FAQs on: IFSB-25

Disclosures To Promote Transparency and Market Discipline for Takaful/Retakaful Undertakings

Q1: What are the differences between this standard and the previous IFSB standards related to takaful that also discuss transparency and market discipline like IFSB-8 and IFSB-18?

Answer: IFSB-8 and IFSB-18 provide some specific recommendations on the transparency and market discipline but none of these standards deals comprehensively with the issue. This standard is intended to set out requirements to be applied by regulatory and supervisory authorities (RSAs) to takaful undertakings (TUs)/retakaful 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 takaful industry.

Q2: What is the risk concentration inherent in the retakaful/reinsurance cover?

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

Q3: Why quantitative and qualitative information related to regulatory capital requirements should be disclosed separately for Shareholders Fund (SHF) and Participants Investment Fund (PIF)?

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

a. Quantitative information on the fund’s sources and uses of liquidity, considering liquidity characteristics of both assets and liabilities; and
b. Qualitative information on the fund’s liquidity risk exposures, management strategies, policies, and processes.

Q4: At the level of each Participants Investment Fund (PIF) fund, what should the TO/RTO adequately describe in clearly understandable language?

Answer: The TO/RTO should adequately describe the following:

a. Investment objective;
b. Investment strategy;
c. Strategic asset allocation; and
d. Performance benchmark (to aid in comparing targeted performance to actual periodic performance).

Q5: If the takaful undertaking (TU) is a foreign TU, what is the takaful operator (TO) or intermediary required to inform the customer before any commitment is entered into?

Answer:

a. The home authority that is responsible for the supervision of the TU.
b. The jurisdiction in which the head office or, where appropriate, the branch with which the contract is to be concluded is situated; and
c. The relevant provisions for making complaints or independent dispute resolution arrangements.

Q6: What does IFSB propose regarding the best approach for takaful operator or intermediary to demonstrate to supervisor that customers have received adequate information necessary to understand the product?

Answer: The information provided should be sufficient to enable customers to understand the characteristics of the product to which they are subscribing, and to help them understanding whether and why it may meet their requirements. The level of information required will tend to vary according to matters such as:

a. The knowledge and experience of a typical customer for the contract in question;
b. The contract terms and conditions, including its main benefits, exclusions, limitations, conditions and duration;
c. The contract's overall complexity;
d. Whether the contract is entered into in connection with other goods and services; and
e. Whether the same information has been provided to the customer previously and, if so, when.

Q7: Why should supervisor require TOs/RTOs to provide prudential disclosures?

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

Q8: What does "Technical Provisions" mean?

Answer: 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 takaful contracts. For solvency purposes, technical provisions comprise two components – namely, (1) the current central best estimate of the costs of meeting the takaful underwriting obligations, discounted to the net present value (current estimate); and (2) a margin for risk over the current estimate.

Q9: What are the four areas needed to be disclosed to help stakeholders understand how they assess risks that arise from their activities, which may impact ESG areas?

Answer: The four areas include the following:

a. <u>Governance</u>

- 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 opportunities34 that contribute to ESG objectives.
- Describe management's role in assessing and managing these risks and opportunities.

b. <u>Strategy</u>

- 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.

c. *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.

d. *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.

Q10: What should supervisor require from TOs after inception of the contract?

Answer: The supervisor is supposed to require TOs to:

a. Service contracts appropriately through to the point at which all obligations under the contract have been satisfied;
b. Disclose to the participant information on any contractual changes during the life of the contract; and
c. Disclose to the participant further relevant information, depending on the type of takaful product.