelines.

4.5 Accounting and reporting for management expenses

Management expenses of shareholders should be reported and disclosed in the income statement of shareholders as expenses. Management expenses of general *Takaful* fund and family *Takaful* fund are transferred to the shareholders' fund under the principle of *wakalah* and it is reported as revenue. However in the general *Takaful* fund and family *Takaful* fund, *wakalah* is reported as expenses and showed as *Wakalah* fee. Based on the analysis, all *takaful* operators disclose the amount of management expenses in the shareholders account. There are also amount of *wakalah* fee disclose in shareholders account. The amount of *wakalah* fee in shareholders account should be same as what is reported in general *Takaful* and family *Takaful* fund. All *Takaful* operators manage to disclose as what is required.

Apart from that, the detail of management expenses for shareholders and policyholders must be disclosed in the notes of financial statements. Management expenses include staff salaries and bonus, defined contribution plan, other staff cost, auditors' remuneration, directors' remuneration, *shari'ah* committee remuneration, depreciation expenses, amortization expenses, professional fees and so on.

Based on observation, it shows that all operators disclose the detail of management expenses as what required in their annual report. All the operators managed to disclose amount of management expenses in shareholders account, amount of *Wakalah* fees in shareholders account, amount of *Wakalah* fees in general *Takaful* account, amount of *Wakalah* fees in family *Takaful* account and the detail of management expense in the notes of financial statements. Among the details are staff salaries and bonus, defined contribution plan, other staff cost, auditors' remuneration, directors' remuneration, *shari'ah* committee remuneration, depreciation expenses, amortization expenses, professional fees and so on . From the analysis done, it proves that in accounting and reporting for management expenses, they are following the requirement by GPT 6 guidelines.

4.6 Accounting and reporting for *retakaful*

All *Takaful* operators disclosed only the amount of *retakaful* in the general *Takaful* fund and family *Takaful* fund. They do not disclose the detail of *retakaful* in the notes of financial statement. As required by GPT 6, all *Takaful* operators should disclose in the notes regarding the *retakaful* or reinsurance assets. However, none of the *Takaful* operators managed to do as required. This is because there are no strict regulations regarding the disclosure of details for *retakaful* in the financial statements. As in the GPT 6, the operators are only required to put the information regarding the *retakaful* assets in the notes. However, none of operators manage to do that even if it was just a minimum requirement.

Basically, in reporting for *retakaful*, the operators should be more transparent by disclosing the necessary information such as where did they put their money and how much is the segregation for each funds. This information is useful because people need to know how actually the *Takaful* operators are sharing their risks. BNM role is just to provide the guidelines on the concept of *retakaful*, but not in term of the reporting. There should be detailed requirements provided by BNM in their guidelines from the reporting part. This is to ensure that operators can provide the necessary information for the users. In sum, in term of accounting and reporting, all the operators just follow the minimum requirements as stated in GPT 6.

4.7 Information on supervisory activities

The *Takaful* operators should have dual audit transactions which are the financial audit report and the audit of *shari'ah* compliance report. Every *Takaful* operators should be able provide two reports in their annual report; independent auditors report which basically audit the financial part and report form *shari'ah* committee report which look to the compliance of *shari'ah*.

Based on analysis, all operators have provided the financial audit report and *shari'ah* audit report by committee in their annual report. The financial audit report has been provided by the external auditor and the *shari'ah* audit report has been prepared by the *shari'ah* committee of the operators or called as *shari'ah* advisory board. However, the *shari'ah* audit report that was presented by all the operators is not detailed and in the *shari'ah* committee only expressed their opinion which they reported that the operations of *Takaful* operator had been conducted in conformity with the *shari'ah* requirements. *Shari'ah* audit report should contain detailed information such as the opinion on how the operators distribute their surplus, is there any gains realized from the prohibited sources or from methods that are forbidden and is the calculation of *zakah* is in compliance with Islamic *shari'ah* rules and principles are not. Other information on procedures, review process, agreement and contract reviews also were not disclosed.

The information disclosed in *Shari'ah* audit report of the *Takaful* operators is not sufficient for the shareholders to assess the overall performance and also activities of the banks. Lacking aspects such human resource development particularly training of *Shari'ah* committee should be disclosed in the report as the shareholders will feel confident that the *Shari'ah* audit report is totally relevant and complied with *Shari'ah* guidelines. The *Shari'ah* committee for the *Takaful* Operators also should take an initiative to disclose additional information with regard to the management of assets and liabilities and provide some recommendation to the banks on how they can properly manage the assets and liabilities. Thus, all the information reported in *Shari'ah* audit report should be able to provide strong assurance to the shareholders and other users by disclosing the detailed information in terms of the activities, operations and transactions. This is to ensure that all the activities that carried out by the *Takaful* Operators are in compliance with the *Shari'ah* principles and guidelines.

5.0 CONCLUSION

5.1 Major Findings

From the findings, there are four major findings which needed to be highlighted in this study. First, there is no availability of comprehensive accounting standards in Malaysia which cover all elements in reporting *Takaful*. Second, there is no standardization when doing the accounting practices among *Takaful* Operators in Malaysia. Third, the distribution for underwriting surplus or deficit is not disclosed in detail by all *Takaful* Operators in Malaysia and lastly, absent of disclosure for *zakah*

computation in Takaful reporting. These four major findings are discussed to the context of theoretical framework. Each of the major findings is discussed in detail below:

5.1.1 Non-availability of comprehensive accounting standards in Malaysia

It is found from the study that there is no availability of comprehensive accounting standards issues by any standard setter for *Takaful* Operators which cover all important elements in reporting for Takaful such as distribution for surplus, distribution for *retakaful*, *Takaful* models used and so on. MASB or BNM should be more concerned with the development of *Takaful* sector which requires more attention as this sector is growing fast. Presently, MASB has issued several standards for other Islamic financial contracts such as *zakat* business and *ijarah*. However, there is no standard for *Takaful* has been provided for the *Takaful* operators. They should provide standards mainly for *Takaful* which covers all important areas as what contained in FRS 4. The AAOIFI standards can be a guide in preparing the *Takaful* accounting standards.

5.1.2 The adoption of GPT 6 by all Takaful Operators

The findings shows that all *Takaful* Operators are adopting GPT 6 in doing their financial reporting. When analyzing the data, the researcher observed that all of the *Takaful* operators were following the minimum disclosure as required by GPT 6 guidelines. Although all operators state in basic of compliance that there are preparing their financial statements bases on requirement GPT 6, there are some elements that still not disclosed properly and need more concern such as the information on *retakaful* assets and *zakat*. Not all the operators disclose the information on *retakaful* assets and *zakat* in their financial statements. There are also some operators that used different approaches when disclosing their information. For example, in the annual report of STMB, they disclose on the notes of financial statements regarding the source of funds for their general *Takaful* fund and family *Takaful* fund such as Asean Takaful group *Retakaful* pool and so on. However, most of the operators do not state the information on sources of fund in their financial statement.

5.1.3 Absence of disclosure for distribution of underwriting surplus

Another important finding for *Takaful* Operators in Malaysia is that there is no disclosure for distribution of underwriting surplus which is solely important. *Takaful* operators should disclose the method of distribution to be more transparent and as to avoid the misuse of the participants' fund. The participants should be made known on how their contributions are utilized. This is to ensure that the operators do not misuse their contributions, but utilized the contribution in accordance with the *shari'ah* principles. In addition, the information on manners of surplus distribution is very useful for the shareholders in choosing which *Takaful* operators that they might go for. The shareholder will definitely choose the one that have good supervision in managing the funds.

5.1.4 Absence of disclosure for zakat computation

The computations of *zakat* also are not disclosed in detail. Majority of operators just state the method that they are currently used without showing the detailed calculation. *Zakat* is a religious obligation to the Muslim. However by looking on the way that the operators present their treatment of *zakat*, it shows that such treatments need major improvement. A guideline by BNM only requires the operators to mention the information of *zakat* in the notes without emphasizing on what detail that should be disclosed. This study is of the opinion that the disclosure requirement for *zakat* should be improved by defining the necessary details clearly. The detailed disclosure requirements, which may cover the method of *zakat* assessment, the amount of *zakat* paid, and to whom it was paid, may also help stakeholders make informed decisions (Barizah, 2005). These stakeholders, who are mainly the users of the *zakat* information provided by the operator, would include potential and existing investors or shareholders, employees, customers and the Muslim public at large. They would be better able to value the operator's commitment to Islamic precepts and, as a result, the company might be able to project its image in terms of how it is fulfilling its social responsibility. If the stockholders are happy with such information, or with knowing how the operator measures its *zakat* obligation and where it sends this *zakat* fund, the operator may actually increase its goodwill capital.

5.2 Implications from research

In order to improve the practice of accounting reporting in Malaysia, there are some suggestions for future development in *Takaful* field. Admittedly, to ensure the feasibility of comprehensive *Takaful* Accounting Standard and the betterment of the current practice, various constituencies need to be collectively involved. This courteous mission may not become reality if it does not involve several parties. Here are the suggestions for the following parties to take part in the implementation:

- i. **The standard setter.** In Malaysia, the MASB can be considered the most appropriate and important player in issuing a new comprehensive standard for *Takaful*, since it is Malaysia's accounting standard setting body. Its initiatives in preparing standards related to Islamic financial institutions (i.e., FRS *i-1*) and the technical pronouncement for *zakat* on business (i.e., TR *i-1*) are widely acknowledged. As Islamic finance and conventional finance are almost on par, they should be able to issues a comprehensive standard like FRS 4 which is mainly for conventional Insurance Company. By issuing the standards like FRS 4 for the *Takaful* Operators, it can solve the issue of the lack of standardized reporting and regulation for *Takaful*. They can use the AAOIFI as reference, in relation to its comprehensiveness. AAOFI FRS 13 offers useful guidance for *Takaful* Accounting Standards. There is an urgent need to develop the *Takaful* accounting standards that operators can adopts and can be apply nationwide. Accordingly, it is hoped that the MASB's involvement is an indication that we might see a *Takaful* Accounting Standard in the future. Apart from the responsibility for *Takaful* issues, MASB also play an important role in resolving the issues of *zakat* accounting. As stated by Barizah (2005) in her papers, the lack of an applicable standard for corporate *zakat* has contributed to its non-uniform practice in Malaysia. Therefore, she proposed several ways in implementing the *zakat* accounting standards (ZAS). One of the ways was by involving MASB to issue new ZAS. MASB can make collaboration with some other parties such as accounting practitioners, academicians, Muslim scholars, *zakat* centres in order to resolve the issues in *zakat* accounting.
- ii. **The Malaysian Central Bank** as the country's financial policymaker can regulate the proper *zakat* system to be practiced by *Takaful* Operator such as making it mandatory for all *Takaful* Operators to pay *zakat* for every financial year and it should be disclosed in their financial statement. Currently, none of the guidelines or circular issued by BNM for *Takaful* Operators involved in payment of the *zakat*. There is only one sentence in the GPT 6 that state about *zakat* payment. In addition, the government is expected to provide both financial and non-financial types of resources and support to ensure a proper monitoring mechanism and the coordination of the *zakat* practices among the operators. Besides, proper distribution of underwriting surplus also should be regulated by BNM. Currently, there are three differing opinions regarding whether surplus should be returned to the risk management fund; returned to the participants in the surplus account according to their contributions; or shared between the operator and the participants. If the surplus could be shared between the operators and the participants the methods should be clarified. The methods of distribution then should be make obligation for the all *Takaful* Operators to disclose.
- iii. ***Takaful* Operators** itself should voluntarily disclose the necessary information as much as possible as they are providing services for the community especially for Muslims. They should be more transparent especially when it involves the uses of funds of the participants, especially in order to avoid the moral hazards such as the misuse of policyholders' funds. More disclosure should be required on the policyholders' funds, allocation of surplus to policyholders and income from prohibited transaction. This would enhance the quality and the credibility of the *Takaful* sector and allow more loyalty and commitment from policyholders, shareholders and employees. Building public trust in *Takaful* requires increasing transparency in the financial reporting from *Takaful* Operator.
- iv. **Auditors** could play a role in improving corporate governance in *Takaful*, which is necessary due to the increasing number of *Takaful* operators. In the *Takaful* system as well, corporate governance becomes essential for maintaining the efficiency and stability of this sector and not just for protecting the rights of policyholders, shareholders but also the rights of other

internal and external stakeholders. One of the important elements in corporate governance for *Takaful* is *shari'ah* auditing. Standards alone are useless if there is no compliance mechanism (Barizah, 2005). And this is where effective monitoring, through both internal and external auditing mechanisms, comes into play. *Shari'ah* auditing in *Takaful* sector is about investigating all financial statements and accounting procedures of the *Takaful* operator to evaluate its management efficiency and its compliance with *Shari'ah* rulings and with established policies. *Shari'ah* audit guarantees the transparency of the *Takaful* industry and would allow all stakeholders control the compatibility of all operations of the company with the teachings of Islam. In fact, auditors from both the internal *Shari'ah* Supervisory Board of and from outside the organization periodically examine the *Takaful* operator's records and reports to assess its soundness and adherence to the *Sharia's* principles. Among others, they should ensure that this adoption is being done consistently from one period to another.

- v. **Academicians**, both in the accounting and the religious knowledge fields, should contribute their ideas, especially in providing theoretical inputs to the development of comprehensive accounting standards for *Takaful*. Accounting academicians and professors could share their technical knowledge, experience, and expertise in various aspects of accounting that is related to preparing accounting standards. On the same ground, more research should be done to support the improvement on *Takaful* accounting practices and some unresolved issues such as underwriting surplus treatment and computation of *zakat*. Current accounting researches may have some points to share based on their research experiences or outputs which could enhance the standard's applicability. Besides, there are a few accounting academicians might have some religious background that could provide some insights to the team on how to prepare this Islamic-related standard. According to Barizah (2005), such academicians and researchers can perhaps be found in Islamic-related higher learning institutions, namely, the International Islamic University Malaysia, the Islamic Science University of Malaysia, and the Islamic University College.

5.3 Limitations and opportunities for future research

There are several limitations in this study. Firstly, the sample size is too small whereby it was studied from a Malaysian perspective and the document (annual report for 2008 and 2009) are taken from seven *Takaful* Operators licensed by Central Bank of Malaysia only. However, it does not take into consideration the other 2 of *Takaful* Operators which have just give the license by Bank Negara Malaysia in 2011; Great Eastern *Takaful* Berthed and AIA AFG *Takaful* Berthed. Besides, the researcher could not get the information on the HSBC Amanah *Takaful* Sdn Bhd as they claimed that their annual report is confidential.

Methodologically, this study only adopted the document analysis method solely without combining other qualitative research method such as interviews, open ended questions, questionnaires and so on. This study also does not engage with quantitative methods which were much more focused on the collection and analysis of numerical data and statistics. Using mixed methods actually will give strength to the research as it helps to analyze and observe the problems from all sides. However, all these limitations provide the consideration for future researchers.

This study examines accounting practices of *Takaful* Operators in Malaysia. Many other specialized research areas can be explored by future researchers. For instance, in order to make concrete comparison of accounting practices, a researcher may include all *Takaful* Operators employees. Using also other data collection methods such as interview and questionnaire, may give better understanding and get more accurate findings in comparing the accounting practices of the *Takaful* Operators in Malaysia. This research also may be done by using quantitative methods in order to get the findings from a different perception. In addition, since this study concerns only Malaysian accounting practices, future researchers may have interest in comparing Malaysian *Takaful* accounting practices with *Takaful* accounting practices in other countries from the Middle East such as Bahrain as the issuer of AAOIFI standards. Accounting practices in other Islamic countries also like Indonesia, Brunei, and Pakistan may be of notable interest to explore.

5.4 Concluding Remarks

This study has explored the accounting reporting and regulations adopted by *Takaful* Operators in Malaysia. The objectives were to discover the accounting and reporting standards used by the *Takaful* Operator in Malaysia and at the same time examining *Takaful* accounting reporting and regulations available in Malaysia. Besides, this study aims to help in understanding all the elements that makes *Takaful* different from conventional insurance in term of their concept and operation. By using document based study, this study provides findings of accounting practices in the *Takaful* industry. It is observed by this study that the disclosure on the distribution of surplus and computation of *zakat*, were still absent in the annual report and also the non-availability of comprehensive accounting standards in Malaysia. Although Malaysia has experienced the 20 years growth in *Takaful* industry, there are still lacking in term of reporting and regulations in *Takaful* as it focuses more to the conventional insurance.

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