



ISLAMIC FINANCIAL SERVICES BOARD

EXPOSURE DRAFT - 25

DISCLOSURES TO PROMOTE TRANSPARENCY AND MARKET DISCIPLINE FOR *TAKĀFUL/RETAKĀFUL* UNDERTAKINGS

*Comments on this Exposure Draft should be sent to the IFSB's
Secretary-General not later than 25 May 2020 at email
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25 March 2020

ABOUT THE ISLAMIC FINANCIAL SERVICES BOARD (IFSB)

The IFSB is an international standard-setting organisation which was officially inaugurated on 3 November 2002 and started operations on 10 March 2003. The organisation promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include the banking, capital markets and insurance sectors. The standards prepared by the IFSB follow a stringent due process as outlined in its Guidelines and Procedures for the Preparation of Standards/Guidelines, which includes holding several Working Group meetings, issuing exposure drafts and organising public hearings/webinars and reviews by the IFSB's Sharī'ah Board and Technical Committee. The IFSB also conducts research and coordinates initiatives on industry-related issues and organises roundtables, seminars and conferences for regulators and industry stakeholders. Towards this end, the IFSB works closely with relevant international, regional and national organisations, research/educational institutions and market players.

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ABBREVIATIONS

IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principles
IFSB	Islamic Financial Services Board
JWG	Joint Working Group
PIF	Participants' Investment Fund
PRF	Participants' Risk Fund
RSA	Regulatory and Supervisory Authority
RTO	<i>Retakāful</i> Operator
RTU	<i>Retakāful</i> Undertaking
SHF	Shareholders' Fund
TO	<i>Takāful</i> Operator
TU	<i>Takāful</i> Undertaking

SECTION 1: INTRODUCTION

1.1 Background

1. The Islamic Financial Services Board (IFSB), in line with its mandate, works to complement the prudential and supervisory standards issued by the International Association of Insurance Supervisors (IAIS) by addressing the specificities of *takāful* with the aim of contributing to the soundness and stability of the Islamic financial system, particularly the *takāful* industry. This standard responds to one of the recommendations made in the paper entitled “Issues in Regulation and Supervision of *Takāful* (Islamic Insurance)”, produced by the Joint Working Group (JWG) established by the IFSB and the IAIS in 2005.

2. The JWG paper identified four themes for future IFSB work on *takāful*: (i) corporate governance; (ii) financial and prudential regulation; (iii) transparency, reporting and market conduct; and (iv) the supervisory review process. Based on the findings of the JWG paper, the IFSB has published five standards and one guidance note specific to *takāful*.¹ None of these standards deals comprehensively with transparency and market discipline, although several of them refer to its importance and some, particularly IFSB-8 and IFSB-18, make some specific recommendations on the subject.

3. Two cross-sectoral standards published by the IFSB are applicable to all Islamic financial institutions, including *takāful* undertakings.² These also include some specific recommendations relevant to transparency and market discipline.

1.2 Objectives

4. This standard is intended to set out requirements to be applied by regulatory and supervisory authorities (RSAs) to *takāful* undertakings (TUs)/*retakāful*

¹ IFSB-8: *Guiding Principles on Governance for Takāful (Islamic Insurance) Undertakings* [December 2009]; IFSB-11: *Standard on Solvency Requirements for Takāful (Islamic Insurance) Undertakings* [December 2010]; GN-5: *Guidance Note on the Recognition of Ratings by External Credit Assessment Institutions (ECAIs) on Takāful and Retakāful Undertakings* [March 2011]; IFSB-14: *Standard on Risk Management for Takāful (Islamic Insurance) Undertakings* [December 2013]; IFSB-18: *Guiding Principles for Retakāful (Islamic Reinsurance)* [April 2016]; and IFSB-20: *Key Elements in the Supervisory Review Process of Takāful/Retakāful Undertakings* [December 2018].

² IFSB-9: *Guiding Principles on Conduct of Business for Institutions Offering Islamic Financial Services* [December 2009] and IFSB-10: *Guiding Principles on Sharī'ah Governance Systems for Institutions Offering Islamic Financial Services* [December 2009].

undertakings (RTUs) to promote transparency and market discipline by providing sufficient disclosures both to the market and to actual or potential participants. The ultimate goal is to protect the interests of participants, shareholders, investors and other stakeholders, along with maintaining the stability of the *takāful* industry.

5. A number of distinguishing features of *takāful/retakāful* mean that the disclosures required of conventional insurers/reinsurers are not sufficient to meet this need. These features include the models within which most modern TUs/RTUs operate, with multiple funds within a single legal entity, some attributable to participants and some to shareholders, but with financial flows between them. They also include the requirements of Shari'ah governance, including a Shari'ah-compliant investment programme, and the possibility of surplus distributions to participants.

6. The objectives of this standard include the following:

- (i) to facilitate access to relevant, reliable and timely information by *takāful* market players generally, and by *takāful* participants in particular, thereby enhancing their capacity to monitor and assess the performance of TUs;
- (ii) to improve comparability and consistency of all disclosures made by *takāful* operators (TOs);
- (iii) to support financial consumer protection for current and potential participants, by helping TOs to offer useful information disclosures on *takāful* products; and
- (iv) to enable market players to complement and support, through their actions in the market, the implementation of the IFSB standards.

1.3 Scope, Approach and Application

7. This standard covers two types of disclosure, public and private. First, it deals with the key disclosures that should be made publicly by TOs/*retakāful* operators (RTOs) with a view to market discipline. These disclosures have a mainly prudential aim, in order to ensure the soundness and stability of the industry.³ They provide information to stakeholders, whether shareholders, participants, investors,

³ They are analogous to those required under Pillar 3 of the Basel regime from banks, and under the Solvency II regime in the European Union from insurance companies.

intermediaries, analysts or others, to enable them to make judgments about the TU/RTU's soundness and how it is being managed. Their decisions based on the disclosed information will put pressure on the firm to manage itself prudently. Public disclosures about environmental, social and governance (ESG) issues operate in a broadly similar way and, in governance particularly, overlap with the prudential disclosures. ESG disclosures are discussed in section 2.3. The second area of disclosure is disclosures to participants and potential participants about the contract they are considering entering, in order for them to make an informed decision about it, or about the performance of a contract under which they are already participants. There are some overlaps between the two areas of disclosure. The standard does not, however, deal with supervisory reporting, in the sense of information provided (only) to the relevant RSA.

8. In line with the IFSB's Articles of Agreement, the standard is built on the basis of complementing the IAIS standards with the aim of pursuing consistency in quality of disclosure requirements with those applicable to the conventional insurance industry, while bearing in mind the pertinent differences that distinguish the *takāful* industry from conventional insurance. In this regard, the disclosure requirements set out in the Insurance Core Principles (ICPs)⁴ and other documents issued by the IAIS contain various common aspects that are applicable and relevant to both *takāful* and insurance. RSAs may refer to those documents where relevant. However, the IAIS standards do not cover ESG disclosures, and the material here is modelled on the disclosures recommended by the Task Force on Climate-Related Financial Disclosures. Throughout, this standard focuses particularly on the unique characteristics of TUs/RTUs and how they would impact on disclosure requirements.

9. The standard is developed around the *takāful* structure, particularly the hybrid model that is adopted by most TUs/RTUs. (See IFSB-8, paragraph 5, for a detailed discussion of this model.) However, it is applicable to other models – for example, the mutual model used in Sudan and the cooperative model used in Saudi Arabia – with appropriate modifications.

10. The primary focus of the standard is on disclosures at the legal entity (solo) level, and the contractual relationship of participants with a particular TU/RTU.

⁴ In particular, ICPs 19 and 20.

However, some insurance prudential regimes now operate at the group as well as solo level, and references to group disclosures are made at certain points.

11. The standard is applicable to both TUs and RTUs, whether operating under general, family or composite licences, though some disclosures are specific to family TUs/RTUs. However, while public disclosures are generally applicable, RSAs may choose not to apply all the participant disclosures to RTUs, because the *retakāful* arrangement is a business transaction between professional entities. The issue of *retakāful* is further discussed specifically in section 3.1. In addition, market disclosures for *takāful/retakāful* windows need to consider that these are not separate legal entities. The issues for windows and *microtakāful* are further discussed in sections 3.2 and 3.3.

12. The way in which the governance of a TU/RTU is structured can vary depending on a number of factors, including jurisdictional corporate law, which may allow or require different board structures (such as one-tier or two-tier boards). The disclosures in this standard are designed with sufficient flexibility to be applied regardless of differences in corporate structure and legal systems.

13. RSAs should consider proportionality in applying this standard by taking into consideration the nature, scale and complexity of TUs/RTUs and the environment in which they operate. It may not be appropriate to apply all of its requirements to all classes of TU/RTU – for example, to very small TUs/RTUs serving a limited class of clients. In addition, for qualitative disclosures, what constitutes sufficient information will vary by nature, scale and complexity. However, the application of proportionality should always be mindful of the ultimate goal of providing sufficient information to achieve effective transparency and market discipline.

1.4 Implementation Date

14. To encourage consistency in implementation of IFSB standards across jurisdictions, it is recommended that RSAs implement the standard in their jurisdictions effective from January 2023 onwards, taking into account an adequate pre-implementation period starting from the issuance date of this standard for the standard to be embedded into national regulations and guidelines and, where applicable, implemented into supervisory practices. RSAs are encouraged to implement the standard earlier than this date where they are able to do so.

15. The level of implementation of the standard in a particular jurisdiction may be dependent upon, and be without prejudice to, the general legal framework of that jurisdiction.

SECTION 2: DISCLOSURES FOR *TAKĀFUL/RETAKĀFUL* UNDERTAKINGS

2.1 Prudential Disclosures

The supervisor requires TOs/RTOs to disclose relevant and comprehensive information on a timely basis in order to give participants and market players a clear view of their business activities, risks, performance and financial position.

16. Public disclosure of material information is expected to enhance market discipline by providing meaningful and useful information to participants to make decisions on insuring risks with the TU, and to market players (which includes existing and potential investors and other creditors) to make decisions about providing resources to the TU.

17. So far as practical, information should be presented in accordance with applicable jurisdictional, international standards or generally accepted practices so as to aid comparisons between TUs.

18. In setting public disclosure requirements, the supervisor should take into account the information provided in general purpose financial statements and complement it as appropriate. The supervisor should note that TOs/RTOs which provide public general purpose financial reports may largely comply with jurisdictional disclosure standards. Where a supervisor publishes on a regular and timely basis information received from TOs/RTOs, the supervisor may decide not to require those TOs/RTOs to publicly disclose that same information.

19. To the extent that there are differences between the methodologies used in regulatory reporting, general purpose financial reporting and any other items for public disclosure, such differences should be explained and reconciled where possible.

20. Section 1.3 draws attention to the principle of proportionality, under which the supervisor's application of disclosure requirements will depend on the nature, scale and complexity of TUs/RTUs. For example, it may be overly burdensome for a small, private TO/RTO to meet the same requirements developed for large, publicly traded TOs/RTOs. While prudential disclosure requirements may vary, the outcome should

promote market discipline and provide participants and market players with adequate information for their needs.

21. Additionally, the supervisor may decide not to apply prudential disclosure requirements at all if there is no potential threat to the financial system, no public interest need for disclosure, and no legitimately interested party is prevented from receiving information. It is expected that such situations would be exceptional, but could be more relevant for certain types of TO (e.g. captive TOs).

22. Public disclosure may include a description of how information is prepared, including methods applied and assumptions used. Disclosure of methods and assumptions may assist participants and market players in making comparisons between TOs/RTOs. Accounting and actuarial policies, practices and procedures differ not only between jurisdictions but also between TUs/RTUs within the same jurisdiction. Meaningful comparisons can be made only where there is adequate disclosure of how information is prepared.

23. Similarly, meaningful comparisons from one reporting period to another can be made only if the reader is informed how the methods and assumptions of preparation have changed and, if practicable, the impact of that change. Changes over time may not be seen as arbitrary if the reasons for changes in methods and assumptions are explained. If a TO/RTO uses methods and assumptions in the preparation of information that are consistent from period to period, and discloses these, it will assist in the understanding of trends over time.

24. Where changes in methods and assumptions are made, the nature of such changes, the reason for them and their effects, where material, should be disclosed. It may be helpful if information is presented in a manner that facilitates the identification of patterns over time, including providing comparative or corresponding figures from previous periods (e.g. by presenting claims triangulations).

25. In establishing disclosure requirements for its jurisdiction, the supervisor should consider the need for disclosures that deliver key information rather than unnecessary volumes of data. Excessive disclosure requirements will not lead to effective disclosures for participants and market players and will be burdensome for TUs/RTUs.

26. In establishing disclosure requirements, the supervisor should take into account proprietary and confidential information. Proprietary information comprises information on characteristics and details of, for example, *takāful* products, markets,

distribution and internal models and systems that could negatively influence the competitive position of a TU if made available to competitors. Information about participants and insured parties is usually confidential under privacy legislation or contractual arrangements.

27. Proprietary and confidential information affects the scope of the required disclosure of information by TUs about their customer base and details on internal arrangements (e.g. methodologies used or parameter estimates data). The supervisor should strike an appropriate balance between the need for meaningful disclosure and the protection of proprietary and confidential information.

28. A consolidated group as determined under applicable accounting standards may differ from a group for the purposes of supervision. In circumstances where this is the case, the supervisor may require disclosures based on the scope of the group for supervisory purposes. Where the scope of the group of which a TU/RTU is considered to be part is different under applicable accounting standards and solvency standards, it may be appropriate if reasons are provided and an explanation given about the basis on which disclosures have been provided.

29. Disclosures by individual legal entity may cross-refer to group-level disclosures to avoid duplication.

Subject to their nature, scale and complexity, TOs/RTOs make audited financial statements available at least annually.

30. Where audited financial statements are not required by the supervisor given the nature, scale and complexity of a TU/RTU (e.g. for a small local branch office of a foreign TU/RTU), the supervisor may require that similar information is made publicly available by other means.

TOs/RTOs disclose, at least annually and in a way that is publicly accessible, appropriately detailed information on their:

- **company profile;**
- **corporate governance;**
- **Sharī'ah governance;**
- **technical provisions;**
- ***takāful* risk exposure;**

- **financial instruments and other investments;**
- **investment risk exposures;**
- **asset–liability management;**
- **capital adequacy;**
- **liquidity risk; and**
- **financial performance.**

31. In developing disclosure requirements, the supervisor may consider whether such disclosures are:

- easily accessible and up to date;
- comprehensive, reliable and meaningful;
- comparable between different TUs/RTUs operating in the same market;
- consistent over time so as to enable relevant trends to be discerned; and
- aggregated or disaggregated so that useful information is not obscured.

32. Information should be disseminated in ways best designed to bring it to the attention of participants and market players, but taking into account the relative effectiveness and costs of different methods of dissemination (e.g. printed versus digital methods).

33. Information should be provided with sufficient frequency and timeliness to give a meaningful picture of the TU/RTU to participants and market players. The need for timeliness will need to be balanced against that for reliability.

34. Disclosure requirements may also have to balance the interests of reliability against those of relevance or usefulness. For example, in some long-tail classes of *takāful*, realistic projections as to the ultimate cost of incurred claims are highly relevant. However, due to uncertainties, such projections are subject to a high degree of inherent errors of estimation. Qualitative or quantitative information can be used to convey to users an understanding of the relevance and reliability of the information disclosed.

35. Information should be sufficiently comprehensive to enable participants and market players to form a well-rounded view of a TU/RTU's financial condition and performance, business activities, and the risks related to those activities. In order to achieve this, information should be:

- well-explained so that it is meaningful;
- complete, so that it covers all material circumstances of a TU/RTU and, where relevant, those of the group of which it is a member; and
- both appropriately aggregated, so that a proper overall picture of the TU/RTU and of individual funds within it is presented, and sufficiently disaggregated, so that the effect of distinct material items may be separately identified.

36. Information should, so far as practicable, reflect the economic substance of events and transactions as well as their legal form. The information should be neutral (i.e. free from material error or bias) and complete in all material respects.

2.1.1 Company profile

Disclosures include information about the TO/RTO's company profile, such as:

- **the nature of its business;**
- **the *takāful* operating model;**
- **its corporate structure;**
- **key business segments;**
- **the external environment in which it operates;**
- **the vision, mission and values that the firm follows in its operations;**
- and**
- **its objectives and the strategies for achieving those objectives.**

37. The overall aim for the company profile disclosure is for TOs/RTOs to provide a contextual framework for the other information required to be made public.

38. The distinctive characteristics of *takāful* and its complexity in certain products increase the importance of disclosure concerning its operating model. In particular, given the various models adopted in the industry (i.e. *wakalah*, *muḍārabah*, *waqf*, hybrid models, etc.), TOs/RTOs should be required to provide a summary on the

operating model used, including the contracts used, the structure of funds within the TU/RTU, and actual or potential flows of money between them.⁵

39. Disclosures on the nature of the TU/RTU's business and its external environment should assist participants and market players in assessing the strategies adopted by the TO/RTO.

40. Disclosures may include information about the TU/RTU's corporate structure, which should include any material changes that have taken place during the year. This would include any change in the structure of funds within the legal entity – for example, the creation of a new PRF or the winding up of an existing one. For groups, where provided, such disclosures should focus on material aspects, both in terms of the legal entities within the corporate structure and the business functions undertaken within the group. In the event of differences in the composition of a group for supervisory purposes and for public reporting purposes, it would be useful if a description of the entities constituting those differences were also provided.

41. Disclosures may include information on the key business segments, main trends, factors and events that have contributed positively or negatively to the development, performance and position of the firm.

42. Disclosures may include information on the TU/RTU's competitive position and its business models (such as its approach to dealing with and settling claims, or to acquiring new business), as well as significant features of regulatory and legal issues affecting its business.

43. Disclosures may include information about company objectives, strategies and time frames for achieving those objectives, including the approach to risk appetite, methods used to manage risks, and key resources available. To enable participants and market players to assess these objectives, and the TO/RTO's ability to achieve them, it may be appropriate if the TO/RTO also explains significant changes in strategy compared to prior years.

⁵ Examples of the structures of funds within a TU/RTU and the associated flows of money have been given in the appendix to IFSB-8. The details in any specific case will depend on the *takaful* model being used.

44. Key resources available may include both financial and non-financial resources. For non-financial resources, the TO/RTO may, for example, provide information about its human and intellectual capital.

2.1.2 Corporate governance⁶

The supervisor requires that disclosures about the TU/RTU's corporate governance framework provide information on the key features of the framework, including its internal controls and risk management, and how they are implemented.

45. Disclosures should include the manner in which key business activities and control functions are organised, and the mechanism used by the board to oversee these activities and functions, including for changes to key personnel and management committees. Such disclosures should demonstrate how the key activities and control functions, including the internal control framework, fit into a TU/RTU's overall risk management framework. It is desirable for disclosures to provide information pertaining to the responsibilities, composition and remuneration of the board.

46. Segregation of funds – that is, the shareholders' fund (SHF) and participants' funds (both participants' risk fund(s) [PRF] and participants' investment fund(s) [PIF]) – is one of the specificities of *takāful* that a TO/RTO must maintain at all times as part of its fiduciary responsibilities towards participants, and its duties towards stakeholders more generally. Hence, TOs/RTOs should disclose, in the context of the corporate governance framework, how they maintain this segregation and how their governance framework manages any conflicts of interest between parties, and in particular between shareholders and participants.

47. Where a material activity or function of a TO/RTO is outsourced, in part or in whole, disclosures may include the TO/RTO's outsourcing policy and how it maintains oversight of, and accountability for, the outsourced activity or function.

⁶ The IFSB has published a specific standard pertaining to corporate governance. IFSB-8: *Guiding Principles on Governance for Takāful (Islamic Insurance) Undertakings* is built around three central objectives: (a) reinforcing relevant good governance practices, based on those prescribed by other internationally recognised governance standards; (b) striking a balance between the interests and fair treatment of all stakeholders; and (c) providing a solid foundation for all the IFSB's future standards that relate to good governance of *takāful* undertakings.

2.1.3 Shari'ah governance⁷

The supervisor requires that disclosures about the TU/RTU's Shari'ah governance framework provide information on the key features of the framework and its operation.

48. The RSA should require TOs/RTOs to provide information on their Shari'ah governance framework, including the structure, systems, processes and controls employed by them for the purpose of ensuring Shari'ah compliance in their entire *takāful* business activities.

49. The information provided should include specifically:

- (i) a clear statement articulating the board of directors' responsibility and accountability for the Shari'ah governance of the TU/RTU;
- (ii) the names of the Shari'ah board⁸ members;
- (iii) qualifications and areas of expertise of each Shari'ah board member;
- (iv) appointments and changes in Shari'ah board membership;
- (v) the role of the Shari'ah board in supervising the TU/RTU's activities;
- (vi) Shari'ah board *fatāwā*,⁹ along with the rationale supporting them and the process by which the Shari'ah board reached its decisions. The *fatāwā* should be made in accurate terms and in clear, simple, easy-to-understand language and form. Where a *fatwā* relates to a specific transaction, and cannot be disclosed without breaching commercial confidentiality, it may be appropriate to publish a brief summary;
- (vii) any departures by the Shari'ah board from its previous *fatāwā*, or revisions to those *fatāwā*, and the reasoning for such departure or revision;
- (viii) the processes by which Shari'ah decisions are sought and implemented;

⁷ Shari'ah governance is one of the core features that differentiate *takāful* from conventional insurance, and Shari'ah compliance is likely to be a significant consideration for many participants. The IFSB has published a standard for Shari'ah governance. IFSB-10: *Guiding Principles on Shari'ah Governance Systems for Institutions Offering Islamic Financial Services* covers five broad principles in Shari'ah governance: (i) general approach to the Shari'ah governance system, (ii) competence, (iii) independence, (iv) confidentiality, and (v) consistency. One of IFSB-10's aims is to enhance the degree of transparency in terms of issuance of pronouncements and resolutions, and the audit/review process for compliance with Shari'ah rulings. This standard is currently being revised.

⁸ The term "Shari'ah board" is used in the same sense as in IFSB-10, which notes that other terms (e.g. "Shari'ah committee" or "Shari'ah supervisory board") may be used in the industry.

⁹ The industry may use different terminologies, such as "resolutions".

- (ix) the relationship between the Shari'ah board and the centralised Shari'ah committee, where one exists, including the mechanisms for resolving any conflicting views;
- (x) Sharī'ah non-compliance events leading to financial implications for the TU/RTU or its participants. Disclosure on this area must include the amount of Sharī'ah non-compliant income (if any), how Sharī'ah non-compliant earnings and expenditure occurred, and the associated rectification process related to the Sharī'ah non-compliant event if it can be rectified;¹⁰
- (xi) Sharī'ah non-compliance events that did not result in financial implications to the TU/RTU or its participants (such as procedural lapses in following appropriate Sharī'ah processes), and how these were resolved, including control measures to avoid recurrence of such events; and
- (xii) remuneration of Shari'ah board members (either individually or in aggregate).

50. The RSA should require TOs/RTOs to disclose their annual Shari'ah board reports, including a statement by Shari'ah board members as to whether they have reviewed and approved the principles, policies, products and contracts relating to the transactions undertaken by TUs/RTUs.

51. Investment is one of the key activities in *takāful* that must be in line with Sharī'ah principles. In addition to the disclosures specified at paragraph 49 (x) and (xi), TOs/RTOs should be required to disclose the following information for each fund:

- (i) the adopted Sharī'ah screening methodology for identifying Sharī'ah-compliant securities;
- (ii) any purification payments made in respect of assets or business that were not fully Shari'ah-compliant; and
- (iii) the amount of any purification payments held by the TU/RTU and not yet paid.

52. Where TOs/RTOs take responsibility for zakat payments on behalf of either shareholders or participants, they should be required to disclose:

¹⁰ Sharī'ah non-compliance events can be rectified by correcting the arrangement (e.g. purification of non-compliant investment income). However, there are some incidents that cannot be rectified – for example, if a non-Shari'ah-compliant cover has mistakenly been provided in a contract, and a claim is settled on the basis of this.

- (i) the method used in *zakat* calculation;
- (ii) the amount of *zakat* paid in each year;
- (iii) the institutions that received the *zakat* payments; and
- (iv) the amount of *zakat* held by the TU/RTU and not yet paid.

53. If the TO/RTO does not pay *zakat*, then sufficient information should be disclosed, either publicly or on an individual basis, to allow shareholders, other investors, and participants in investment-related *takāful* contracts to calculate their own *zakat* contributions.

2.1.4 Technical provisions¹¹

The supervisor requires that disclosures about the TU's technical provisions are presented for each PRF by the material *takāful* business segment and include, where relevant, information on:

- **the future cash flow assumptions;**
- **the rationale for the choice of discount rates;¹²**
- **the risk adjustment methodology, where used; and**
- **other information as appropriate to provide a description of the method used.**

54. Disclosures related to technical provisions should provide information on how those technical provisions are determined for each PRF. As such, disclosures may include information about the level of aggregation used and the amount, timing and uncertainty of future cash flows in respect of *takāful* obligations.

55. Disclosures should include a presentation of technical provisions and *retakāful*/reinsurance assets on a gross basis. However, it may be useful to have information about technical provisions presented on both a net and gross basis.

56. Information may be disclosed about the method used to derive the assumptions for calculating technical provisions (separately for each PRF, if there are differences),

¹¹ Technical provisions are a significant component of valuation for solvency purposes. The term is defined in IFSB-11 as the value set aside to cover expected obligations arising on *takāful* contracts. For solvency purposes, technical provisions comprise two components – namely, (i) the current central best estimate of the costs of meeting the *takāful* underwriting obligations, discounted to the net present value (current estimate); and (ii) a margin for risk over the current estimate.

¹² The claims that may be paid in the future against existing *takāful* contracts are subject to uncertainties as to both amounts and timing. Discount rates are used to adjust future cash flows to current values for the purposes of actuarial and accounting calculations.

including the discount rate used. Disclosures may also include information about significant changes in assumptions and the rationale for the changes.

57. When applicable, information about the current estimate and margin over the current estimate may include the methods used to calculate them, whether or not these components of technical provisions are determined separately. If the methodology has changed since the last reporting period, it would be useful to include the reasons for the change and any material quantitative impact.

58. It may be useful if the TO provides an outline of any model(s) used and describes how any range of scenarios regarding future claims experience has been derived.

59. Disclosures may include a description of any method used to treat acquisition costs and whether expected future profits on existing business have been recognised.

60. Where surrender values are material, disclosures may include the TO's surrender values payable.

61. Disclosure of a reconciliation of technical provisions from the end of the previous year to the end of the current year may be particularly useful.

62. Disclosure of technical provisions may be presented for each PRF in two parts:

- (i) one part that covers claims from *takāful* events that have already taken place at the date of reporting (claims provisions including incurred but not reported [IBNR] and incurred but not enough reported [IBNER] provisions) and for which there is an actual or potential liability; and
- (ii) another part that covers losses from *takāful* events that will take place in the future (e.g. the sum of provision for unearned contributions and provision for unexpired risks [also termed "contribution deficiency reserve"]).

63. Providing this disclosure in two parts is particularly important for lines of *takāful* business where claims may take many years to settle.

Family takāful

64. It may be useful if the disclosures include key information on the assumed rates, the method of deriving future mortality and disability rates, and whether customised tables are applied. Disclosures may include a family TO's significant assumptions about future changes of mortality and disability rates.

General takāful

65. In order to enable participants and market players to evaluate trends, disclosures for general TUs may include historical data about earned contributions compared to technical provisions, for each PRF, by class of business. To assess the appropriateness of assumptions and methodology used for determining technical provisions, historical data on the run-off result and claims development could be disclosed.

66. To facilitate the evaluation of a general TO's ability to assess the size of the commitments to indemnify losses covered by the *takāful* contracts issued, disclosures for general TUs may include the run-off results over many years, to enable participants and market players to evaluate long-term patterns (for example, how well the TO estimates the technical provisions). The length of the time period should reflect how long-tailed the distribution of claims is for the *takāful* classes in question.

67. General TOs may disclose information on the run-off results for incurred losses and for the provisions for future losses.

68. Disclosure for general TUs may include the run-off results as a ratio of the initial provisions for the losses in question. When discounting is used, disclosures should include the effect of discounting.

69. Except for short-tail business, the supervisor may require general TOs to disclose information on the development of claims in a claims development triangle. A claims development triangle shows the TO's estimate of the cost of claims (claims provisions and claims paid), as of the end of each year, and how this estimate develops over time. This information should be reported consistently on an accident year or underwriting year basis and reconciled to amounts reported in the balance sheet.

2.1.5 *Takāful risk exposure*

The supervisor requires that disclosures about the TU/RTU's reasonably foreseeable and material *takāful* risk exposures, and their management, include information on:

- the nature, scale and complexity of risks arising from its *takāful* contracts;
- the TU/RTU's risk management objectives and policies;
- models and techniques for managing *takāful* risks (including underwriting processes);
- its use of *retakāful*/reinsurance or other forms of risk mitigation; and
- its *takāful* risk concentrations.

Disclosure should be made for each risk fund, bearing in mind that where there are multiple PRFs the risk profile may vary from one PRF to another.

70. Disclosures may include a quantitative analysis of the fund's sensitivity to changes in key factors both on a gross basis and taking into account the effect of *retakāful*/reinsurance and other forms of risk mitigation on that sensitivity. For example, disclosures may include a sensitivity analysis by family TOs/RTOs to the changes in mortality and disability assumptions or sensitivities to increased claim inflation by general TOs/RTOs.

71. Where a TU/RTU is part of a group, disclosures may include the risk exposure of the TU/RTU to other entities within the group and procedures in place to mitigate those risks.

72. Disclosures may include a description of the TU/RTU's risk appetite and its policies for identifying, measuring, monitoring and controlling *takāful* risks, including information on the models and techniques used.

73. Disclosure may include information on a TU/RTU's use of any Sharī'ah-compliant hedging mechanisms¹³ to hedge risks arising from *takāful* contracts. This information may include a summary of internal policies on the use of those mechanisms.

¹³ For detailed guidance on Sharī'ah-compliant and non-Sharī'ah-compliant hedging mechanisms, refer to OIC Fiqh Academy Resolution no. 238 (9/24) regarding hedging mechanisms in Islamic financial institutions.

74. Disclosure of how a TO/RTO uses *retakāful*/reinsurance and other forms of risk mitigation may enable participants and market players to understand how the TO/RTO controls the TU/RTU's exposure to *takāful* risks.

75. Quantitative disclosure on a TU's *retakāful*/reinsurance programme may include the TU's overall *retakāful*/reinsurance programme to explain the net risk retained and the types of *retakāful*/reinsurance arrangements made (treaty, facultative, proportional or non-proportional) as well as any Shari'ah-compliant risk mitigating devices that reduce the risks arising out of the *retakāful*/reinsurance cover.

76. It may be beneficial if disclosures separately detail the RTUs/reinsurers' share of technical provisions and receivables from RTUs/reinsurers on settled claims. Further quantitative disclosures on *retakāful*/reinsurance may include:

- (i) the credit quality of the RTUs/reinsurers (e.g. by grouping *retakāful*/reinsurance assets by credit rating);
- (ii) credit risk concentration of *retakāful*/reinsurance assets;
- (iii) the development of *retakāful*/reinsurance assets over time; and
- (iv) the ageing of receivables from RTUs/reinsurers on settled claims.

77. It may be useful if disclosures include the impact and planned action when the expected level or scope of cover from a *retakāful*/reinsurance contract is not obtained.

78. Description of the TU's risk concentrations may include, at least, information on the geographical concentration of *takāful* risk, the economic sector concentration of *takāful* risk, the extent to which the risk is reduced by *retakāful*/reinsurance and other risk mitigating elements and, if material, the risk concentration inherent in the *retakāful*/reinsurance cover.

79. Disclosures may include the geographical concentration of contributions. The geographical concentration may be based on where the participant's risk is located, rather than where the business is written.

80. If material, disclosures may include the number of RTUs/reinsurers that the TO engages, as well as the highest concentration ratios. For example, it would be appropriate to expect a TO to disclose its highest contribution concentration ratios,

which shows the contributions ceded to its largest RTUs/reinsurers in aggregate, as a ratio of the total *retakāful*/reinsurance contributions ceded.

2.1.6 Financial instruments and other investments

The supervisor requires that disclosures about the TU's financial instruments and other investments include information on a fund-by-fund basis about:

- **instruments and investments by class;**
- **investment management objectives, policies and processes; and**
- **values, assumptions and methods used for general purpose financial reporting and solvency purposes, as well as an explanation of any differences, where applicable.**

81. For the purposes of disclosure, a TO may group assets and liabilities in each fund with similar characteristics and/or risks into classes and then disclose information segregated by those classes.

82. Where investment management objectives, policies and processes differ between segments of a TU's investment portfolio – for example, between funds – disclosures should be sufficient to provide an understanding of those differences.

83. TOs/RTOs should be required to disclose purification payments as specified in section 2.1.3(paragraph 51).

2.1.7 Investment risk exposures

The supervisor requires that disclosures about the TU/RTU's material investment risk exposures, and their management, be disclosed on a fund-by-fund basis.

84. Disclosures may include quantitative information about the TU/RTU's exposure to:

- (i) currency risk;
- (ii) market risk;
- (iii) credit risk; and

- (iv) concentration risk.

85. This information should be disclosed both in aggregate and on a fund-by-fund basis, since a correlation of risk among the PRF, PIF and SHF may affect the ability of the SHF to support the PRF if the crystallisation of this risk makes it necessary. It may also affect the ability of the PIF to make contributions to the PRF where this is part of the operating model.

86. The risks listed above may affect both assets and liabilities. For example, market risk arising from profit rate movement may be reflected in changes in the valuation of certain types of a TU/RTU's sukuk investments, as well as in changes in the valuation of *takāful* liabilities if they are discounted using market profit rates. Changes in profit rates may also change the amounts that a TU/RTU has to pay for its financing in the event it enters into a new financing arrangement. Therefore, required disclosure may include the risk exposure arising from both a TU/RTU's assets and liabilities.

87. Disclosures may include the investment return achieved together with the risk exposure and investment objective. Disclosure of risk exposures can provide participants and market players with valuable insight into both the level of variability in performance that one can expect when economic or market conditions change, and the ability of a TU/RTU to achieve its desired investment outcome.

88. For investment risk exposures, disclosures may include the intra-period high, median and low exposures where there have been significant changes in exposure since the last reporting date. Disclosures may also include the amount bought and sold during a reporting period as a proxy for turnover. Such disclosure of risk exposures may also be required for each asset class.

89. In jurisdictions that require investment disclosures to be grouped by risk exposure, the disclosures should provide information about the risk management techniques used to measure the economic effect of risk exposure. Such disclosure may include an analysis by type of asset class.

90. Disclosures may include information on the TU/RTU's use of Sharī'ah-compliant hedging mechanisms¹⁴ to manage investment risks, including a summary of internal policies on the use of those mechanisms.

91. Disclosures may include information on whether or not the TU/RTU carries out stress tests or sensitivity analysis on its investment risk exposures (e.g. the change in capital resources as a percentage of total assets corresponding to a 100-basis point change in profit rates) and, if so, disclose the model, process and types of assumptions used and the manner in which the results are used as part of its investment risk management practices.

92. For securities other than shares, required disclosures on the sensitivity of values to market variables may include breakdowns by credit rating of issue, type of issuer (e.g. government, corporate) and by period to maturity.

93. In addition to breakdowns on ratings and types of issuer, the TO/RTO should disclose the aggregate credit risk arising from off-balance sheet exposures.

2.1.8 Asset–liability management

Disclosures about the TU/RTU's asset–liability management (ALM) include information on:

- **ALM in total, at a fund level (for the SHF and PRF(s)) and, where appropriate, at a segmented level;**
- **the methodology used and the key assumptions employed in measuring assets and liabilities for ALM purposes; and**
- **any capital and/or provisions held as a consequence of a mismatch between assets and liabilities.**

94. To provide information on its ALM approach, disclosures may include qualitative information explaining how the TU/RTU manages assets and liabilities in a coordinated manner for each fund. The explanation could take into account the ability to realise its investments quickly, if necessary, without substantial loss, and sensitivities to fluctuations in key market variables (including profit rate, exchange rate, and equity price indices) and credit risks.

¹⁴ See footnote 13.

95. Where a TU/RTU's ALM is segmented below fund level (e.g. by different lines of business), disclosures may include information on ALM at a segmented level.

96. Where Sharī'ah-compliant hedging instruments¹⁵ are used, it may be useful if the disclosures include a description of both the nature and effect of their use.

97. Disclosures may include the TU/RTU's sensitivity of regulatory capital resources and provisions for mismatching to:

- (i) changes in the value of assets; and
- (ii) changes in the discount rate or rates used to calculate the value of the liabilities.

2.1.9 Capital adequacy¹⁶

Disclosures about the TU/RTU's capital adequacy for both SHF and PRF include information on:

- **its objectives, policies and processes for managing capital and assessing capital adequacy;**
- **the solvency requirements of the jurisdiction(s) in which the TU/RTU operates; and**
- **the capital available to cover regulatory capital requirements. If the TO/RTO uses an internal model to determine capital resources and requirements, information about the model should be disclosed.**

98. Information about objectives, policies and processes for managing capital adequacy assists in promoting the understanding of risks and measures that influence the capital calculation and the risk appetite that is applied.

¹⁵ See footnote 13.

¹⁶ IFSB-11: *Standard on Solvency Requirements for Takāful (Islamic Insurance) Undertakings* discusses seven key features for minimum solvency requirements to increase the likelihood of meeting participants' claims. These include disclosing material information to the public to enhance market discipline and the accountability of the TO, and also to foster confidence among the general public in the financial stability of the *takāful* sector. The terms "solvency requirements" and "capital adequacy requirements" are used interchangeably in the *takāful*/insurance industry.

99. It may be useful if the TO/RTO discloses information, separately for the SHF and PRF, to allow participants and market players to assess the quantity and quality of its capital in relation to regulatory capital requirements (i.e. minimum capital requirement and prescribed capital requirement for the PRFs; and minimum target capital and prescribed target capital for SHF).

100. Disclosures may include qualitative information separately for each fund (i.e. SHF and PRF) about its management of capital regarding:

- (i) instruments regarded as available capital;
- (ii) key risks and measures that influence the capital calculation; and
- (iii) the fund's risk appetite.

101. TOs/RTOs should be required to disclose their identification of resources available in SHF to provide *qard* or other support to the PRF.

102. TOs/RTOs should provide information on whether any of the capital resources in the PRF are considered to be available for distribution to participants, and under what conditions they may be distributed.

103. It may be useful if the disclosures include a description of any variation in the group as defined for capital adequacy purposes from the composition of the group used for general purpose financial reporting purposes.

2.1.10 Liquidity risk

The supervisor requires that disclosures about the TU/RTU's liquidity risk at a fund level (SHF, PRF, PIF) include sufficient quantitative and qualitative information to allow a meaningful assessment by market players of the TU/RTU's material liquidity risk exposures.

104. Disclosures on liquidity risk, for SHF, PRF and PIF, should include:

- (i) quantitative information on the fund's sources and uses of liquidity, considering liquidity characteristics of both assets and liabilities; and
- (ii) qualitative information on the fund's liquidity risk exposures, management strategies, policies and processes.

105. Disclosures should discuss known trends, significant commitments and significant demands. Disclosures should also discuss reasonably foreseeable events that could result in the TU/RTU's liquidity position improving or deteriorating in a material way.

2.1.11 Financial performance

Disclosures about the TU/RTU's financial performance for each fund, in total and at a segmented level, include information, as appropriate to the fund, on:

- **earnings analysis;**
- **claims statistics, including claims development;**
- **pricing adequacy;**
- **investment performance; and**
- **relationships between that fund and other funds.**

General financial performance

106. Disclosures should help participants and market players better understand how profit emerges over time from new and in-force *takāful* contracts.

107. Disclosure may include a statement of changes in equity showing gains and losses recognised directly in equity, as well as capital transactions with shareholders, and distributions to shareholders and participants.

108. Disclosures may include information on the fund's operating segments and how they were determined.

109. An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by the entity's management to make decisions about resources to be allocated. Examples of features by which business is segmented are:

- (i) *type of business*: family *takāful*, general *takāful*, investment management; and
- (ii) *mix of organisational and geographic approach*: e.g. *takāful* jurisdiction X, *takāful* jurisdiction Y, *takāful* (other), asset management jurisdiction Z.

110. Disclosures may include the impact of amortisation and impairment of intangible assets on financial performance.

Relationships between that fund and other funds

111. Disclosures include information on any transfers between funds, and the sources of income to the SHF, including, where applicable, wakalah fees and mudarib's share.

112. Disclosures include information on how income and expenses are allocated between funds, including criteria for sharing any common income or expenses between funds.

Technical performance

113. The TO may provide the TU/RTU's statements of profit and loss that include the results, both gross and net of *retakāful*/reinsurance, of its underwriting by broad lines of business.

114. If the TU is a cedant, disclosures may include gains and losses recognised in profit or loss on from its *retakāful*/reinsurance cessions, including any surplus distributions from RTUs.

Technical performance for general TOs

115. In order to judge how well *takāful* contributions cover the underlying risk of the *takāful* contracts and the administration expenses (pricing adequacy), disclosures may include data on:

- (i) claims ratio;
- (ii) expense ratio;
- (iii) combined ratio; and
- (iv) operating ratio.

116. These ratios should be calculated from the profit and loss account of the reporting year and be gross of *retakāful*/reinsurance in order to neutralise the effect of mitigation tools on the technical performance of the direct business. Gains on *retakāful*/reinsurance cannot be expected to continue indefinitely without price adjustments from RTUs/reinsurers. If the net ratios are materially different from the

gross ratios, then both ratios should be disclosed. The ratios should be measured either on an accident year or an underwriting year basis.

117. When discounting is used, disclosures may include information on the discount rates used and method of discounting to be disclosed. The discount rates should be disclosed at an appropriate level of aggregation by duration – for example, for each of the next five years – and the average rate for claims expected to be paid after five years.

118. Such disclosure should be accompanied by supporting narrative, covering an appropriate period, to enable participants and market players to evaluate long-term trends better. Information relating to previous years should not be recalculated to take into account present information. The length of the period may reflect the historical volatility of the particular class of *takāful* business.

119. It may be appropriate in the case of high-volume, homogeneous classes for the supervisor to require TOs/RTOs to disclose statistical information on claims. For instance, the TO/RTO could describe the trend in the number of claims and the average size of claims. To be relevant, this information should be linked to the level of business (e.g. number of contracts or earned contributions).

120. In principle, the trend in claims may reflect the development in *takāful* risks. As it is difficult to point to one good measurement method of *takāful* risk, several can be considered. However, it would be normal for general TOs to be required to disclose historical data accompanied by supporting narrative at least on:

- (i) the mean cost of claims incurred (i.e. the ratio of the total cost of claims incurred to the number of claims) in the accounting period by class of business; and
- (ii) claims frequency (e.g. the ratio of the number of claims incurred in the reporting period to the average number of *takāful* contracts in existence during the period).

If there are multiple PRFs, these disclosures should be made separately for each PRF.

Source of earnings analysis for family TOs

121. Where an applicable jurisdictional standard does not require a similar analysis to be disclosed, it may be useful for disclosures to include expected earnings on in-force business for both SHF and participants' funds. This represents the earnings on

the in-force business that were expected to be realised during the reporting period. Examples of this include expected release of risk margins, net management fees, and earnings on bank placements.

122. Family TOs/RTOs may disclose the impact of new business. This represents the impact on net income of writing new business during the reporting period. This is the difference between the contribution received and the sum of the expenses incurred as a result of accepting new risk and the new technical provisions established once the processes of offer and acceptance have been concluded. It is also affected by any methodology used to defer and amortise acquisition expenses.¹⁷ The disclosures should indicate how this impact falls between funds.

123. It may be useful for family TOs/RTOs to disclose experience gains and losses. This represents gains and losses that are due to differences between the actual experience during the reporting period and the technical provisions at the start of the year, based on the assumptions at that date.

124. Family TOs may disclose the impact on earnings of management actions and changes in assumptions.

125. An example of a source of earnings analysis table for a family TU is provided below.

Example: Source of Earnings						
	Segment A		Segment B		Total	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
Expected earnings on in-force business						
Impact of new business						
Experienced gains and losses:						

¹⁷ Acquisition costs are direct expenses associated with accepting a new contract (e.g. commissions paid to an agent or a broker). The terms “acquisition costs” and “acquisition expenses” are used interchangeably (as they are in the industry, where both are common). For longer-term contracts, especially ones with a large savings element, these costs are typically high in relation to the regular contribution made.

Investment						
Mortality						
Expenses						
Other						
Additional items:						
Changes in assumptions						
Other						
Income taxes						
= Net income						

Investment performance

126. Investment performance is one of the key determinants of a TU/RTU's profitability. For many family *takāful* contracts, returns that participants receive are either directly or indirectly influenced by the performance of a TU/RTU's investments. Disclosure of investment performance is, therefore, essential to participants and market players.

127. Disclosure of investment performance may be made on appropriate subsets of a TU/RTU's assets (e.g. assets belonging to the TU/RTU's family *takāful* business, assets belonging to statutory or notionally segregated portfolios, assets backing a group of investment-linked contracts [i.e. normally a PIF], and assets grouped as the same asset class).

128. For investment performance disclosure related to shares, securities other than shares, and properties, the disclosures may include a breakdown of income (e.g. dividend receipts, other investment income, rental income), realised gains/losses, unrealised gains/losses, impairments and investment expenses.

2.2 Conduct of Business

129. IFSB-9: Guiding Principles on Conduct of Business for Institutions Offering Islamic Financial Services covers all sectors of Islamic finance, including *takāful*, but at a relatively high level. This standard focuses specifically on disclosure aspects pertaining to conduct of business in *takāful* in order to help ensure that customers are

being treated fairly at all stages (product development, before a contract is entered into and through to the point at which all obligations under a contract have been satisfied).

130. Fair treatment of customers encompasses achieving outcomes such as:

- (i) developing, marketing and offering products in a way that pays due regard to the interests and needs of customers;
- (ii) providing customers with information before, during and after the offer and acceptance stage that is accurate, clear and not misleading;
- (iii) minimising the risk of offers and contracts that are not appropriate to customers' interests and needs;
- (iv) ensuring that any advice given is of a high quality;
- (v) dealing with customer claims, complaints and disputes in a fair and timely manner; and
- (vi) protecting the privacy of information obtained from customers.

131. Requirements for the conduct of *takāful* business may differ depending on the nature of the customer with whom a TO or intermediary interacts and the type of *takāful* provided. The scope of requirements for conduct of *takāful* business should reflect the risk of unfair treatment of customers, taking into account the nature of the customer and the type of *takāful* provided.

2.2.1 Product development

The supervisor requires TOs to take into account the interests of different types of consumers when developing and distributing *takāful* products, while maintaining Shari'ah rules and principles at all times.

132. The TO should be responsible for providing promotional material that is accurate, clear and not misleading not only to customers but also to intermediaries who may rely on such information.

133. Before a TO or intermediary promotes a *takāful* product, it should take reasonable steps to ensure that the information provided is accurate, clear and not misleading. Procedures should provide for an independent review of promotional material intended for customers other than by the person or organisation that prepared

or designed it. For example, where promotional material is developed by an intermediary on behalf of a TO, the TO should verify the accuracy of promotional material before it is used.

134. If either party – that is, a TO or an intermediary – becomes aware that the promotional material is not accurate and clear or is misleading, it should:

- (i) inform the party responsible for that material;
- (ii) withdraw the material; and
- (iii) notify any person that it knows to be relying on the information as soon as reasonably practicable.

135. In addition, to promote products in a fair manner, the information provided by a TO or an intermediary should:

- (i) be easily understandable;
- (ii) accurately identify the product provider;
- (iii) be consistent with the coverage offered;
- (iv) be consistent with the result reasonably expected to be achieved by the customers of that product;
- (v) state prominently the basis for any claimed benefits and any significant limitations;
- (vi) not hide, diminish or obscure important statements or warnings;
- (vii) avoid using “small print” and ensure that there are no “hidden costs”, such as commissions or agency fees, not disclosed to the client; and
- (viii) make clear the difference between *takāful* and conventional insurance.

2.2.2 Prior to inception of the contract

The supervisor requires TOs and intermediaries to provide timely, clear and adequate pre-contractual and contractual information to customers.

136. The TO or intermediary should take reasonable steps to ensure that a customer is given appropriate information about a product in order that the customer can make an informed decision about the arrangements proposed. Such information is also useful in helping customers understand their rights and obligations after entering into the contract.

137. Where TOs use intermediaries for the distribution of *takāful* products, the TO should be satisfied that the intermediaries involved are providing information to customers in a manner that will assist them in making an informed decision, including, where appropriate, information on the differences between *takāful* and conventional insurance.

Timing of the provision of information to customers

138. Customers should be appropriately informed before and at the point of offer and acceptance. Information should enable an informed decision to be made by the customer before entering into a contract. In determining what is “timely”, a TO or intermediary should consider the importance of the information to the customer's decision-making process and the point at which the information may be most useful.

Clear delivery of information to customers

139. Information should be provided in a way that is clear, fair and not misleading. Wherever possible, attempts should be made to use plain language that can easily be understood by the customer.

140. Mandatory information should be prepared in written format, on paper, or in a durable and accessible medium (e.g. electronic).

141. Focus should be on the quality rather than quantity of information, as there is a risk that if the disclosure becomes too voluminous then the customer may be less likely to read the information.

142. The quality of disclosure may also be improved by the introduction of a standardised format for disclosure (such as a product information sheet), which will aid comparability across competing products and allow for a more informed choice. Standard formats should be tested to ensure that they help understandability.

143. There is likely to be an enhanced need for clear and simple disclosure for more complex or “bundled” products¹⁸ that are difficult for consumers to understand, such as packaged retail *takāful*-based investment products, particularly regarding their costs, risks and performance.

144. TOs and intermediaries should be able to demonstrate to the supervisor that customers have received information necessary to understand the product.

Adequacy of information provided to customers

145. The information provided should be sufficient to enable customers to understand the characteristics of the product to which they are subscribing and help them to understand whether and why it may meet their requirements.

146. The level of information required will tend to vary according to matters such as:

- (i) the knowledge and experience of a typical customer for the contract in question;
- (ii) the contract terms and conditions, including its main benefits, exclusions, limitations, conditions and duration;
- (iii) the contract's overall complexity;
- (iv) whether the contract is subscribed in connection with other goods and services;¹⁹ and
- (v) whether the same information has been provided to the customer previously and, if so, when.

¹⁸ A TO or an intermediary may offer multiple *takaful* products to the customer (e.g. motor, home and travel) in order to promote certain products. Generally, the product provider gives a discount on the contribution if the customer subscribed to more than one product. On the investment side, the key sale may be of an investment (e.g. an Islamic collective investment scheme, or “ICIS”), with a *takaful* cover added into it, for tax or other reasons.

¹⁹ Examples would be an extended warranty linked to the purchase of a household appliance, or travel cover linked to the purchase of a holiday.

Disclosure of product features

147. While the level of product information required may vary, it should include information on key features at the pre-contractual stage or at the point of contract in order to assist participants in making informed decisions, such as:

- (i) the name of the TU, its legal form and, where relevant, the group to which it belongs;
- (ii) the type of *takāful* contract on offer, including its benefits;
- (iii) the operating model of the *takāful* undertaking, including the structure of funds, in relation to the particular type of *takāful* in question;
- (iv) a description of the risk covered by the contract and of the excluded risks;
- (v) breakdown of the contractual payments under the contract, including the calculation of any fees or profit shares paid by the participant or by the *takāful* fund to the TO;
- (vi) rights to, or policies on, any distributions of surplus;
- (vii) the level of the *takāful* contribution, the due date and the period for which the contribution is payable, the consequences of late or non-payment (as approved by the TU/RTU's Shariah board), and provisions for contribution reviews;
- (viii) the type and level of charges to be deducted from or added to the quoted contribution on each fund, and any charges to be paid directly by the customer;
- (ix) when the *takāful* cover begins and ends;
- (x) the allowable expenses charged to the *takāful* funds, including the method by which any shared costs are allocated between funds; and
- (xi) prominent and clear information on significant or unusual exclusions or limitations. A significant exclusion or limitation is one that would tend to affect the decision of consumers generally to subscribe. An unusual exclusion or limitation is one that is not normally found in comparable contracts. In determining what exclusions or limitations are significant, a

TO or intermediary should, in particular, consider the exclusions or limitations that relate to the significant features and benefits of a contract and factors that may have an adverse effect on the benefit payable under it. Examples of significant or unusual exclusions or limitations may include:

- deferred payment periods;
- exclusion of certain conditions, diseases or pre-existing medical conditions;
- moratorium periods;
- limits on the amounts of cover;
- limits on the period for which benefits will be paid;
- restrictions on eligibility to claim, such as age, residence or employment; and
- excesses.

148. Where a *takāful* contract is linked to the purchase of other goods or services,²⁰ the *takāful* contribution should be disclosed separately from any other prices. It should be made clear whether *takāful* is compulsory²¹ and, if so, whether it can be obtained elsewhere.

149. At the level of each PIF fund, the TO/RTO should adequately describe in clearly understandable language each of the following:

- (i) investment objective;
- (ii) investment strategy;
- (iii) strategic asset allocation; and
- (iv) performance benchmark (to aid in comparing targeted performance to actual periodic performance).

150. For investment-based *takāful* products, the supervisor should require TOs to disclose the following information at the pre-contractual stage or at the point of contract:

²⁰ See footnote 17.

²¹ The Shariah compliance of such practice needs to be reviewed by the Shariah board on a case-by-case basis, especially where it is compulsory for the client to obtain *takāful*.

- (i) the characteristics of the *takāful* contract, including non-guaranteed elements of investment products;
- (ii) the ratio of profit sharing, where a *muḍārabah* contract is used to manage investments;
- (iii) the investment policy;
- (iv) the frequency of investment profit and/or underwriting surplus declaration;
- (v) where any investment performance figures are given, whether these represent actual past performance, simulated past performance or forecast future performance;
- (vi) a comparison of actual periodic return of the PIF with the appropriate benchmark return for the corresponding period, over timescales defined by the RSA; and
- (vii) the party that manages investment of participants' funds and the SHFs, where any of these elements is outsourced, and the remuneration it receives.

151. A helpful means to ensure that accurate and comprehensible information is provided to the customer is a product information sheet containing information on key product features that are of particular significance to the conclusion or performance of the *takāful* contract. The product information sheet should be clearly identified as such, and it should be pointed out to the customer that the information is not exhaustive. In so far as the information concerns the content of the contract, reference should be made as appropriate to the relevant provisions of the contract or to the general policy conditions underlying the contract. TOs, and intermediaries where they are involved, should consider the use of evaluation by third parties, such as consumer testing, in developing product information sheets in order to ensure their understandability.

Disclosure of rights and obligations

152. Retail customers, in particular, often have only limited knowledge about the legal rights and obligations arising from a *takāful* contract. Before a *takāful* contract is concluded, the TO or intermediary should inform a retail customer on matters such as:

- (i) *general provisions* – including applicable law governing the contract;
- (ii) *obligation to disclose material facts* – including prominent and clear information on the obligation on the customer to disclose material facts

truthfully. Ways of ensuring a customer knows what he or she must disclose include explaining the duty to disclose all circumstances material to a contract and what needs to be disclosed, and explaining the consequences of any failure to make such a disclosure. Alternatively, rather than an obligation of disclosure, the customer may be asked clear questions about any matter material to the contract;

- (iii) obligations to be complied with when a contract is concluded and during its lifetime, as well as the consequences of non-compliance;
- (iv) *obligation to monitor cover* – including a statement, where relevant, that the customer may need to review and update the cover periodically;
- (v) *right to cancel* – including the existence, duration and conditions relating to the right to cancel;
- (vi) *right to claim benefits* – including conditions under which the participant can claim and the contact details to notify a claim;
- (vii) obligations on the customer in the event of a claim; and
- (viii) *right to complain* – including the arrangements for handling participants' complaints, which might include a TO's internal claims dispute mechanism or the existence of an independent dispute resolution mechanism.

153. Where applicable, the customer may also be provided with information on any participant protection scheme or compensation scheme in the case of a TU not being able to meet its liabilities and any limitations on such a scheme.

154. If the *takāful* undertaking is a foreign TU, the TO or intermediary should be required to inform the customer, before any commitment is entered into, of details such as:

- (i) the home authority responsible for the supervision of the TU;
- (ii) the jurisdiction in which the head office or, where appropriate, the branch with which the contract is to be concluded is situated; and
- (iii) the relevant provisions for making complaints or independent dispute resolution arrangements.

Disclosure specific to internet offer and acceptance processes or offer and acceptance processes through other digital means

155. TOs and intermediaries are increasingly using digital distribution channels to market and offer *takāful* products, including internet and mobile phone solutions.

156. It may be more difficult for consumers to understand from which location the TO or intermediary is operating, their identity, and by whom and where they are licensed. This may especially be the case where more than one TO or intermediary is involved in the distribution chain.

157. In conducting *takāful* business through digital channels, TOs and intermediaries should take into account the specificities of the medium used, and use appropriate tools to ensure that customers receive timely, clear and adequate information that helps their understanding of the terms on which the business is conducted.

158. The supervisors should require TOs and intermediaries that offer *takāful* products through digital means to disclose relevant business and contact information (e.g. on their website), such as:

- (i) the address of the TO's head office and the contact details of the supervisor responsible for the supervision of the head office;
- (ii) contact details of the TO, branch or intermediary, and of the supervisor responsible for the supervision of the business, if different from the above;
- (iii) the jurisdictions in which the TO or intermediary is legally permitted to provide *takāful*;
- (iv) procedures for the submission of claims and a description of the claims-handling procedures; and
- (v) contact information on the authority or organisation dealing with dispute resolution and/or consumer complaints.

159. The supervisor should apply to digital *takāful* activities requirements on transparency and disclosure so as to provide an equivalent level of protection to customers as those applied to *takāful* business conducted through non-digital means.

Where customers receive advice before concluding a *takāful* contract, the supervisor requires that the advice provided by TOs and intermediaries takes into account the customer's disclosed circumstances.

160. Advice goes beyond the provision of product information and relates specifically to the provision of a personalised recommendation on a product in relation to the disclosed needs of the customer.

161. The TO or the intermediary should make it clear to the customer whether or not advice is provided.

162. TOs and intermediaries should seek the information from their customers that is appropriate for assessing their *takāful* demands and needs, before giving advice. This information may differ depending on the type of product and may, for example, include information on the customer's:

- (i) financial knowledge and experience;
- (ii) needs, priorities and circumstances;
- (iii) ability to afford the product; and
- (iv) risk profile.

163. The supervisor may wish to specify particular types of contract or customer for which advice is not required to be given. Typically, this may include simple-to-understand products, products offered to customer groups that have expert knowledge of the type of product or, where relevant, mandated coverage for which there are no options. Even if no advice is given, the supervisor may require the TO or intermediary to take into account the nature of the product and the customer's disclosed circumstances and demands and needs.

164. In cases where advice would normally be expected, such as complex or investment-related products, and the customer chooses not to receive advice, it is advisable that the TO or intermediary retains an acknowledgement by the customer to this effect.

165. The basis on which a recommendation is made should be explained and documented, particularly in the case of complex products and products with an investment element. All advice should be communicated in a clear and accurate

manner that is comprehensible to the customer. Where advice is provided, this should be communicated to the customer in written format, on paper or in a durable and accessible medium, and a record kept in a “client file”.

2.2.3 After inception of the contract

1. The supervisor requires TOs to:

- (i) service contracts appropriately through to the point at which all obligations under the contract have been satisfied;**
- (ii) disclose to the participant information on any contractual changes during the life of the contract; and**
- (iii) disclose to the participant further relevant information, depending on the type of *takāful* product.**

166. Supervisors should require TOs to satisfy obligations under a contract in an appropriate manner and in accordance with the contractually agreed terms and legal provisions. This should include fair treatment in the case of switching between products or early cancellation of a contract, according to Shari’ah rules and principles. To enable them to do so, TOs should maintain a relationship with the customer throughout the contract life cycle.

167. Although ongoing contract servicing is traditionally seen as primarily the responsibility of the TO, intermediaries are often involved, particularly where there is an ongoing relationship between the customer and the intermediary. The TO should remain ultimately responsible for servicing contracts throughout their life cycle, and for ensuring that intermediaries have appropriate contracts and procedures in place in respect of the contract servicing activities that they perform on the TO’s behalf.

168. Contract servicing includes the provision of relevant information to customers throughout the life of the contract.

Information on the TO

169. Information to be disclosed by the TO to the participant includes:

- (i) any change in the name of the TO, its legal form, or the address of its head

office and any other offices as appropriate;

- (ii) any acquisition by another undertaking resulting in organisational changes as far as the participant is concerned; and
- (iii) where applicable, information on a portfolio transfer,²² provided it is not in violation of Sharī'ah rules and principles (including participants' rights in this regard).

Information on terms and conditions

170. TOs should provide evidence of cover (including contract inclusions and exclusions) promptly after the inception of a contract.

171. Information to be provided on an ongoing basis, including changes in contract terms and conditions or amendments to the legislation applicable to the contract, will vary by type of contract and may cover, for example:

- (i) main features of the *takāful* benefits – in particular, details on the nature, scope and due dates of benefits payable by the TO;
- (ii) the total cost of the contract, expressed appropriately for the type of contract, including all taxes and other cost components; contributions should be stated individually if the *takāful* relationship comprises several independent *takāful* contracts or, if the exact cost cannot be provided, information provided on its basis of calculation to enable the participant to verify the cost;
- (iii) any changes to the cost structure,²³ if applicable, stating the total amount payable and any possible additional taxes, fees and costs not levied via or charged by the TO, as well as any costs incurred by the participant for the use of communication methods if such additional costs are chargeable;
- (iv) duration of the contract, terms and conditions for (early) termination of the contract, and contractual consequences;

²² Section 4.3 of IFSB-20 highlighted that the RSA should consider whether any proposed transfer has been subjected to Sharī'ah review in the transferor and transferee TUs.

²³ If the change of cost structure, pertaining directly to the *takāful* contract, reflects an increase in the contribution amount, then a new contract is required.

- (v) means of payment of contributions and duration of payments;
- (vi) contributions for each benefit, both main benefits and supplementary benefits;
- (vii) information to the participant about the need to report depreciation/appreciation;
- (viii) information to the participant about other unique circumstances related to the contract;
- (ix) information on the impact of a switch option of a *takāful* contract;
- (x) information on a renewal of the contract; and
- (xi) information on the ongoing suitability of the product, if such a service is provided by the TO or intermediary.

172. Additional information provided to the participant regarding products with an investment element should, at a minimum, include:

- (i) overall investment strategy and objectives for the PIF, including explanatory notes on the underlying principle for asset allocation and investment performance;
- (ii) the current surrender value;
- (iii) contributions paid to date; and
- (iv) for ICIS-linked family *takāful*, a report from the investment firm (including performance of underlying funds, changes of investments, investment strategy, number and value of the units and movements during the past year, administration fees, taxes, charges and current status of the account of the contract).

173. Where there are changes in terms and conditions, the TO should notify the participant of their rights and obligations regarding such changes and obtain the participant's consent as appropriate.

2. The supervisor requires TOs to handle claims in a timely, fair and transparent manner.

174. Supervisors should require that TOs have fair and transparent claims-handling and claims dispute resolution policies and procedures in place.

175. Claimants should be informed about procedures, formalities and common time frames for claims settlement.

176. Claimants should be given information about the status of their claim in a timely and fair manner.

177. Claim-determinative factors such as depreciations, discounting or negligence should be illustrated and explained in comprehensible language to claimants. The same applies where claims are denied in whole or in part.

3. The supervisor requires TOs and intermediaries to handle complaints in a timely and fair manner.

178. TOs and intermediaries should make information on their policies and procedures on complaints handling available to customers.

179. TOs and intermediaries should respond to complaints without unnecessary delay; complainants should be kept informed about the handling of their complaints.

2.3 Environmental, Social, Governance (ESG) Disclosures

The supervisor requires appropriate disclosures about the TU/RTU's initiatives, policies and impacts in environmental, social and governance (ESG) areas.

180. TOs/RTOs should disclose publicly their initiatives and policies in environmental, social and governance areas, and how these are making positive impacts and adding value to society, the economy and the environment.

181. TOs/RTOs are encouraged to disclose information in order to help stakeholders understand how they assess risks that arise from their activities, which may impact ESG areas. There are four areas²⁴ pertaining to ESG disclosures:

(i) **Governance:** disclose the TU's governance relating to risks and opportunities that may impact ESG areas, including formal policies that aim to promote good practices.

- Describe the board's oversight on risks and opportunities²⁵ that contribute to ESG objectives.
- Describe management's role in assessing and managing these risks and opportunities.

(ii) **Strategy:** disclose the actual and potential impacts of these risks and opportunities on the TU's businesses, strategy, and financial planning where such information is material.

- Describe the risks and opportunities that may affect ESG areas over the short, medium, and long term that the TU has identified.
- Describe the impact of these risks and opportunities on the TU's businesses, strategy and financial planning.

(iii) **Risk management:** Disclose how the TU identifies, assesses and manages the risks pertaining to ESG areas.

- Describe the TU's processes for identifying and assessing these risks.
- Describe the TU's processes for managing these risks.
- Describe how processes for identifying, assessing and managing these risks are integrated into the TU's overall risk management.

²⁴ This classification is based on the Task Force on Climate-related Financial Disclosures (TCFD) set up by the Financial Stability Board (FSB). The TCFD aims to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to stakeholders.

²⁵ In the context of *takāful* activities, a TO may underwrite projects that may carry risks affecting ESG areas, such as covering a project that causes pollution. A TO may also positively promote ESG objectives – for example, by choosing to invest in smaller companies, or companies with a good governance record.

(iv) **Metrics and targets:** Disclose the metrics and targets used to assess and manage the risks and opportunities that have an effect on ESG areas.

- Disclose the metrics used by the TU to assess these risks and opportunities in line with its strategy and risk management process.
- Describe the targets used by the TU to manage these risks and opportunities and performance against targets.

SECTION 3: ADDITIONAL SPECIFIC ISSUES IN DISCLOSURES FOR *TAKĀFUL/RETAKĀFUL* UNDERTAKINGS

3.1 Retakāful

182. IFSB-18: Guiding Principles for *Retakāful* (Islamic Reinsurance) sets out basic principles and best practices pertaining to *retakāful* activities. It covers both the activities of RTUs and the supervision of the *retakāful*/reinsurance programmes of TUs and makes specific recommendations on disclosure. Disclosure requirements stated in section 2.1 (prudential disclosures) of the present standard are applicable to RTOs. However, the regulation of customer disclosure is less relevant in *retakāful* arrangements because the business transaction is conducted by professional entities (RTO and TO), which are familiar with the business and, in general, able to negotiate the disclosures they need. Because of this, RSAs commonly impose limited, if any, customer disclosure requirements in *retakāful*/reinsurance transactions.

183. To the extent that RSAs decide to impose any customer disclosures on RTOs, these would normally be a subset of those set out in section 2.2 above. It is suggested that these should include, at minimum:

- (i) whether *retrotakāful* or conventional retrocession will be used;
- (ii) rights to, or policies on, any distributions of surplus; and
- (iii) any commissions paid by the RTU to intermediaries (brokers who, in such transactions, normally act on behalf of the cedant – in this case, the TU).

3.2 Takāful/Retakāful Windows

184. *Takāful/retakāful* windows²⁶ have become a common practice in certain jurisdictions in which a conventional insurer or reinsurer establishes a specific division within the entity (generally known as a host undertaking) to offer products and services in line with Islamic rules and principles. This division should have proper financial segregation from its host, and should maintain separate accounts covering assets, liabilities, capital, profits and losses. The IFSB has discussed *takāful* and *retakāful* windows in IFSB-20 (section 3.7) from the standpoint of the supervisory review process.

²⁶ A *takāful/retakāful* window is a part of a conventional financial institution (which may be a branch or a dedicated unit of that institution) that provides *takāful* or *retakāful* services, but which does not have a separate legal identity.

185. Many of the disclosure requirements stated in Section 2 are applicable to *takāful/retakāful* windows, or applicable with minor modifications reflecting the fact that the window is not a legal entity. The RSA should, wherever possible, require disclosures from the window as though it were a free-standing TU/RTU, and it is particularly important to require the Shari'ah governance disclosures specified in section 2.3. In addition, however, certain specific public disclosures should be made.

186. The RSA should require the *takāful/retakāful* window to provide information pertaining to its conventional host – in particular, its organisational relationship with it (i.e. whether the window is established as a division/unit/department or branch of the conventional insurer).

187. The RSA should require the *takāful/retakāful* window to disclose the arrangements for segregation of funds from those of the host. It should also require the TO/RTO to disclose the possible flows of funds that may take place between the *takāful/retakāful* window and its host (e.g. profit-sharing portion and wakalah fee). It should also disclose any joint transactions between the window and its host – for example, joint placement of *retakāful*/reinsurance, bearing in mind the need for segregation, if only notionally, between the cessions made by the host and the takaful window.

188. The RSA should require the *takāful/retakāful* window to disclose any arrangements for support from the host (e.g. *qarḍ* without interest), and any support given in the past and not yet repaid.

3.3 Microtakāful²⁷

189. *Microtakāful* is an area where the concept of proportionality discussed in section 1.3 is particularly important. It has been the subject of a joint IFSB–IAIS Issues Paper, which notes the diversity of *microtakāful* providers, from substantial TUs offering products specifically targeted at a low-income population, to small village cooperatives. The extent and nature of regulation applied to smaller providers varies from jurisdiction to jurisdiction.

²⁷ In 2015, the IFSB and IAIS jointly issued *Issues in Regulation and Supervision of Microtakāful (Islamic Microinsurance)*. The purpose of the paper is to provide insights to the regulatory and supervisory authorities and industry players on the types of issues that arise from *microtakāful* practices. The joint paper discusses four main topics: (i) corporate governance; (ii) financial and prudential regulation; (iii) transparency, reporting and market conduct; and (iv) supervisory review process. *Microtakāful* is defined in paragraph 14 of that paper.

190. So far as public disclosures are concerned, supervisors should consider the nature, scale and complexity of the business and risks of the micro*takāful* provider. The emphasis in applying proportionality should thus be dominantly on the provider. The scale of the regulatory burden needs to be balanced against the benefits of market discipline and the needs of market players, including potential participants.

191. As regards conduct of business disclosures, micro*takāful* participants have different needs from normal *takāful* participants. They are likely to have lower incomes and lower levels of education. The type of information provided to them, and the way in which it is communicated, need to be commensurate with their financial and general literacy. In particular, a potential participant must be able to understand the types of coverage and exclusions provided, and the basic concept of *takāful*, including the approach to surplus sharing. To achieve this, product literature should use simplified language likely to be understood by a low-income population.

DEFINITIONS

The following definitions explain terms used in this document. It is not an exhaustive list.

Asset–liability management	The ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities to achieve the financial objectives, given the risk tolerances and other constraints.
Corporate governance	A defined set of relationships between a company’s management, board of directors, shareholders and other stakeholders that provides the structure through which relationships are organised in accordance with the laws, regulations and by-laws of the institution, and requirements of the regulatory and supervisory authorities.
Credit risk	The risk that a counterparty fails to meet its obligations in accordance with agreed terms. Credit risk in a <i>takāful</i> or <i>retakāful</i> undertaking may arise from operational, financing and investment activities of the funds. A similar risk may arise from <i>retakāful</i> or <i>retrotakāful</i> activities of the funds.
Host undertaking	A conventional financial services undertaking that operates an Islamic financial services window.
Liquidity risk	The risk of potential loss to the institution arising from its inability either to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses.
Market risk	The risk of losses in on- and off-balance sheet positions arising from movements in market prices – that is, fluctuations in values in tradable, marketable or leasable assets (including <i>ṣukūk</i>).
<i>Muḍārabah</i>	A partnership contract between the capital provider (<i>rabb al-māl</i>) and an entrepreneur (<i>muḍārib</i>) whereby the capital provider would contribute capital to an enterprise or activity that is to be managed by the entrepreneur. Profits generated by that enterprise or activity are shared in accordance with the percentage specified in the contract, while losses are to be borne solely by the capital provider unless they are due to misconduct, negligence or breach of contracted terms.
Participants’ investment fund	A fund to which a portion of contributions paid by <i>takāful</i> participants is allocated for the purpose of investment and/or savings.
Participants’ risk fund	A fund to which a portion of contributions paid by <i>takāful</i> participants is allocated for the purpose of meeting claims by <i>takāful</i> participants on the basis of mutual assistance or protection.
<i>Qarḍ</i>	The payment of money to someone who will benefit from it provided that its equivalent is repaid. The repayment of the money is due at any point in time, even if it is deferred.
<i>Retakāful</i>	An arrangement whereby a <i>takāful</i> undertaking cedes a portion of its risks on the basis of treaty or facultative <i>retakāful</i> as a representative of participants under a <i>takāful</i> contract, whereby it would contribute a portion of the contribution as <i>tabarru’</i> into a common fund to cover against specified loss or damage.
<i>Retakāful</i> operator	Any establishment or entity that manages a <i>retakāful</i> business – usually (though not necessarily) a part of the legal entity in which the participants’ interests are held.

<i>Retakāful</i> undertaking	An undertaking operating under the principles of <i>takāful</i> but in which the participants are themselves <i>takāful</i> undertakings and the risks shared are those of the original <i>takāful</i> undertakings' participants.
Risk management	The process whereby the <i>takāful</i> or <i>retakāful</i> undertaking's management takes action to assess and control the impact of past and potential future events that could be detrimental to the undertaking.
Run-off	The situation where a <i>takāful</i> operator no longer undertakes new business for one or more participants' risk funds or <i>retakāful</i> risk funds, but continues to meet those funds' obligations in respect of <i>takāful</i> contracts, including benefits arising from those contracts, until those obligations are fully extinguished.
Shareholders' fund	A fund that represents the assets and liabilities of a <i>takāful</i> or <i>retakāful</i> operator that is not attributable to participants.
Sharī'ah	The practical divine law deduced from its legitimate sources: the Qur'ān, Sunnah, consensus (<i>ijmā'</i>), analogy (<i>qiyās</i>) and other approved sources of the Sharī'ah.
Sharī'ah board	Specific body set up or engaged by an institution offering Islamic financial services to carry out and implement its Sharī'ah governance system.
Solvency requirements	Financial requirements set as part of the solvency regime determining the amounts of solvency resources that a <i>takāful</i> or <i>retakāful</i> undertaking must have in addition to the assets covering its technical provisions and other liabilities.
Stakeholders	Those with a vested interest in the well-being of <i>takāful</i> or <i>retakāful</i> undertakings, including: <ul style="list-style-type: none"> • employees; • <i>takāful</i> participants or cedants under <i>retakāful</i> arrangements; • suppliers; • the community; and • supervisors and governments.
<i>Takāful</i>	A mutual guarantee in return for the commitment to donate an amount in the form of a specified contribution to the participants' risk fund, whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks.
<i>Takāful</i> operator	Any establishment or entity that manages a <i>takāful</i> business – usually (though not necessarily) a part of the legal entity in which the participants' interests are held.
<i>Takāful</i> participant	A party that participates in the <i>takāful</i> product with the <i>takāful</i> undertaking and has the right to benefit under a <i>takāful</i> contract.
<i>Takāful</i> undertaking	An undertaking engaged in <i>takāful</i> business in which the participants' risk fund(s) and any participants' investment fund are managed separately from the shareholders' fund (if any) attributable to the <i>takāful</i> operator managing the business.
<i>Takāful/retakāful</i> window	That part of a conventional financial institution (which may be a branch or a dedicated unit of that institution) that provides <i>takāful</i> or <i>retakāful</i> services.
Technical provisions	The value set aside to cover expected obligations arising on <i>takāful</i> or <i>retakāful</i> contracts.
Underwriting	The process of evaluating an application for <i>takāful</i> or <i>retakāful</i> cover, carried out by a <i>takāful</i> or <i>retakāful</i> operator on behalf of

	the <i>takāful</i> or <i>retakāful</i> participants, to determine the risk associated with an application and decide whether to accept the risk and, if so, on what terms.
Underwriting surplus or deficit	The participants' risk fund's or <i>retakāful</i> risk fund's financial result from the risk elements of its business, being the balance after deducting expenses and claims (including any movement in technical provisions) from the contributions income and adding any investment returns (income and gains on investment assets) attributed to the technical result.
<i>Wakālah</i>	An agency contract where the <i>takāful</i> or <i>retakāful</i> participants (as principal) appoint the <i>takāful</i> or <i>retakāful</i> operator (as agent) to carry out the underwriting and/or investment activities of the <i>takāful</i> or <i>retakāful</i> funds on their behalf in return for a known fee.

APPENDIX: MAPPING OF THE IAIS ICPs AND THE IFSB APPROACH

Preamble:

The Islamic Financial Services Board (IFSB) works to complement the prudential and supervisory standards issued by the International Association of Insurance Supervisors (IAIS), particularly Insurance Core Principles (ICPs), by addressing the specificities of *takāful* with the aim of contributing to the soundness and stability of the *takāful* industry. This standard focuses particularly on the unique characteristics of TUs/RTUs – for example, segregation of funds, distribution of surplus, providing *qard* – and on how these characteristics would impact their disclosure requirements. The IAIS structures its ICP materials in the following way (which differs from the structures used by some other standard setters): ICP statements, standards and guidance material. The first refers to the high-level statement of principle (e.g. ICP 20), the second to mandatory requirements implementing it,²⁸ and the third to detailed guidance explaining a particular standard and supporting implementation. The mapping below follows the IAIS terminology in explaining how the specificities of *takāful* have been addressed. In addition to the international standards referenced here, the standard draws on the best practices of a number of jurisdictions.

Standards under the Principles of ICPs*	IFSB-X Approach: Revised IAIS ICPs in the Form of ICPs Reflecting the Specificities of <i>Takāful</i> **	<i>Takāful</i> Specificities Addressed by New Additions/Changes	Other References
Insurance Core Principle (ICP) 20: Public Disclosures			
20.3 Company Profile	Amended <ul style="list-style-type: none"> Modified the standard 	<ul style="list-style-type: none"> This standard is modified to address <i>takāful</i> specificities (e.g. <i>takāful</i> operating model). 	

²⁸ Roughly analogous to the “Essential Criteria” of the Basel Core Principles and IFSB-17.

	<ul style="list-style-type: none"> • Introduced one paragraph of guidance no. 38 • Modified one paragraph of guidance no. 40 	<ul style="list-style-type: none"> • The modifications to the guidance are related particularly to this. <i>Takāful</i> is substantially different from conventional insurance in terms of contracts used and segregation of funds, but the actual model used varies between jurisdictions and operators. Disclosure of the model is thus critical to an understanding of the business. 	
20.4 Corporate Governance	<p>Amended</p> <ul style="list-style-type: none"> • Modified the standard • Added one paragraph of guidance no. 46 	<ul style="list-style-type: none"> • The standard is modified to emphasise the connection of Shari’ah governance with the holistic corporate governance framework. • The new guidance pertains to segregation of funds, which is one of the key characteristics of <i>takāful</i>. 	<ul style="list-style-type: none"> • IFSB-8: <i>Guiding Principles on Governance for Takaful (Islamic Insurance) Undertakings</i>
20.5 Technical Provisions	<p>Amended</p> <ul style="list-style-type: none"> • Modified the standard • Removed two paragraphs of guidance from ICP 20 relating to participation features. 	<ul style="list-style-type: none"> • The standard is modified to reflect the importance of disclosure for each participant risk fund (PRF). This is a significant aspect, since it is at the fund level that risks are borne, and the adequacy of technical provisions at fund level will be highly relevant to solvency. • The current Exposure Draft removes two paragraphs of guidance concerning “participation features”. The IAIS text was written around what is traditionally known as “with profits policy”, which has elements of 	<ul style="list-style-type: none"> • IFSB-11: <i>Standard on Solvency Requirements for Takaful (Islamic Insurance) Undertakings</i>

		<p>guarantee and also profits that are paid in the form of a “bonus” or “dividend” but without being firmly tied to the performance of specific investments. This kind of policy is not a feature of the <i>takāful</i> market.</p>	
<p>20.6 Takāful Risk Exposure</p>	<p>Amended</p> <ul style="list-style-type: none"> Modified the standard Adjusted the wording in some paragraphs of guidance (i.e. 73, 74 & 75) 	<ul style="list-style-type: none"> The standard is modified to ensure the risk profile of each risk fund has been taken into consideration. There are Shari’ah issues around the use of derivatives as normally understood, and the guidance therefore refers instead to the use of Shari’ah-compliant hedging mechanisms to hedge risks arising from <i>takāful</i> contracts and includes a footnote referring to an important document relating to these. 	<ul style="list-style-type: none"> IFSB-14: <i>Standard on Risk Management for Takāful (Islamic Insurance) Undertakings</i>
<p>20.7 Financial Instruments and Other Investments</p>	<p>Amended</p> <ul style="list-style-type: none"> Modified the standard Deleted one paragraph pertaining to derivatives Introduced one paragraph of guidance no. 83 	<ul style="list-style-type: none"> The standard is modified to ensure the information is disclosed on a fund level, due to the possible differences between shareholders’ fund and participants’ funds. At the level of guidance: <ul style="list-style-type: none"> Paragraph 83 provides a cross-reference on the purification process necessary in respect of investments non-compliant with Shari’ah. 	
<p>20.8 Investment Risk Exposures</p>	<p>Amended</p> <ul style="list-style-type: none"> Modified the standard 	<ul style="list-style-type: none"> The standard is modified to require disclosure to be at the fund level. 	

	<ul style="list-style-type: none"> • Introduced one paragraph of guidance no. 85 • Modified paragraph of guidance no. 86 	<ul style="list-style-type: none"> • The introduction of a new paragraph of guidance is required to cover the correlation of risk among funds (PRF, PIF, SHF). • The modified paragraph addresses the specificities of Islamic finance in the context of certain investment risks. 	
20.9 Asset–Liability Management	<p>Amended</p> <ul style="list-style-type: none"> • Modified the standard • Modified the paragraphs of guidance (i.e. 94 & 96) 	<ul style="list-style-type: none"> • The modification of the standard is needed to recognise different funds, and this is reflected in paragraph 94. Paragraph 96 has been modified to deal with Shari’ah-compliant hedging instruments. 	
20.10 Capital Adequacy	<p>Amended</p> <ul style="list-style-type: none"> • Modified the standard • Introduced two paragraphs of guidance (i.e. 101 & 102) • Modified the paragraphs of guidance (i.e. 99 & 100) 	<ul style="list-style-type: none"> • The modification of the standard is required to recognise SHF and PRF separately. • At the level of guidance: <ul style="list-style-type: none"> ○ Paragraph 101 is added to cover the disclosure of the financial assistance given by SHF to PRF (normally in the form of a loan). This interaction between funds is critical to an understanding of the capital position of the TU/RTU. ○ Paragraph 102 covers the issue of how far capital resources in the PRF are considered available for distribution to participants; this is 	<ul style="list-style-type: none"> • IFSB-11: <i>Standard on Solvency Requirements for Takaful (Islamic Insurance) Undertakings</i>

		clearly critical to future capital adequacy.	
20.11 Liquidity Risk	Amended <ul style="list-style-type: none"> Modified the standard Modified one paragraph of guidance no. 104 	<ul style="list-style-type: none"> The modification of the standard is needed to recognise different funds and is subsequently reflected in the paragraph of guidance. 	
20.12 Financial Performance	Amended <ul style="list-style-type: none"> Modified the standard Introduced two paragraphs of guidance no. 111 & 112 Modified paragraphs of guidance (i.e. 120, 121 & 127) 	<ul style="list-style-type: none"> The modification of the standard is needed to recognise different funds and is subsequently reflected in some paragraphs of guidance. Arising from the fund structure: <ul style="list-style-type: none"> Guidance paragraph 111 is added to recognise the disclosure of the financial transfers between funds. These transfers, which may differ between operating models, are highly relevant to an understanding of financial performance. Guidance paragraph 112 covers the related issue of how income and expenses not immediately attributable to an individual fund are allocated between funds. 	
20.13 Non-GAAP Financial Measures	This particular standard has been deleted.	It is likely that some TOs/RTOs may justifiably make disclosures beyond those required by accounting standards in the jurisdictions in	

		<p>which they operate (e.g. disclosures at the fund level). At a time when many GAAPs do not accommodate the specificities of Islamic finance, it was considered that the risks of inhibiting such disclosures were greater than those associated with permitting them, subject as always to regulatory discretion.</p>	
Insurance Core Principle (ICP) 19: Conduct of Business			
19. Conduct of Business	<p>Amended</p> <ul style="list-style-type: none"> Modified the standard 2.2.1 Modified paragraphs of guidance no. 2.2.1(134 & 135), 2.2.2 (147, 149 & 150), 2.2.3(166, 169 & 172) 	<ul style="list-style-type: none"> ICP 19 contains 13 standards relating broadly to conduct of business. However, the current Exposure Draft focuses on 7 standards bearing specifically on disclosure issues. <p>Product Development</p> <ul style="list-style-type: none"> The modification of the standard requires ensuring compliance with Shari'ah rules and principles. Also, two points in guidance paragraph 135 are added to avoid any hidden costs and to show the differences between <i>takāful</i> and conventional insurance. 	<ul style="list-style-type: none"> IFSB-9: <i>Guiding Principles on Conduct of Business for Institutions Offering Islamic Financial Services.</i> IFSB-8: <i>Guiding Principles on Governance for Takaful (Islamic Insurance) Undertakings</i>

		<p>Prior to Inception of the Contract</p> <ul style="list-style-type: none"> • <i>Takāful</i> specificities are introduced and modified in some guidance paragraphs, such as operating model, breakdown of the contractual payments, surplus distributions and expenses allocation are added in guidance paragraph 147. The disclosures for investment products, in paragraph 149, reflect the non-guaranteed nature of investment returns, and the sharing of profits with the operator under the contract most commonly used for investment management. Modifications have also been made to reflect the point noted at 20.5 above about participation features. Also, there is an amendment in paragraph 150, where the <i>muḍārabah</i> contract is mentioned. <p>After Inception of the Contract</p> <ul style="list-style-type: none"> • Paragraphs 166 and 169 modified to mention in the context Shari’ah rules and principles. Another guidance, specifically paragraph 172, is modified to reflect the fact that the PRF is considered to be the 	
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		property of the participants, who may be eligible for distributions from it. It also reflects the fact that in one <i>takāful</i> model (the “drip feed” model), the PIF makes periodic contributions to the PRF to cover mortality and morbidity risk.	
Additional Standards			
Shari`ah Governance	...	<ul style="list-style-type: none"> This standard is introduced to provide the disclosure requirements pertaining to the Shari`ah governance framework. It consists of six paragraphs of guidance covering various disclosures relevant to <i>takāful</i>. 	<ul style="list-style-type: none"> IFSB-10: <i>Guiding Principles on Shari`ah Governance Systems for Institutions Offering Islamic Financial Services</i> IFSB-22: <i>Revised Standard on Disclosures to Promote Transparency and Market Discipline for Institutions Offering Islamic</i>

			<p><i>Financial Services (Banking Segment)</i></p> <ul style="list-style-type: none"> Financial Accounting Standard No. (12): <i>General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies</i>, Issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)
<p>Environmental, Social and Governance Disclosure</p>	<p>...</p>	<ul style="list-style-type: none"> This particular standard is introduced in order to fulfil the role of TO/RTO towards society, the economy and the environment. It aims to achieve the greater objectives of Islamic finance, including <i>takāful</i>, by adding value to the real economy. It consists of two main guidance paragraphs concerning the 	<ul style="list-style-type: none"> The Task Force on Climate-related Financial Disclosures (TCFD) set up by the Financial Stability Board (FSB).

		firm's activities (e.g. underwriting and investment).	
<p>Additional Specific Issues in:</p> <p>(i) Retakāful;</p> <p>(ii) Takāfull/Retakāful Windows; and</p> <p>(iii) Microtakāful</p>	...	<ul style="list-style-type: none"> The draft includes a dedicated section to address additional perspectives on <i>retakāful</i>, windows and <i>microtakāful</i> firms – in particular, applying the proportionality concept in these firms by considering their nature, scale and complexity. 	<ul style="list-style-type: none"> (i) IFSB-18: <i>Guiding Principles for Retakāful (Islamic Reinsurance)</i> (ii) IFSB-20: <i>Key Elements in the Supervisory Review Process of Takāful/Retakāful Undertakings</i> (iii) Joint paper issued by the IFSB and IAIS: <i>Issues in Regulation and Supervision of Microtakāful (Islamic Microinsurance)</i>

Notes and Abbreviations

* The numbering is in line with ICP sequences.

** The numbering is in line with the IFSB Exposure Draft

TO = *takāful* operator

RTO = *retakāful* operator
SHF = shareholders' fund
PRF = participants' risk fund
PIF = participants' investment fund