

## **HONG LEONG MSIG TAKAFUL BERHAD (“the Company”) - SHARIAH COMMITTEE CHARTER**

The Shariah Committee charter sets out the mandate, responsibilities and procedures of the Shariah Committee in accordance with principles of good governance set out in the policy documents and guidelines issued by Bank Negara Malaysia (“BNM”) and other relevant regulatory authorities.

The Company shall periodically review and update the Shariah Committee charter in tandem with any changes to regulatory requirements.

### **1. Introduction**

- 1.1 The Shariah Committee has the overall responsibility of providing objective and sound advice to ensure that the Company overall business, are in compliance with Shariah
- 1.2 Chairman of the Shariah Committee primary responsibility is to ensure the effective overall functioning of the Shariah Committee.

### **2. Terms of Reference (“TOR”) of the Shariah Committee**

The main responsibilities of the Shariah Committee are to:

- 2.1 The Shariah Committee has the responsibility to provide objective and sound advice to the Company to ensure that its aims and operations, business, affairs and activities are in compliance with Shariah. This includes:
  - a) providing a decision or advice to the Company on the application of any rulings of the SAC or standards on Shariah matters that are applicable to the operations, business, affairs and activities of the Company;
  - b) providing a decision or advice on matters which require a reference to be made to the SAC;
  - c) providing a decision or advice on the operations, business, affairs and activities of the Company which may trigger a Shariah non-compliance event;
  - d) deliberating and affirming a Shariah non-compliance finding by any relevant functions; and
  - e) endorsing a rectification measure to address a Shariah non-compliance event.
- 2.2 The Shariah Committee shall be accountable for the quality, accuracy and soundness of its own decision or advice.
- 2.3 The Shariah Committee must establish a robust methodology to guide its decision-making process. The Shariah Committee must take into account relevant business and risk practices in arriving at a decision or advice. The following are methodology approaches which shall be

- adopted and analyzed by the Shariah Committee, where appropriate, in making Shariah decision:
- a) To avoid *tatabu' rukhas*
  - b) Consider *maslahah 'am* vis a vis *malahah khas*
  - c) Reputation/image
  - d) Qualitative and quantitative research
  - e) The achievement of *maqasid al-shariah*
  - f) Relevant applicability of *Fiqh* Maxims
  - g) Determination of *makhraj* vis a vis *hilah*
  - h) Determination the *masyaqqah/hajiyat*
  - i) Recognition the ruling under *tasarrufat al-hakim*
  - j) Analyzing *ikhtilaf/qaul rajih*
  - k) Considering *uruf tijari* and its necessity
- 2.4 Where the Shariah Committee has reason to believe that any Shariah issues or matter may affect the safety and soundness of the Company, the Shariah Committee must immediately update the board on such matter.
- 2.5 In cases where the SAC has not made any rulings on a particular matter or the Shariah Committee is not able to arrive at a decision or advice, the Company shall refer to the SAC for a ruling in accordance with Manual Rujukan Institusi Kewangan Islam kepada Majlis Penasihat Syariah. Any requests for a ruling or advice shall be communicated through the Secretariat of the SAC.
- 2.6 In the event where the Shariah Committee decides or advises to place additional restrictions on the operations, business, affairs and activities of the Company in applying the SAC rulings, the Company must:
- a) document the deliberations and justifications of the Shariah Committee decision or advice;
  - b) ascertain the board's views on the decision or advice made by the Shariah Committee with regards to the SAC ruling; and
  - c) ensure immediate notification to the BNM of such decision or advice.
- 2.7 The Company shall ensure that any records of Shariah Committee's decision or advice to be submitted to the Bank, including a rectification plan to address a Shariah non-compliance event (under section 28(3) of the IFSA), is supported with key deliberations, rationale and any significant concerns or dissenting views to the decision or advice.
- 2.8 The Shariah Committee delegates its responsibilities:
- a) as specified in the Mandates of Shariah Committee to Head of Shariah;
  - b) the exercised mandates shall be reported to Shariah Committee in the next Shariah Committee meeting; and
  - c) the Shariah Committee remain fully accountable for the decisions and any ensuing implications arising from the delegated responsibility.

- 2.9 A Shariah Committee member must exercise objectivity in coming up with his judgment and be free from associations or circumstances that may impair the exercise of his professional objectivity. In fulfilling his responsibility, a Shariah Committee member must ensure that his judgment in arriving at a Shariah decision or advice is not affected by his other professional commitments.
- 2.10 A Shariah Committee member must devote sufficient time to prepare for and attend Shariah Committee meetings.
- 2.11 A Shariah Committee member must ensure consistency in providing his views and must not act in a manner that would undermine the rulings of the SAC or any decisions of the Shariah Committee that they represent.
- 2.12 Every Shariah Committee member must disclose the nature and extent of his interest that constitutes or gives rise to a conflict or potential conflict of interest upon the appointment, reappointment or as soon as there is any changes in his circumstances that may affect his status.
- 2.13 A Shariah Committee member must continuously develop a reasonable understanding of the business and operations of the Company and keep abreast with relevant market and regulatory developments. The chairman of the Shariah Committee must lead efforts to manage the Shariah Committee's developmental plans.

### **3. Responsibility of Chairman of the Shariah Committee**

- 3.1 The chairman of the Shariah Committee, in leading the Shariah Committee is responsible for the effective functioning of the Shariah Committee. In fulfilling this role, the chairman of the Shariah Committee must:
  - a) ensure appropriate procedures are in place to govern the Shariah Committee's deliberations and proceedings;
  - b) act as a direct liaison between the board and Shariah Committee to foster greater understanding between both organs;
  - c) ensure that Shariah decisions or advice are made on a sound and well-informed basis, including based on a robust decision-making methodology which ensures that all business, operations and risk implications are considered by the Shariah Committee;
  - d) encourage healthy discussion, participation and contribution, and ensure that dissenting views can be freely expressed and discussed; and
  - e) ensure sufficient records of the discussion leading to formulation of the Shariah Committee's decision or advice are maintained.

### **4. Shariah Committee Meetings**

- 4.1 At minimum, the Company must hold its Shariah Committee meetings at least once in every two (2) months.
- 4.2 A Shariah Committee member must attend at least 75% of the Shariah

- Committee meetings held in each financial year, and must not appoint another person to attend or participate in Shariah Committee meetings on his behalf.
- 4.3 The attendance of members at a Shariah Committee meeting, by way other than physical presence, remains the exception rather than the norm, and is subject to appropriate safeguards to preserve confidentiality of the deliberations.
  - 4.4 The Company shall disclose the number of Shariah Committee meetings held during the financial year and the attendance of every Shariah Committee member in the Company's annual report.
  - 4.5 In respect of the quorum for Shariah Committee meetings, the Company must ensure that there is a majority of Shariah qualified members to be present at each meeting.
  - 4.6 The Company shall ensure that any decision of the Shariah Committee must be made on the basis of simple majority.
  - 4.7 If a matter to be brought before the Shariah Committee gives rise to a conflict of interest to any Shariah Committee members, the Shariah Committee must excuse himself from the discussion and abstain from voting on that particular matter.
  - 4.8 The Company must provide the Shariah Committee with access to all information required and ensure that the information provided is timely, accurate, comprehensive and clear.
  - 4.9 The Company must provide the Shariah Committee with access to advice from third party experts on any matters deliberated by the Shariah Committee as and when required, and the cost of such advice shall be borne by the Company.
  - 4.10 Any party with the knowledge or awareness of a Shariah Committee's access to any relevant information or request for third party expert advice being declined, denied or withheld by any officers or employees of the Company, must inform the board of the situation. The board shall take appropriate action to rectify the situation. Reference to "any party" in this paragraph shall include a Shariah Committee member.
  - 4.11 While the board or senior management may provide useful insights on any business, technical or operational matters discussed during a Shariah Committee meeting, the board and senior management must not exercise undue influence that could hinder the Shariah Committee in exercising objective judgment in its deliberations and decision-making.
  - 4.12 The Company shall ensure that clear and accurate minutes of Shariah Committee meetings are maintained to record the decisions or advice of the Shariah Committee, including the key deliberations, rationale for each decision or advice made, and any significant concerns and dissenting

views.

## 5. Appointment, cessation and disqualification

- 5.1 The Company shall only appoint or reappoint a person to be its Shariah Committee member if the following are fulfilled:
- a) the person is a Muslim individual;
  - b) the person has been assessed to have met the requirements specified in the policy document on Fit and Proper Criteria on a continuous basis; and
  - c) the person is either:
    - i. a Shariah qualified person; or
    - ii. an expert who possesses skills, knowledge and experience relevant to support the roles and responsibilities of the Shariah Committee.
- 5.2 In determining a Shariah qualified person under paragraph (c)(i), the person must fulfil the following:
- a) holds, at minimum, a bachelor's degree in Shariah, which includes study in *Usul Fiqh* (principles of Islamic jurisprudence) or *Fiqh Muamalat* (Islamic transaction/commercial law);
  - b) possesses solid knowledge in Shariah with reasonable Islamic finance knowledge and experience of the relevant industry; and
  - c) demonstrates strong proficiency and knowledge in written and verbal Arabic, with good command in the preferred language of the IFI, either Bahasa Malaysia or English language.
- 5.3 A person is disqualified from being appointed or reappointed, accepting any appointment or reappointment or holding office as a Shariah Committee member of the Company if:
- a) he is an undischarged bankrupt, has suspended payments or has compounded by his creditors whether in or outside Malaysia;
  - b) a charge for criminal offence relating to dishonesty or fraud under any written law or the law of any country, territory or place outside Malaysia, has been proven against him; or
  - c) under any law relating to prevention of crime, drug trafficking or immigration—
    - i. an order for detention, supervision or deportation has been made against him; or
    - ii. any forms of restriction or supervision by bond or otherwise, has been imposed on him.
- 5.4 Where any criminal proceedings are pending in any court for any offence referred to in paragraph 5.3(b) against a Shariah Committee member of the Company, such person shall not:
- a) act in such capacity, hold any other office or act in any other capacity, in the Company; or
  - b) be concerned with, take part or engage in, any manner, whether directly or indirectly, in any activity, affairs or business of, or in relation to, the Company, except as may be permitted by the board subject to such conditions as may be specified by the BNM.

For the purpose of this paragraph, “criminal proceedings” shall be deemed to be pending from the date that the accused person is first charged in court for the offence until the date of the final conclusion of the proceedings, whether in the court of original jurisdiction or, in the event of any appeal by any party, in the court of final appellate jurisdiction.

- 5.5 A Shariah Committee member or his immediate family member must not–
- be an executive of the Company during the tenure of his appointment or within the last two (2) years of his proposed appointment as a Shariah Committee member;
  - be a substantial shareholder, executive director or senior officer of the Company or any of its affiliates; or
  - have a significant business or other contractual relationship with the Company or any of its affiliates within the last two (2) years.
- 5.6 For the purpose of paragraph 5.5(c), the board must clearly define what constitutes a “significant business or other contractual relationship”, taking into account the nature, size and complexity of the Company’s operations.
- 5.7 A Shariah Committee member must not serve the Company for more than nine (9) years.
- 5.8 A Shariah Committee member must not have competing time commitments that may impair his ability to discharge his duties effectively. In respect of multiple appointments, a Shariah Committee member is required to manage his commitments effectively, observe professional objectivity and confidentiality in carrying out his duties.
- 5.9 A Shariah Committee member must not accept any appointment in more than one licensed Islamic bank, one licensed takaful operator and one prescribed institution.
- 5.10 A Shariah Committee member must not be an active politician who is member of any national or state legislative body, or who is an office bearer of, or holds any similar office or position in a political party.
- 5.11 A Shariah Committee member must immediately disclose to the board any circumstances that may affect his ability to meet the minimum requirements under paragraphs 5.1 to 5.10.
- 5.12 The board is encouraged to appoint a Shariah Committee member as a board member. The Shariah Committee member appointed is expected to foster closer integration of Shariah governance consideration within the business and risk strategy of the Company.
- 5.13 A Shariah Committee member whose tenure has expired and is being proposed for reappointment must immediately cease to hold office and act in such capacity, including by participating in any Shariah Committee meetings or holding himself out as a Shariah Committee member of the Company.

- 5.14 Where a Shariah Committee member resigns or is disqualified pursuant to the relevant paragraphs in the Company's policy document, the Company and the Shariah Committee member shall notify the BNM of that fact and its reason immediately or in any cases no later than fourteen (14) days of such circumstance.
- 5.15 The Company shall obtain the prior written approval of the BNM before the Company terminates a Shariah Committee member.

## **6. Composition**

- 6.1 The Company shall ensure that Shariah Committee must be of a sufficient size that:
- reflects the business needs of the Company or the financial group; and
  - enables a conducive environment for sound deliberation of Shariah matters.
- 6.2 The Company must ensure that its Shariah Committee, at minimum, comprise of at least five (5) Shariah committee members.
- 6.3 The Company must ensure that:
- majority of its Shariah Committee members are Shariah qualified persons; and
  - the chairman of the Shariah Committee must be a Shariah qualified person.

## **7. Secretariat to the Shariah Committee**

- 7.1 The Company shall appoint a secretariat to serve the Shariah Committee. The secretariat has the responsibility to provide operational support for effective functioning of the Shariah Committee, which includes:
- coordinating communications and disseminating information among the Shariah Committee, the board and senior management;
  - performing in-depth research and studies on Shariah issues;
  - providing day-to-day advice to relevant parties within the Company on Shariah matters based on the rulings of the SAC and decisions or advice of the Shariah Committee;
  - ensuring proper dissemination of decisions or advice of the Shariah Committee within the Company; and
  - undertaking administrative and secretarial functions to support the Shariah Committee.
- 7.2 Officers who perform the responsibilities in relation to paragraph 7.1(b) and (c) are officers with Shariah qualification.
- 7.3 The Company shall give the Shariah Committee adequate time to deliberate all Shariah matters. In this regard, the secretariat has the responsibility to plan and coordinate Shariah Committee meetings in a manner that promotes sound decision-making by the Shariah Committee.

