

FAQs on IFSB-20:

Key Elements in the Supervisory Review Process of Takāful / Retakāful Undertakings

Q1. Why the Standard is addressing Takāful/ Retakāful undertakings (TU/RTU) rather than on Takāful/ Retakāful Operator (TO/RTO)?

Answer: Addressing the Standard at TU/RTU level is more inclusive as it is applying the intent in using the Standard at fundamental of Takāful by performing a supervisory review of TU/RTU in supervising the relationship between all the funds. As defined in the Standard, TO represents shareholders, who is responsible to manage the funds. In addition, the definition states "a part of the legal entity in which the participants' interests are held". This means TO does not have a separate legal entity, where the legal entity refers generally to the TU as a whole. Furthermore, the definition includes "usually, though not necessary" this point stated to address the practice of Waqf model, where the Waqf fund has a separate legal entity.

However, TU is a broad umbrella that covers all the funds i.e. PRFs, PIFs and SHF. You can notice that the definition includes "if any" to refer to the mutual model of Takāful whereby there is no shareholders fund.

Q2. Does this Standard apply to supervision related to conducting of business?

Answer: Yes, but not in detail with the supervisory review process for conduct of business (in general covers the relationships between a TU/RTU and its customers, including, in particular, the offering and acceptance process, the claims process and other matters arising during the lifetime of a contract).

(Section 4.2)

Q3. To what extent does this Standard apply to all practice Takāful Operator's model in all jurisdictions?

Answer: This Standard is written primarily around structures practices by most TU/RTU so-called hybrid model between a mutual and a shareholder company. However, it is applicable with limited modifications to pure mutual models – as used, for example, in Sudan – and to the cooperative model used in Saudi Arabia.

(Paragraph 15)

Q4. Does supervision follow-up covering supervisory intervention and early warning system?

Answer: This standard applies various types of action, and it distinguishes between (i) supervisory follow-up, aimed at obtaining further information for preventive or corrective actions, and (ii) enforcement, involves use of formal coercive powers and may include penalties. However, the criteria of supervisory intervention and early warning system are subject to respective jurisdictions to define as it varies from jurisdiction to jurisdiction.

(Section 2.2.4)

Q5. How does this Standard guide supervisor in supervising Sharī'ah governance functions in TU/RTU?

Answer: Leveraging on the IFSB 10 "Guiding Principles on Sharī'ah Governance Systems for Institutions Offering Islamic Financial Services" on the basic principles behind a Sharī'ah governance framework, this Standard guided on key elements in evaluating the effectiveness of Sharī'ah governance framework of a TO/RTO, even in jurisdictions where the RSAs do not take or implement positions on substantive Sharī'ah issues.

(Section 3.2)

Q6. What are peculiarity in performing off-site and on-site supervision for TU/RTU performing supervisory review process?

Answer: In addition to a supervisory review on matters related to corporate governance, RSAs also have to supervise matters related to Sharī'ah governance that may lead to Sharī'ah non-compliance during both off-site monitoring e.g. analyzing the structure and on-site inspection, e.g. internal control systems and compliance monitoring.

(Sections 2.2.2 and 2.2.3)

Q7. How does this Standard defined and differentiated between qualitative and quantitative supervision?

Answer: This Standard has been designed to set out principles that RSAs may apply to a variety of circumstances, and not to prescribe specific quantitative standards. For example, it does not specify how often an on-site inspection should be conducted, recommend a particular format of regulatory returns or specify the relative weighting that RSAs should place on particular characteristics of TUs/RTUs when making decisions on supervisory activity.

(Paragraph 11)

Q8. To what extent this Standard is also applicable for regulators that are applying a compliance-based approach?

Answer: Compliance-based approach can readily lead to a checklist mentality, compliance monitoring of some kind is essential to give assurance that intended outcomes are in fact being achieved, and may also help to identify more deeply-seated risks.

(Paragraph 21)

Q9. To what extent the Standard is applicable in supervising Takāful/ Retakāful undertakings within windows operations?

Answer: This Standard was addressing main issues in windows operations, e.g. Qard, segregation of funds, Sharī'ah governance and capital resources and the Standard has to be applied with necessary modifications.

(Section 3.7)

Q10. Given the Takāful Operational Framework plays a significant role in Shari'ah Governance, how does these two inter-related?

Answer: Given the differing approaches of regulatory frameworks and RSAs in different jurisdictions, this Standard does not provide detailed guidance to the RSAs on the mechanism for review of Takāful models operated by TOs/RTOs. The RSA should have a clear understanding of how the model is intended to operate and ensure that any changes have been given proper Shari'ah consideration and also understand whether they have changed the risk profile of the TU/RTU.

(Paragraphs 77 and 79)

Q11. How does ORSA play its role for RSAs to perform is supervisory assessment towards TU/RTU?

Answer: The primary purpose of the ORSA is to assess whether the undertaking's risk management and solvency position is currently adequate and is likely to remain so in the future. In addressing specificities for TU/RTU, ORSA will involve deliberation with Shari'ah board, assessment on Sharī'ah non-compliance and if its powers permit, set an individual capital requirement for the business, covering the PRF, SHF or both.

(Section 3.4.4)