



ISLAMIC FINANCIAL  
SERVICES BOARD

## **EXPOSURE DRAFT GN-10**

# **GUIDANCE NOTE ON RECOVERY AND RESOLUTION FOR TAKĀFUL UNDERTAKINGS**

**Comments on this Exposure Draft should be sent to the IFSB  
Secretariat no later than 1 May 2025 by email to  
[public\\_consultation@ifsb.org](mailto:public_consultation@ifsb.org)**

**March 2025**

## **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 IFBS'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.

For more information about the IFSB, please visit [www.ifsb.org](http://www.ifsb.org)

## TABLE OF CONTENTS

ABBREVIATIONS .....	4
SECTION 1: INTRODUCTION.....	5
1.1 Background.....	5
1.2 Scope and Application .....	5
1.3 Proportionality .....	6
1.4 Implementation Date.....	6
SECTION 2: RECOVERY PLANNING.....	7
2.1 Shari'ah Governance and Recovery Planning.....	7
2.2 Additional Consideration for Segregated Fund.....	7
2.3 Elements of a Recovery Plan .....	8
2.3.1 Executive Abstract of the Recovery Plan.....	8
2.3.2 Trigger Framework.....	8
2.3.3 Recovery Options .....	9
2.3.4 Communication Strategy.....	12
2.3.5 Participant's Interest Consideration .....	12
2.4 Matters Specific to Subsidiaries and Windows .....	13
2.5 Supervisory Considerations.....	13
SECTION 3: RESOLUTION POWERS AND PLANNING .....	14
3.1 Objectives of an Effective Resolution Regime .....	14
3.2 Scope.....	15
3.3 Resolution Authority.....	15
3.4 Resolution Powers.....	15
3.4.1 Entry into resolution .....	15
3.4.2 General resolution powers.....	17
3.4.3 Bridge institutions.....	17
3.4.4 Bail-ins .....	17
3.5 Safeguards .....	18
3.6 Funding Resolutions.....	18
3.7 Cross-border Cooperation .....	18
3.8 Resolvability Assessments .....	19
3.9 Resolution Planning.....	19
3.9.1 Resolution Authority Preparing Resolution Plans .....	20
3.9.2 Key Elements of an RSP.....	21
3.10 Participants Protection Scheme (PPS) .....	22
3.11 Shari'ah Governance and Resolution Planning .....	22
DEFINITIONS .....	24
GAP ANALYSIS MATRIX .....	28

## ABBREVIATIONS

AT1	Additional Tier 1
BOD	Board of Directors
ERM	Enterprise Risk Management
FSB	Financial Stability Board
IAIS	International Association of Insurance Supervisors
IFSB	Islamic Financial Services Board
IFSB-27	Core Principles for Islamic Finance Regulation [ <i>Takāful</i> Segment]
IIFS	Institutions Offering Islamic Financial Services
KA	Key Attributes of Effective Resolution Regimes for Financial Institutions
PIF	Participants' Investment Fund
PONV	Point Of Non-Viability
PPS	Policyholder/Participant Protection Scheme
PRF	Participants' Risk Fund
RSAs	Regulatory and Supervisory Authorities
RSP	Resolution Plans
SHF	Shareholders' Fund
TCP	<i>Takāful</i> Core Principle
TN-4	Recovery and Resolution for Institutions Offering Islamic Financial Services
TN-5	Shari'ah-compliant Liquidity Risk Management Tools
TO	<i>Takāful</i> Operator
TU	<i>Takāful</i> Undertaking

*Bismillahirrahmanirrahim*  
*Allahumma salli wasallim ‘ala Sayyidina Muhammad wa’ala alihi wasahbihi*

## SECTION 1: INTRODUCTION

### 1.1 Background

1. Regulatory and Supervisory Authorities (RSAs) need to establish Recovery and Resolution frameworks (RRFs) to enable financial institutions to restore viability through their actions and reduce the need for intervention by public authorities (usually using taxpayer funds). These frameworks also empower authorities to implement effective recovery and resolution measures consistent with the principles established by the Financial Stability Board (FSB).

2. The IFSB Working Paper (WP) -07 “[Recovery, Resolution and Insolvency Issues for Institutions Offering Islamic Financial Services](#)” recognises that institutions offering Islamic financial services (IIFS) are not insulated from stress and failure. Furthermore, effective crisis management frameworks, including recovery and recapitalisation measures, constitute essential building blocks of Islamic financial infrastructure.<sup>1</sup> While the overarching goals of RRF remain consistent across conventional and Islamic financial systems, the unique structural and operational characteristics of *takāful*, as detailed in Appendix 1, create distinct risk profiles that require a tailored regulatory approach.

3. This Guidance Note (GN) provides application-level guidance on *Takāful* Core Principles (TCPs) 12 (*Exit from The Market and Resolution*) and 16 (*Enterprise Risk Management for Solvency Purposes*)<sup>2</sup> and complement the guidance provided by the FSB Key Attributes (KA)<sup>3</sup> and the International Association of Insurance Supervisors (IAIS) application papers<sup>4</sup>. The GN highlights additional aspects of *takāful* not covered in these references. Guidance equally applicable to both *takāful* and conventional insurance is not included in this GN, and appropriate references have been made where applicable. This approach aims to ensure, other things being equal, consistent outcomes in the supervision of recovery and resolution across insurance sectors while accommodating the specificities of *takāful*.

### 1.2 Scope and Application

4. This GN is developed primarily in reference to the *takāful* model. The provisions also apply to *takāful* windows<sup>5</sup>.

---

<sup>1</sup> IFSB-IsDB-IRTI report on “[Islamic Finance and Global Financial Stability](#)” (April 2010)

<sup>2</sup> [IFSB-27: Core Principles for Islamic Finance Regulation \(CPIFR\) \[Takāful Segment\]](#). TCP 23: *The Group-wide Supervisor*, and TCP 25: *Supervisory Cooperation and Coordination* are also relevant.

<sup>3</sup> [Key Attributes of Effective Resolution Regimes for Financial Institutions and the Assessment Methodology for Insurance Institutions](#)

<sup>4</sup> [Application Paper on Recovery Planning and Application Paper on Resolution Powers and Planning](#)

<sup>5</sup> The term “window” means part of a conventional insurer, which may be a branch or a dedicated unit of that insurer, that provides *takāful* services other than purely as an intermediary.

5. In the case of recovery, this GN is relevant to all *takāful* undertakings (TUs).<sup>6</sup>
6. In the case of resolution, the GN applies to all TUs that could be systemically significant or critical if they fail<sup>7</sup>. It should serve all group entities, if any, of TUs, consistent with the FSB KA 1.1.<sup>8</sup>
7. To implement an effective RRF specific to *takāful*, RSAs need to address some key considerations. This includes developing a robust system of regulation, supervision, and oversight that caters to *takāful*-specific characteristics and participant protection mechanisms that adhere to Sharī'ah principles. Additionally, a strong accounting, auditing, and disclosure regime that considers specificities of *takāful* is essential. The legal framework, particularly concerning liquidation/bankruptcy regimes, should accommodate *takāful* peculiarities (e.g. legal recognition of segregated funds). Furthermore, the RSAs and resolution authorities should have expertise in the Sharī'ah specificities and the underlying *takāful* model adopted in their jurisdiction.

### 1.3 Proportionality

8. This GN should be read in the context of the proportionality principle. RSAs and resolution authorities may tailor their implementation of TCP 12 and TCP 16 and the guidance herein, taking into consideration the nature, scale and complexity of TUs and the risks posed by TUs to participants, the *takāful* sector, or the overall financial system.

### 1.4 Implementation Date

9. To ensure consistent implementation of IFSB standards across jurisdictions, RSAs and resolution authorities are encouraged to adopt the GN from June 2027, allowing for a pre-implementation period from the issuance date to integrate the GN into national regulations and guidelines, and where applicable, into supervisory practices.
10. RSAs and resolution authorities are encouraged to implement the GN earlier than this date when they are able to do so.
11. The guidance provided in this GN recognises that there are significant differences in the legislative and regulatory frameworks across countries, which may affect the application of certain provisions therein. Each jurisdiction should apply the provisions as the national authorities see fit. In some cases, this may involve legal change. In other cases, a provision may require only a slight modification to be implemented.

---

<sup>6</sup> Please see definitions at the end of this document for common terms used in this GN.

<sup>7</sup> See section 3.2 for further discussion on this.

<sup>8</sup> FSB Key Attributes 1.1 stipulates that any financial institution, whose failure could be systemically significant or critical, should be governed by a resolution regime with the specified "Key Attributes." This regime should be transparent and clear about the firms it covers. It should apply to holding companies of a firm, non-regulated operational entities within a financial group or conglomerate that are significant to the business, and branches of foreign firms.

## SECTION 2: RECOVERY PLANNING

12. Recovery planning enables *takāful* operators (TOs) to identify risks in severe stress scenarios and develop appropriate responses for both the Shareholders' Fund (SHF) and the Participants' Risk Fund (PRF). It is necessary for TOs to implement comprehensive recovery plans as part of their risk management framework<sup>9</sup>. The detailed guidance in the "[Application Paper on Recovery Planning](#)" by IAIS applies to TUs. The following sub-sections provide additional guidance on *takāful*-specific considerations.

### 2.1 Sharī'ah Governance and Recovery Planning

13. The IAIS Application Paper addresses appropriate governance for insurers' recovery planning, including the roles of the Board of Directors (BOD), Senior Management, and Key Persons in control functions<sup>10</sup>. For TUs, an additional layer of governance is necessary to ensure that recovery planning incorporates proper oversight addressing Sharī'ah-specific considerations. Therefore, supervisors should require TOs to establish and implement an appropriate Sharī'ah governance framework.<sup>11</sup> For detailed guidance on implementing a Sharī'ah governance framework, refer to TCP 8 and IFSB-10.<sup>12</sup>

14. The Sharī'ah governance function<sup>13</sup> should be involved from the beginning in developing the recovery plan to ensure Sharī'ah compliance throughout planning and execution. This function may:

- identify pre-positioning measures required for various Islamic contracts to implement recovery options in a Sharī'ah-compliant manner;
- provide necessary Sharī'ah opinions, approvals, and clarifications;
- offer guidance on any other Sharī'ah matters pertinent to the plan's development and implementation; and
- conduct a periodic review of the recovery plan to ensure that it remains Sharī'ah-compliant, especially when the regulatory environment changes.

### 2.2 Additional Consideration for Segregated Funds

15. TOs are responsible for addressing Enterprise Risk Management (ERM) components for each segregated fund,<sup>14</sup> which may necessitate specific recovery considerations at the fund level. Each

---

<sup>9</sup> TCP 16.15

<sup>10</sup> See Section 4 Governance of the Application Paper.

<sup>11</sup> IFSB-27 defines Sharī'ah governance as a "set of institutional and organisational arrangements that is required to ensure there is effective and independent oversight of Sharī'ah compliance through structures maintained by the legal entity and processes carried out by it or at its direction."

<sup>12</sup> [IFSB-10: Guiding Principles on Sharī'ah Governance Systems for Institutions offering Islamic Financial Services](#).

<sup>13</sup> Sharī'ah governance function of a TO (based on the jurisdictions approach) may include a Sharī'ah Board/advisor and an internal Sharī'ah compliance unit. These functions collectively verify that the Sharī'ah compliance requirements have been satisfied, and that any non-compliance is recorded, reported, addressed, and rectified.

<sup>14</sup> TCP 16.0.3 and TCP 16.0.4

segregated fund may have a tailored recovery approach that addresses its specific characteristics and risk profile. Supervisors may apply the principle of proportionality when determining whether planning is required at the individual fund level or for the TU as a whole, the number of PRFs and/or PIFs managed, the risk profile and size of the TO, etc.

16. Recovery planning may incorporate scenario analysis<sup>15</sup> conducted both at the individual fund level and collectively for the TU as a whole. For PRFs, the analysis may include the projection of *qard*<sup>16</sup> utilisation or other forms of support in stressed scenarios, specifying sources and expected repayment patterns.

## 2.3 Elements of a Recovery Plan

### 2.3.1 Executive Abstract of the Recovery Plan

17. The abstract of the recovery plan may include the mechanisms and processes the TO has put in place to ensure Sharī'ah compliance of the recovery options (e.g. the recovery plan has been reviewed and endorsed by the Sharī'ah governance function). This inclusion serves as a useful aid for supervisors when reviewing and assessing recovery plans, allowing them to evaluate how Sharī'ah governance was incorporated throughout the recovery planning process.

### 2.3.2 Trigger Framework

18. A well-designed trigger framework is essential for recovery planning to identify and establish pre-defined criteria that prompt the activation of fund-specific recovery plans. Segregated funds may have different risk exposures, solvency levels, contractual obligations, and recovery options. Therefore, the trigger points may be tailored to each fund's specific circumstances and needs. For instance, a severe stress situation may trigger recovery for a specific PRF or business line only. In such cases, the TO should assess recovery measures specifically for the affected PRF or business line while maintaining its obligation to continue normal operations and meet all commitments for other PRFs or business lines.

19. The IAIS Application Paper provides some quantitative and qualitative examples of trigger points.<sup>17</sup> For TUs, some additional considerations may be:

- Potential deterioration in the quantity and quality of capital as well as the capacity to meet liquidity needs in both the PRF(s) and SHF. For example, for a PRF, TUs may consider the

---

<sup>15</sup> The IAIS describes scenario analysis as a tool to assess the credibility and feasibility of the recovery plan, including the trigger framework and recovery options. It also gives insurers and supervisors insights into major risk factors and possible impediments to recovery.

<sup>16</sup> RSAs may require a TU to provide *qard* when the assets of the PRF are insufficient to cover both its liabilities and the required solvency margin, or when a PRF experiences a liquidity shortage preventing settlement of obligations.

<sup>17</sup> See Box 1 of the Application Paper.



frequency of deficits occurring in the PRF and the amount of *qard* required to sustain the fund's solvency.

- Deterioration in the quality of the asset mix of PRF and PIF reserves where the TO invests the funds on behalf of the participants. This may affect the financial condition and performance of these funds in terms of (i) the amount and frequency of surplus available for distribution to participants and creation of reserves and (ii) the ability and speed of the PRF to repay any *qard* provided by the SHF.
- Operational events such as the number of Sharī'ah non-compliance events within a certain period, that may threaten the financial viability or the public confidence in the TU.
- Changes in *fatwas* or Sharī'ah resolutions that impact TU operations and financial viability. For example, a *fatwa* change leading to product or process revisions could potentially result in non-recognition of income, financial losses, and stress on the TU's profitability and capital position. The extent of operational changes required or the potential financial impact from such developments may serve as trigger points.

### 2.3.3 Recovery Options

20. The recovery plan should include a comprehensive menu of recovery options that are identified in advance to facilitate effective recovery during severe stress. For TUs, the recovery options may fall into three categories:

- options primarily aimed at a recapitalisation of the SHF or an enhancement of resources available to the PRF(s);
- options intended to ensure that the PRF(s) and SHF have adequate access to liquidity to carry on operations and meet obligations as they fall due; and
- options designed to reduce the TU's risk exposure or restructure its business lines.

21. The IAIS Application Paper provides some examples of recovery options<sup>18</sup>. Additional examples for TUs may include, but are not limited to:

- suspending surplus distribution to strengthen the capital of the PRF;
- writing off *qard* by the parent company in subsidiary TUs to reduce the subsidiary's liability;
- ceding with conventional reinsurers to reduce risk exposure where genuine *retakāful* is not available in sufficient volume or during a crisis situation,<sup>19</sup> applying the principle of *al-hājah*;<sup>20</sup>

<sup>18</sup> See Box 2 of the Application Paper

<sup>19</sup> [IFSB-25](#) recommend disclosing the usage of conventional reinsurance to participants

<sup>20</sup> The concept of "*al-hājah*" or need and necessity in the absence of a compliant alternative, could be used by TUs to justify the use of conventional reinsurance when *retakāful* is not available, has limited coverage or does not meet all regulatory requirements

- accessing Sharī'ah-compliant liquidity facilities offered by the regulators. TN-5 "[Technical Note on Sharī'ah-compliant Liquidity Risk Management Tools](#)" provides guidance on the contracts that can be used to obtain such a facility<sup>21</sup>. Such a mechanism could also potentially be provided by a resolution authority, functioning like a deposit insurance scheme; and
- procuring third-party financing to cover the PRF deficit when the TO cannot provide *qarḍ* to the PRF, either due to stress in the SHF or regulatory solvency requirements.

22. Some of the recovery options may apply to the participant funds only (PRF and PIF) and require additional consideration. Examples of such recovery options are provided below.

#### *Transfer of portfolio*

23. The RSA may evaluate the eligibility of portfolio transfers and the ability of the transferee to uphold Sharī'ah requirements. Principle 6 of IFSB-27 provides detailed conditions for using portfolio transfer as a recovery tool. Additional considerations may include the following:

- The RSA may only permit such transfer to other TUs.
- If the TO has received an upfront *wakālah* fee before portfolio transfer, careful Sharī'ah deliberation is necessary. The TO may be entitled only to a portion of the fee based on tasks performed. The transferor TO may need to transfer the remaining *wakālah* fee to the transferee TO.
- Portfolio transfer may require terminating the existing *wakālah* contract and establishing a new one between participants and the transferee TO. To simplify this process, the initial contract could include a clause permitting transfer based on necessity, situation, or regulatory requirements, potentially maintaining existing terms and conditions.
- If a PRF has an outstanding *qarḍ* that needs to be repaid, its treatment during or after the transfer needs to be clarified. For example, (i) the transferee may repay existing *qarḍ* to the transferor on behalf of the PRF, to be repaid from future surplus; (ii) the RSA may provide financial assistance, potentially recovered from future PRF surplus; or (iii) regulatory requirements may require the *qarḍ* may be written off.

#### *Qarḍ*

24. RSAs may require the TU to provide *qarḍ* when the assets of the PRF are insufficient to cover both its liabilities and the required solvency margin, or when a PRF experiences a liquidity shortage preventing settlement of obligations. This *qarḍ* will be recovered from future surplus in subsequent periods either in a single payment or multiple instalments. If it is probable that the *qarḍ* cannot be recovered and the PRF might not be viable if it must repay the *qarḍ*, regulators may require the *qarḍ* to

---

<sup>21</sup> See Section 5.2

be written off. A TO who is unable to provide the *qarḍ* should be expected to promptly notify the RSA and to take necessary actions (e.g., procuring third-party financing) within a reasonable timeframe.

25. It is also possible that a stressed TO may need to procure *qarḍ* or financing from a third party or a group to cover a PRF deficit. However, the financing contract should clarify the SHF's responsibility if the PRF fails to repay. Complications may arise in jurisdictions where the PRF is not recognised as a legal entity and this might become the liability of the SHF.

#### *Hibah*

26. The SHF may provide a *hibah*<sup>22</sup> to the distressed PRF to cover deficits and improve its financial health. Unlike *qarḍ*, *hibah* is not considered a liability of the PRF as it does not require repayment. However, before providing a *hibah*, the TO may carefully consider the SHF's solvency position and any regulatory requirements.

#### *Surplus*

27. A TO may consider retaining the surplus or part of the surplus of a PRF to build a reserve for unforeseen stress events in the future that may affect the particular PRF. Any recovery mechanism utilising the surplus reserves should require approval from the Sharī'ah governance function and consent of the participants through a clause in the *takāful* contract.

28. A TO may create a common reserve fund by pooling portions of the surpluses of multiple PRFs, (subject to participants' contracts and applicable regulations).<sup>23</sup> When this reserve fund is used as a recovery tool to support a PRF in deficit, the TO should ensure that such an arrangement does not put other PRFs under stress..

#### *Run-off*

29. A TO may consider a run-off of a distressed PRF or multiple PRFs either as a voluntary business decision or as mandated by the RSAs. In such cases, the TU would still need to maintain its relationship with existing participants due to the contractual obligation to pay claims or compensate losses under the *takāful* contract. This relationship may persist for an extended period, as some claims may take a long time to resolve. During this period, the TU should maintain sufficient administrative operations to service the existing contracts. A proper run-off plan may be included in the recovery plan and should undergo a Sharī'ah review.

#### *Group Support*

---

<sup>22</sup> The payment of money or transfer of an asset to another party without a consideration.

<sup>23</sup> The common reserve fund may comprise all of the TU's PRFs or only those of major business lines (e.g., separate pools for general *takāful* and family *takāful*). This pooling must be established proactively prior to any recovery situation.

30. A subsidiary or window TU, in a stressed situation, may seek support from its parent group. Where it does so, the TU should consider the nature and type of permissible support structures and contracts. Support can be provided by the parent to the subsidiaries or window through various contracts, subject to its compliance with Shari'ah rules and principles and the relevant regulations in respective jurisdictions.<sup>24</sup>

### 2.3.4 Communication Strategy

31. The communication strategy with internal and external stakeholders is important for successfully implementing a recovery plan.<sup>25</sup> For a TU, participant-related considerations should inform the communication strategy. RSAs should expect TUs to ensure that the information provided to the participants is clear, fair, and not misleading. Where participants - depending on the legal framework in a jurisdiction and terms of the contract - are allowed to participate in the decision-making process on recovery options (either through consultation or consent rights or in some other manner),<sup>26</sup> sufficient information should be provided to participants to enable them to make informed decisions.

### 2.3.5 Participant's Interest Consideration

32. The TO's responsibility to consider participants' interests when managing risks<sup>27</sup> extends to recovery planning. The recovery plans may include a description of the different roles and responsibilities of the TO towards participants.

33. The recovery plan may outline the treatment of assets and liabilities during recovery actions, especially where local laws view the TU as a single entity. Supervisors may evaluate how the recovery plan protects PRF assets from being used to cover SHF liabilities. Such clarity is crucial for safeguarding participants' interests. Additionally, when assessing the solvency of the TU, the resources of the PRF(s) should be distinguished from the SHF due to the differing rights and obligations of participants and shareholders.

34. Recovery options may necessitate a change in the legal form of the TU.<sup>28</sup> The process for such a change varies by jurisdiction and may require approval from authorities other than the RSAs, such as courts. Participants may also have voting rights regarding changes in legal form. Additionally, based on the jurisdiction's legislation, the TO may need to consult or obtain approval from participants for certain recovery options, such as a portfolio transfer, run-off of a PRF, or significant policy changes.

---

<sup>24</sup> See section 2.4.2, TN-4: Technical Note on Recovery and Resolution for Institutions Offering Islamic Financial Services,

<sup>25</sup> See section 5.6 of "Application Paper on Recovery Planning" by IAIS for a detailed explanation

<sup>26</sup> See TCP 6.4.4 of IFSB-27 Core Principles for Islamic Finance Regulation [*Takāful* Segment]

<sup>27</sup> TCP 9.0.6

<sup>28</sup> For example, from mutual to stock, or changes in ownership etc.

## 2.4 Matters Specific to Subsidiaries and Windows

35. The group recovery plan describes how the group as a whole can recover from severe stress. For group insurers with *takāful* subsidiaries and Islamic windows, it is essential to carefully consider the *takāful* specificities in developing group-wide recovery plans.

36. For Islamic windows, the principle of proportionality should be applied to ensure regulatory requirements do not overburden the windows, while maintaining effective recovery mechanisms.

37. Key personnel developing recovery options for subsidiaries or windows should demonstrate an understanding of *takāful* specificities.

## 2.5 Supervisory Considerations

38. The supervisor should require TOs to provide the necessary information to assess the robustness and credibility of any required recovery plan,<sup>29</sup> including how it addresses *takāful*-specific considerations. If material deficiencies are identified (e.g. improper *qard* arrangements), the supervisor should provide feedback and require TOs to address these deficiencies. Where applicable, supervisors may consider the soundness of the TOs Sharī'ah-compliance assertion related to the recovery planning.

39. In a group structure, with Islamic windows or subsidiaries, supervisors may evaluate if group-wide recovery plans adequately address *takāful*-specificities.

40. Supervisors may evaluate whether they have adequate supervisory capacity, both in terms of quantity and quality (e.g., personnel, understanding of *takāful* business models, Sharī'ah-compliance, etc.), to effectively carry out their supervisory duties with respect to recovery plans, which may include:

- reviewing and assessing the recovery plans submitted by the TOs considering the specificities of *takāful*;
- providing feedback to the TOs on their recovery plans, if any concerns are identified regarding the robustness of the plan (including its adequacy in addressing *takāful* specificities); and
- assessing the effectiveness of the recovery plans considering the limitations TOs might face, such as limited Sharī'ah-compliant instruments, constraints on procuring financing from conventional parents, difficulties in providing *qard* from SHF, etc.

---

<sup>29</sup> TCP 16.15.2

## SECTION 3: RESOLUTION POWERS AND PLANNING

41. This section supplements the FSB “[Key Attributes of Effective Resolution Regimes for Financial Institutions](#)” (KA),<sup>30</sup> “[Application Paper on Resolution Powers and Planning](#)” and IAIS “[Issues Paper on roles and functioning of policyholder protection schemes \(PPSs\)](#)” and expanding on [IFSB -27](#).

42. The FSB KA 4, setting out the detailed standards and guidance in respect of netting, collateralisation, and segregation of client assets, can be adopted for TUs and their resolution framework. This document does not include material relating to ComFrame or IAIGs, therefore, KAs 8 and 9 are not applicable to the *takāful* resolution framework.<sup>31</sup>

### 3.1 Objectives of an Effective Resolution Regime

43. The objectives of an effective resolution regime for insurers are to “*make it feasible to resolve an insurer without severe systemic disruption, while protecting vital economic functions through mechanisms that make it possible for shareholders and unsecured creditors to absorb losses in a manner that respects the hierarchy of claims in liquidation. For insurers, the resolution regime should have as specific objective the protection of policyholders, beneficiaries and claimants.*”<sup>32</sup> The “hierarchy of claims in liquidation” as a constraint and the “protection of policyholders” as a particular objective of a resolution regime for insurers require some clarifications from a *takāful* perspective:

- In conventional insurance, policyholders have individual claims against the insurer. In a resolution case, they participate (usually at a high rank in the hierarchy) in the liquidation proceeds of the insurer. In *takāful*, participants' claims are against the PRF, not the SHF. This is because the PRF bears the ultimate risk, unlike conventional insurance. In jurisdictions that recognise fund segregation, both the PRF's assets (e.g., bank balances, provisions, reserves) and liabilities (including received *qarḍ*) belong to participants collectively. Therefore, during a TU's resolution, participants are entitled to the liquidation proceeds of the PRF's net assets, but not those of the SHF.
- The “protection of policyholders” is understood as a protection of the rights and interests of the individual (retail) policyholders. This includes the right to be compensated for insured losses. Where jurisdictions have policyholder protection schemes, they can intervene if liquidation proceeds are insufficient to fully compensate outstanding claims. In aiming to achieve comparable financial outcomes in resolution cases for both conventional policyholders and *takāful* participants, a Shari'ah-compliant PPS may be a suitable mechanism. Such a PPS may be structured similarly to Shari'ah-compliant deposit protection schemes in Islamic banking<sup>33</sup>.

<sup>30</sup> See in general: Preamble and K2.3, specific for insurers: II-Annex 2, 1.1.

<sup>31</sup> See IFSB-27 pages 24 and 25 for the rationale of not including the ComFrame

<sup>32</sup> See II-Annex 2: [Resolution of Insurers, Key Attributes of Effective Resolution Regimes for Financial Institutions \(Revised 2024\)](#).

<sup>33</sup> For details see IFSB WP-06: [Strengthening the Financial Safety Net: The Role and Mechanisms of Shari'ah Compliant Deposit Insurance Schemes \(SCDIS\)](#).

The PPS should have the discretion to assess the overall circumstances of the resolution case and decide on the level of intervention and protection for participants with unsettled claims.

## 3.2 Scope of Application of the Resolution Regime

44. Resolution regimes are primarily designed to maintain financial stability and prevent severe systemic disruption. While these regimes are mandated for Globally Systemically Important Insurers (G-SIIs), KA 1.1 extends their applicability to "*any financial institution that could be systemically critical if it fails*".

45. In markets where only a few TUs operate or where a single TU holds a dominant market share, the failure of one of the dominant entities could cause critical systemic consequences. The appropriate benchmark for the systemic importance of TUs warrants careful consideration.

## 3.3 Resolution Authority

46. The legal framework may identify one or more resolution authorities and provide a clear mandate.<sup>34</sup> This does not necessarily mean a separate resolution authority is needed for the *takāful* industry, provided the existing resolution authority has sufficient expertise, resources, and a mandate for adequate consideration of *takāful* specificities as outlined in this GN.

## 3.4 Resolution Powers

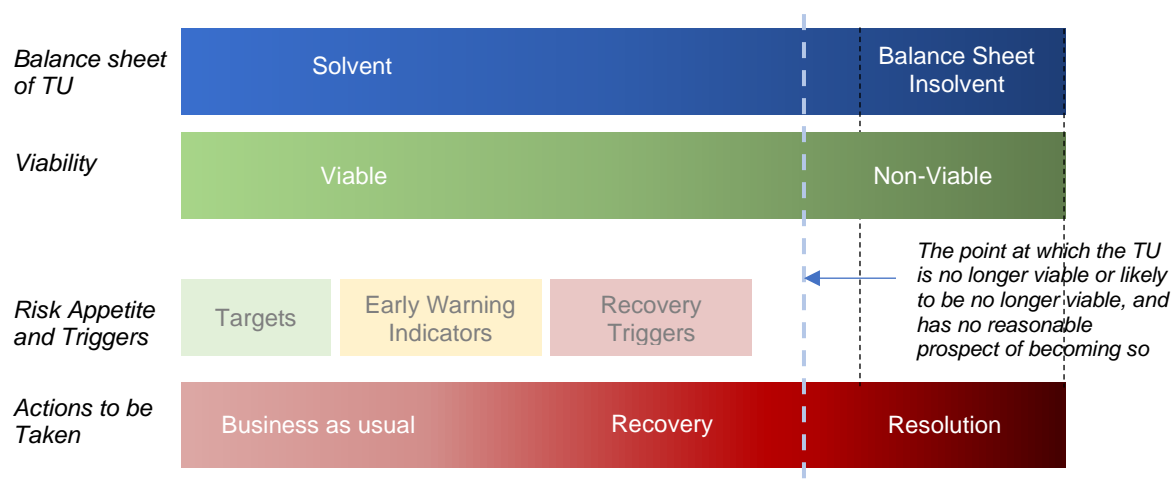
### 3.4.1 Entry into resolution

47. IFSB-27 highlights that no uniform, single, fixed point of non-viability (PONV) can be defined that will be appropriate for the application of resolution measures under all circumstances. Additionally, PONVs need to be set for both the individual fund level and the entity level. In this regard, the resolution authority should establish clear standards or suitable indicators of non-viability in their assessment frameworks to guide decisions on whether a TU meets the conditions for entry into resolution. These indicators should include both qualitative guidelines, which require a degree of judgment, and quantitative (financial) thresholds. The factual circumstances of the particular resolution scenario will determine whether to apply resolution measures and which type of measures to be implemented (e.g. fund level or entity level measures).

48. Figure 1 is a stylised illustration of the relationship between solvency, viability, and the nature of actions to be taken. Resolution procedures can be initiated before a TU becomes balance sheet insolvent.

---

<sup>34</sup> For the definition of resolution authority, see IFSB-27 TCP 12.0.4.

**Figure 1 Relationship between solvency, viability, and actions to be taken.**

49. In jurisdictions where fund segregation is recognised, separate balance sheets and income statements may be prepared to reflect the different capital sources for PRF<sup>35</sup> and SHF.<sup>36</sup> In cases where a TO manages multiple PRFs, it may be necessary to evaluate their various capital sources and levels independently to determine whether a resolution is triggered primarily by the failure of one or more PRFs or the failure of the SHF. Situations may arise where only one PRF enters resolution while other PRFs and the SHF remain viable, allowing the TU as a whole to avoid resolution procedures. However, where the TO manages only one PRF, the entire TU may enter resolution if either the PRF or SHF fails.

50. TCP 12 of IFSB-27 mentions that legislation should provide criteria for determining the circumstances when the RSA and/or resolution authority initiates the resolution of a TU. TCP 12.7 provided some examples of the criteria for determining whether resolution processes should be initiated. Additionally, the IAIS application paper sets out illustrative examples of possible resolution conditions in place in various jurisdictions that are applicable to TUs and their resolution planning framework.<sup>37</sup> The triggers referred to may also be applied, *mutatis mutandis*, at the level of PRFs to determine the viability of a particular fund and its reasonable prospects of becoming so, while the TU is still viable. The viability of a fund should be considered in the context of any *qarḍ* that has already been provided or any commitment to provide *qarḍ* by the SHF.

51. To determine whether a TU meets any resolution triggers, the RSAs and/or the resolution authority may consider establishing their internal governance system. The RSAs and/or resolution authority should consider the level of seniority and *takāful* expertise necessary for the decision-maker(s). The decision-making process of entering a resolution should anticipate potential legal

<sup>35</sup> Participants' contributions and reserves

<sup>36</sup> Shareholder-provided equity capital

<sup>37</sup> See section 3 of [Application Paper on Resolution Powers and Planning](#)



challenges, particularly those related to Sharī'ah-compliance and the rights of participants. To mitigate the latter risks, the RSAs and/or resolution authority may consult a relevant Sharī'ah authority.<sup>38</sup>

### 3.4.2 General resolution powers

52. TCP 12.8 requires legislation to provide appropriate powers to the RSA and/or resolution authority to resolve TUs effectively. Some of these powers have already been mentioned in the context of recovery efforts. These powers are exercised proportionately and with appropriate flexibility. Each resolution power listed in IFSB-27 (TCP 12), KA 3 and the IAIS application paper can be applied to TUs and their resolution framework. For *takāful*, an additional consideration should be to restrict the use or distribution of PRF surplus.

53. Resolution powers must not require or be contingent on the cooperation of the failing TU. These powers should be exercisable by authorities without the consent of the TO, its shareholders, Sharī'ah board, creditors, participants, or *retakāful* operator (if the TO has any contractual liabilities with the *retakāful* operator). For effective resolution, it is critical that these powers can be exercised without triggering any third-party rights (such as the rights of a *retakāful* operator or participant) that could prevent, impede, or interfere with the resolution process. This provision is subject to the safeguards described in subsection 3.5 below.

54. The resolution powers mentioned in IFSB-27 (TCP 12), the IAIS application paper and KA 3 are not exhaustive, and the RSA and/or resolution authority may choose to apply other available powers when developing and implementing its resolution strategy.

### 3.4.3 Bridge institutions

55. Any continuation or alternative arrangement offered by the RSA and/or resolution authority during the resolution of the TU must meet Sharī'ah compliance requirements. If the RSA and/or resolution authority decides to use a bridge institution as a resolution tool, a clear mechanism to maintain Sharī'ah compliance by this institution should be established and communicated to all relevant parties.<sup>39</sup>

### 3.4.4 Bail-ins

56. The RSA and/or resolution authority should have the legal powers to enforce bail-ins including but not limited to enforcing the conversion of contingent capital instruments, writing down equity, and absorbing losses. From a regulatory capital perspective, some capital-qualifying instruments may already have bail-in features, such as additional Tier 1 (AT1) and Tier 2 (T2) *shukūk*. A clear definition of a PONV and its determination would help to get consent from creditors or AT1 *shukūk* holders even

---

<sup>38</sup> For example, its own Sharī'ah Board or the Central/National Sharī'ah Board (where one exists). See section 3.11 Sharī'ah Governance Framework and Resolution Planning.

<sup>39</sup> See section 3.11 Sharī'ah Governance Framework and Resolution Planning.

at the time of issuance of such liabilities. Consequently, Sharī'ah-compliant mechanisms for the effective application of bail-in should be defined and clarified as part of the design of the resolution framework.

### 3.5 Safeguards

57. The safeguards outlined in KA 5 are applicable to TUs, including the "no creditor worse off than in liquidation" principle, flexibility to deviate from *pari passu* treatment of creditors within the same class, and protection for directors and officers of the institution under resolution when complying with resolution authority decisions. However, it is important to note that deviations from the *pari passu* principle cannot be directly applied to *takāful* participants, as they are not considered creditors. Nevertheless, a functional equivalent can be found in the discretionary powers of a Sharī'ah-compliant PPS regarding unsettled claims in a TU.

58. Safeguarding assets of the PRF(s) is an additional dimension for the resolution of a TU. Due to the distinct ownership of the PRF(s), the resolution authority must ensure that such assets are not used to meet the liabilities of the SHF. In reverse, there can be specific liabilities of the PRF(s), such as outstanding participant claims or third-party debt financing. The resolution authority must consider that these liabilities are limited to the PRF(s) and that the SHF must be safeguarded.

### 3.6 Funding Resolutions

59. Resolution measures for a failing TU (such as a portfolio sale or regulated run-off) might only be possible with a cash injection. This option should be used only as a measure of last resort to ensure the continuation of critical *takāful* coverage (e.g., where no comparable coverage is available in the market through another TU). When the funding of resolution measures is necessary, dependence on public funds shall be avoided or, at least, be minimised. As stipulated in TCP 12.2.3, any public funding utilised for the resolution of a TU may, in principle, be transparently recouped from the *takāful* sector.

60. When using private funding to finance a resolution, the resolution authority should always ensure its compliance with Sharī'ah rules and principles.

### 3.7 Cross-border Cooperation

61. The forced resolution of a TU that is a member of an international group may have implications beyond the jurisdiction where it operates. The resolution process may differ in the host jurisdiction of the subsidiary from that of the home jurisdiction of the TU or group due to, among other things, different insolvency laws and Sharī'ah interpretations. To ensure Sharī'ah-compliance of cross-border businesses, both home and host authorities should provide information on *fatwas* or Sharī'ah guidance related to their resolution planning and implementation matters. The aim of these deliberations on Sharī'ah interpretations is (ideally) a shared understanding of both home and host authorities that will underlie the resolution plan and policy in cross-border cases of failing TUs.

### 3.8 Resolvability Assessments

62. [FSB KA 10](#) (Appendix I: I-Annex 3) and the IAIS application paper (Section 6) outline resolvability assessments for systemically relevant insurers. The same procedures should be applied in *takāful* with the addition of an assessment<sup>40</sup> of the ability to maintain Sharī'ah-compliance of contracts and processes throughout the resolution process, as well as its continuation under the new post-resolution structure or entity. Sharī'ah-compliant contracts and processes may include, among others, the transfer of current policies to a new entity, considerations of selling/transfer of different assets of the TU, treatment of *qard* during resolution, and Sharī'ah-compliant creditors' hierarchy.

63. Resolvability assessments for TUs should address:

- the identification of various factors and conditions related to the operation of the TU, primarily the Sharī'ah compliance obligations, which could affect the effective implementation of a chosen resolution action or plan;
- the ability of other group entities to absorb or unwind the intragroup exposures of the TU or window under resolution in a Sharī'ah-compliant manner if group support is envisaged as part of the resolution and the group is dominated by conventional insurers; and
- the identification of pre-positioning measures or specific actions required to ensure Sharī'ah compliance with the entire resolution procedure and to sustain the Sharī'ah-compliant nature of the resulting post-resolution entity (e.g., a temporary bridge institution).

### 3.9 Resolution Planning

64. The content of KA 11 and the IAIS application paper offer detailed guidance for resolution planning and implementation of resolution plans that also apply to TUs and *takāful* resolution planning frameworks. The following paragraphs provide additional guidance that deals with *takāful* specificities.

65. Unlike recovery plans, which are prepared by the TOs and assessed by the RSAs, resolution plans are typically prepared by the resolution authorities. To ensure compliance with the relevant Sharī'ah rules and principles and reduce the probability of any Sharī'ah non-compliant event during the liquidation, it is crucial to assign and involve a relevant Sharī'ah authority in the resolution planning process.<sup>41</sup> The role of TOs is to provide necessary input to the resolution authorities in the preparation of the resolution plan (RSP).<sup>42</sup> RSAs/resolution authorities should be able to obtain the information

---

<sup>40</sup> TU is "resolvable" if it is feasible and credible for the resolution authorities to resolve it in a way that protects systemically important functions without severe systemic disruption and without exposing taxpayers to loss.

<sup>41</sup> See paragraph 75, section 3.11 on Sharī'ah governance and resolution planning.

<sup>42</sup> In some cases, a TO may be required to prepare internal contingency plans for foreseeable resolution scenarios that should consider, among others, whether the resolution mechanisms available carry implications for Sharī'ah compliance. The TO's Sharī'ah governance function should be consulted in developing the plan and reviewing the TO's contingency plan before it is adopted by the BOD, in order to identify potential concerns relating to Sharī'ah

needed to develop and implement the resolution strategy and plan. Relevant *takāful*-specific information may relate to:

- details of the *takāful* model adopted by the TO and the segregation of funds;
- valuation methodology of assets and liabilities for the PRF(s), PIF, and SHF; and
- relevant intra-group transactions, shared essential functions, and interconnectedness, especially for windows and subsidiaries.

66. The RSA and/or resolution authority should have sufficient resources and expertise to support the preparation and assessment of RSPs on an ongoing basis, including experts in *takāful* and Sharī'ah scholars.

### 3.9.1 Preparing Resolution Plans

67. In preparing the RSP, the resolution authority should identify the following:

- regulatory thresholds and legal conditions that provide grounds for the initiation of official actions, specifically the PONV (including particular triggers for entry into a resolution that are relevant to *takāful*);<sup>43</sup>
- markets and other firms with similar business lines, including TOs, and comparative estimates of losses to be borne by creditors and any premium associated with alternative resolution strategies;
- the sources available for Sharī'ah-compliant resolution funding;<sup>44</sup>
- the disbursement process by a Sharī'ah-compliant PPS covering the TU concerned and other financial safety nets applicable;
- the internal processes and systems necessary to support the continued operation of the TU's critical functions, including the Sharī'ah-compliance function;
- processes for the cross-border implementation of a resolution plan, including the handling of different *fatwas*;
- proper communication strategies and processes to coordinate communication with host resolution authorities and relevant Sharī'ah authorities; and

---

compliance or matters in the foreseeable resolution scenarios where the current understanding of Sharī'ah lacks precedents. This process enables any necessary (albeit precautionary) deliberation by the Sharī'ah governance function to take place in advance of the scenario occurring, rather than as an emergency amid a crisis. As part of the TO's contingency planning, the Sharī'ah governance function may advise the TO that a particular resolution action carries a high risk of Sharī'ah non-compliance or recommend modification to the action in order to mitigate the risk.

<sup>43</sup> For instance, persistent *qard* over several periods with an increase in the outstanding debt may be a strong indicator of the inability or unwillingness of a TO to deliver financial services in line with the basic principles of *takāful*.

<sup>44</sup> Resolution funding is financing used to facilitate prompt resolution actions in order to achieve the orderly resolution of a firm that could be systemically significant or critical if it fails. Resolution funding can come from the internal resources of the failed insurer/TU, private or industry financed resolution funds, or temporary access to government funds. See FSB Practices Paper, *Resolution Funding for Insurers*, <https://www.fsb.org/uploads/P100122-1.pdf>

- applicable Sharī'ah contracts that can be applied for the resolution actions forming part of duly approved resolution plans for the TUs in their various markets, for example, Sharī'ah-compliant financial contracts and conditions for portfolio transfers to another party.

### 3.9.2 Key Elements of an RSP

68. The RSP for a TU should add to what is outlined for conventional insurance in FSB KA 11 and II-Annex-2 (section 9) *takāful*-specific elements and aspects highlighted below.

- The summary should clearly articulate how the resolution plan adheres to Sharī'ah principles, considers the segregation of funds, and protects participant interests. It should include specific details about Sharī'ah-compliant resolution strategies and any potential obstacles to their execution. For TUs functioning across borders, the summary should outline the coordination mechanisms with relevant authorities and Sharī'ah authorities in other jurisdictions.
- The resolution plan should clearly articulate the triggers for entry into resolution and explain whether the balance sheets and income statements of the SHF and PRF(s) are considered separately or in aggregate for the TU as a whole.
- The resolution strategy should explain how Sharī'ah-compliance is ensured, especially regarding the segregation of funds, valuation method of assets and liabilities of PRF(s), PIF and SHF, and ring-fencing of the PRF(s) and PIF. If the resolution is of a group that has *takāful* operations, the strategy should clearly explain how it considers specificities of the *takāful* entity and whether separate resolution strategies for conventional insurance and *takāful* are in place.
- The resolution plan should provide operational details of how the strategy shall be implemented. The role of the Sharī'ah authorities - such as a National/Central Sharī'ah Board (if there is one) or the Sharī'ah governance function of the TO - should be clearly outlined. The cross-border aspects of the operational plan should also consider the differences in Sharī'ah interpretations and practices across different jurisdictions. Additionally, due to the distinct right of the participants, if the Islamic contract law requires a participant's consent for planned changes, the resolution plan should specify how it might be achieved.
- The resolution planning process should be governed by a robust structure that ensures the involvement of individuals with technical expertise in *takāful* operations and Sharī'ah compliance. This is crucial to ensure that the resolution plan is not only technically sound but also adheres to the principles of Sharī'ah. The governance framework should also include effective dispute-resolution mechanisms. These mechanisms are essential to address any disagreements or conflicts that may arise during the planning process, including those related to Sharī'ah compliance.

### 3.10 Participants Protection Scheme (PPS)

69. A PPS is any scheme or fund that protects policyholders or participants from specified losses that they might otherwise incur because of the failure of a TU. This role is essential in enhancing confidence in the financial industry and, therefore, contributes to the stability of the financial system.

70. A PPS for *takāful* participants should observe Sharī'ah-compliance in all its activities and processes, which implies that the participants are the ultimate risk bearers in *takāful*. However, since confidence and stability are essential public goods, a PPS can decide to compensate participants' unsettled claims voluntarily, i.e. without a legal or contractual obligation.<sup>45</sup> It can also exercise its discretionary power to take into account unique circumstances so that, in the end, all participants will receive a fair but not necessarily the same level of compensation.

71. As in conventional insurance, protection from losses requires funding, and one possibility is the collection of contributions from all TUs operating in the jurisdiction's market. Since these contributions are collected from private businesses, the resolution funding from a PPS is considered financing from the private sector, although the PPS itself may be an institution of the public sector.

72. If a single PPS institution has a mandate to manage funds for both the conventional and Islamic segments, the funds should not be commingled to ensure Sharī'ah-compliance. Operational details between conventional and Islamic funds may differ to accommodate Sharī'ah specificities (for example, prepositioning of contracts, liquidity management, financing the PPS etc.).

73. Depending on a jurisdiction's framework, a PPS could fulfil various functions in different stages of resolution. In the event of a TU resolution, a PPS could not only settle uncovered claims of participants of the resolved TU, but it could also, for example, facilitate the continuation of *takāful* contracts in run-off scenarios by providing a cash injection, establishing a bridge institution, or playing the role of a temporary transferee by itself. In a different framework, the PPS may only be allowed to fund the transfer to the bridge institution but must not be involved in the management. Whatever role it plays, the PPS is expected to observe Sharī'ah-compliance in all its activities and functions when it operates for the *takāful* segment.

### 3.11 Sharī'ah Governance and Resolution Planning

74. RSAs/resolution authorities may be responsible for enforcing Sharī'ah compliance. However, even where the RSA or the designated resolution authority does not have this responsibility, it should

---

<sup>45</sup> The voluntary nature of this compensation stems from the fundamental principle that the PRF is only liable to pay for unsettled claims up to the amount available in the fund. Once this fund is exhausted, no further claims can be made against it, SHF or in this case PPS. Therefore, any additional compensation provided by the PPS goes beyond the contractual obligations of the *takāful* arrangement and is considered a voluntary act to maintain confidence in the *takāful* system.

still consider the express or implied contractual rights of *takāful* participants to Sharī'ah compliance in their resolution dealings.

75. RSAs/resolution authorities may have their own Sharī'ah governance function. Where this is not the case but matters relating to Sharī'ah compliance are brought to the attention of the authority concerned, it should have access to advice from Sharī'ah scholars of appropriate experience, who are independent of the TO under resolution.

76. During the resolution process, the Sharī'ah governance function of the TO should not only advise the BOD (as in the regular business) but also support decision-makers who are charged with managing the affairs of the TU or PRF under resolution (e.g., liquidators, inspectors, administrators, bridge institutions).

## APPENDIX 1: Specificities of *Takāful*

### Concept of *Takāful*

*Takāful* can be defined as a mutual guarantee, whereby a group of *takāful* participants agree among themselves to support one another jointly for the losses arising from specified risks, from a fund to which all commit to donate for the purpose. It is the Islamic counterpart to conventional insurance existing in both Family (or "Life") and General forms.

*Takāful* is based on two fundamental principles:

- *Ta'awun* (mutual assistance): Under this principle, participants agree to compensate each other mutually for losses arising from specified risks.
- *Tabarru'* (donation): Under this principle, participants commit to donating specified amounts to a common pool, which is used to fulfil the mutual assistance agreement by compensating members for covered losses.

In *takāful*, policyholders are referred to as "participants" because they play a dual role. They are both individually the insured parties (contributing to the risk pool and being entitled to compensation from it) and collectively the insurer (as the risk bearer).

### Operational Structure

Typically, a *Takāful* undertaking (TU) operates on a two-tier structure:

- *Takāful* Operator (TO): This is the entity responsible for managing the *takāful* business. The TO is often structured as a commercial company owned by shareholders. Its primary role is to manage the *takāful* scheme on behalf of the participants, including underwriting, claims management, and investment of funds.
- Participants' Collective: This comprises all the participants who have joined the *takāful* scheme.

This two-tier structure creates a unique hybrid model that combines elements of both mutual and commercial forms of insurance. The TO provides professional management and initial capital, while the participants are the collective beneficiaries of the risk pool.

### Fund Segregation

Fund segregation arises from the need to reflect the distinctive rights and obligations of the TO as a manager, and participants as the beneficiaries of the risk pool.

Fund segregation typically involves the separation of three main funds:

- Shareholders' Fund (SHF): holds the shareholder's equity and covers operational expenses.



- Participants' Risk Fund (PRF): receives participants' contributions and is used to pay claims and related expenses. Owned collectively by participants and managed by the TO.
- Participants' Investment Fund (PIF): primarily used in Family *takāful*, holds the savings or investment portion of participants' contributions. Managed by the TO, often on a profit-sharing basis, with returns shared between participants and the TO.

### **Surplus**

The surplus in the PRF is equivalent to the underwriting profit in conventional insurance. It belongs to the participants collectively unlike conventional insurance where the underwriting profit belongs to the insurer. This distinction reflects the fundamental principle that participants are the beneficiaries of the PRF and thus share both the risks and any resulting surplus.

### **Qarḍ (Interest-free loan)**

Depending on the regulatory requirement, the TO may provide a *qarḍ* (interest-free loan) to the PRF when it faces a deficit. The *qarḍ* is to be repaid from future surpluses in the PRF.

### **Sharī'ah Governance**

The Sharī'ah governance structure adds a layer of oversight beyond conventional corporate governance to ensure that all aspects of *takāful* operations comply with Sharī'ah principles. Regular reviews and audits are typically conducted to verify ongoing compliance, with specific implementation varying based on regulatory frameworks.

## DEFINITIONS

Bankruptcy	A legal declaration of one's inability to pay debts owed.
Insolvency	A debtor's inability to pay his or her creditors. The term also refers to an excess of liabilities over assets.
Participants' Risk Fund (PRF)	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>Qard</i>	A loan intended to allow the borrower to use the funds for a period with the understanding that this would be repaid at the end of the period, where no increase in cash or benefit is permitted.
Recovery Plan	A plan containing a series of clear and predefined options that will be executed by a financial institution in the face of financial stress. The plan should be integrated into the financial institution's existing governance framework and processes. It should include regular monitoring of early warning signs and predefined triggers to identify necessary actions and include regular reviews and updates.
<i>Retakāful</i>	An arrangement whereby a <i>takāful</i> undertaking (the cedant) cedes a portion of its risks on the basis of a 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 contributions received, as <i>tabarru'</i> to a common fund to cover against specified loss or damage.
Run-off	A process by which a TU ceases to write new business and only administers its existing contractual obligations. A "solvent run-off" is the process initiated for a TU that is still able to pay debts to its creditors when the debts fall due. An "insolvent run-off" is the process initiated for a TU that is no longer able to pay debts to its creditors when the debts fall due. Runoff may also apply at the level of a single <i>takāful</i> fund.
Shareholders' fund (SHF)	A fund that represents the assets and liabilities of a TU or <i>Retakāful</i> Undertaking that are attributable to the shareholders.
<i>Shukūk</i>	Certificates that represent a proportional undivided ownership right in tangible assets, or a pool of tangible assets and other types of assets that are Shari'ah-compliant.
<i>Takāful</i>	A mutual guarantee, whereby a group of <i>takāful</i> participants agree among themselves to support one another jointly for the losses arising from specified risks, from a fund to which all commit to donate for the purpose.
<i>Takāful</i> operator (TO)	Any establishment or entity that manages a <i>takāful</i> business; usually, though not necessarily, a part of the legal entity in which the <i>takāful</i> participants' interests are held.
<i>Takāful</i> undertaking (TU)	An undertaking engaged in <i>takāful</i> business.

<i>Wakālah</i>	An agency contract where the customer (principal) appoints the institution offering Islamic financial services as agent ( <i>wakil</i> ) to carry out the business on its behalf and where a fee (or no fee) is charged to the principal based on the contract agreement.
----------------	---

## GAP ANALYSIS MATRIX: RECOVERY AND RESOLUTION FOR *TAKĀFUL* UNDERTAKINGS

Issues	Conventional Standards and Regulations		IFSB Standards	Gaps	ED-GN-10
	IAIS	FSB			
Sharī'ah governance related to recovery planning	N/A	N/A	-	<ul style="list-style-type: none"> <li>Role of Sharī'ah governance function in recovery planning</li> </ul>	Section 2.1 addresses the issues.
Additional Consideration for Segregated Fund	N/A	N/A	TCP 16	<ul style="list-style-type: none"> <li>Fund level recovery planning</li> <li>Scenario analysis for each fund</li> </ul>	Section 2.2 addresses the issues
Trigger framework for recovery plan	Application Paper on Recovery Planning	N/A	TCP 12	<ul style="list-style-type: none"> <li>Examples of <i>takāful</i>-specific triggers</li> </ul>	Section 2.3.2 addresses the issues
Recovery options	Application Paper on Recovery Planning	N/A	TCP 12 TN-4 TN-5	<ul style="list-style-type: none"> <li>Recovery options categories considering segregated funds</li> <li>Recovery options specific to PRF</li> </ul>	Section 2.3.3 addresses the issues.
Participant's interest consideration	Application Paper on Recovery Planning	N/A	TCP 6 TCP 12 TCP 20	<ul style="list-style-type: none"> <li>Additional information and disclosure to participants as owner of the funds</li> <li>Distinct rights of participants and implications on PRF</li> </ul>	Section 2.3.5 addresses the issues.
Supervisory Consideration	Application Paper on Recovery Planning	N/A	-	<ul style="list-style-type: none"> <li>Soundness of the TO's Sharī'ah-compliance assertion related to the recovery planning</li> <li>Adequate supervisory capacity to evaluate <i>takāful</i>-specificities in recovery planning</li> </ul>	Section 2.5 addresses the issues
Supervisory cooperation and coordination	Application Paper on Recovery Planning	-	-	<ul style="list-style-type: none"> <li>Including <i>takāful</i>-specific factors in cooperation and coordination arrangements</li> <li>Cooperation and coordination among Central Sharī'ah Boards and Sharī'ah boards of TUs.</li> <li>Scope and objectives of Sharī'ah boards</li> </ul>	Section 2.6 addresses the issues.
Scope	Application Paper on Resolution Powers and Planning	Key Attributes Assessment Methodology for the Insurance Sector		<ul style="list-style-type: none"> <li>Do not address the specific nature of TUs</li> </ul>	Subsection 3.2

Issues	Conventional Standards and Regulations		IFSB Standards	Gaps	ED-GN-10
	IAIS	FSB			
Resolution Authority		Key Attributes Assessment Methodology for the Insurance Sector		<ul style="list-style-type: none"> <li>Requirement for resolution authorities to adequately consider the specific characteristics of takāful.</li> </ul>	Subsection 3.3
Resolution powers	Application Paper on Resolution Powers and Planning	Key Attributes Assessment Methodology for the Insurance Sector	TCP 12	<ul style="list-style-type: none"> <li>Restrictions on the use of the surplus.</li> <li>Priority of participants in liquidation</li> <li>Retain, remove, or replace Sharī'ah Board</li> <li>Sharī'ah-compliance of the bridge institution</li> <li>Sharī'ah-compliant bail-in</li> </ul>	Subsection 3.4 addresses the issues
Entry into resolution and resolution triggers	Application Paper on Resolution Powers and Planning	Key Attributes Assessment Methodology for the Insurance Sector	TCP 12	<ul style="list-style-type: none"> <li>Consideration of segregated fund</li> <li>Consideration for potential legal challenges, particularly those related to Sharī'ah-compliance and the rights of participants</li> </ul>	Subsection 3.4.1 addresses the issues
Safeguards	Application Paper on Resolution Powers and Planning	Key Attributes Assessment Methodology for the Insurance Sector		<ul style="list-style-type: none"> <li>Safeguarding the Sharī'ah governance function</li> </ul>	Subsection 3.5
Funding resolution		Key Attributes Assessment Methodology for the		<ul style="list-style-type: none"> <li>Sharī'ah compliance with private funding for resolution</li> </ul>	Subsection 3.6
Cross-border Cooperation		Key Attributes Assessment Methodology for the Insurance Sector		<ul style="list-style-type: none"> <li>Cooperation and coordination with Central Sharī'ah Boards and Sharī'ah governance function.</li> <li>Coordination between resolution authorities/RSAs with Sharī'ah Boards/Central Sharī'ah Boards (domestically)</li> </ul>	Subsection 3.7 addresses the issue.
Resolvability assessments		Key Attributes Assessment Methodology for the Insurance Sector	TN-4	<ul style="list-style-type: none"> <li>Consideration of <i>takāful</i> Sharī'ah-compliant contracts and process</li> <li>Pre-positioning measures to ensure Sharī'ah compliance of <i>takāful</i> resolution</li> </ul>	Subsection 3.8 addresses the issues
Resolution plans	Application Paper on Resolution	Key Attributes Assessment Methodology	TCP 12	<ul style="list-style-type: none"> <li>Inclusion of specific information relevant to <i>takāful</i></li> </ul>	Subsection 3.9 addresses the issues

Issues	Conventional Standards and Regulations		IFSB Standards	Gaps	ED-GN-10
	IAIS	FSB			
	Powers and Planning	for the Insurance Sector		<ul style="list-style-type: none"> <li>Inclusion of the segregation of funds as part of the resolution strategy.</li> <li>Involvement of Central Sharī'ah Board and Sharī'ah governance function of TUs in operationalisation of the resolution strategy</li> <li>Consideration to different Sharī'ah interpretations and practices related to resolution approach that may exist and can affect the resolution initiative</li> </ul>	
Role and functions of participants protection schemes (PPS)	[Draft] Issues Paper on roles and functioning of Policyholder Protection Schemes (PPSs)	Key Attributes Assessment Methodology for the Insurance Sector	-	<ul style="list-style-type: none"> <li>Details on the main three functions of PPS and how they are implemented within the <i>takāful</i> context</li> </ul>	Section 3.10 addresses the issue.
Sharī'ah Governance	-	-		<ul style="list-style-type: none"> <li>Availability of <i>takāful</i> experts and Sharī'ah scholars</li> <li>Sharī'ah governance function.</li> <li>Sharī'ah Governance Framework in resolution planning</li> </ul>	Subsection 3.11 addresses the issues

## TECHNICAL COMMITTEE

### Chairman

H.E. Dr. Fahad Ibrahim AlShathri – Saudi Central Bank (until April 2024)

Mr. Saud Al Busaidi – Central Bank of Oman (since August 2024)

### Deputy Chairman

Mr. Saud Al Busaidi – Central Bank of Oman (until April 2024)

Mr. Mohamed Abou Moussa, Central Bank of Egypt (since August 2024)

### Members\*

Mr. Syed Faiq Najeeb	Islamic Development Bank
Mr. Shahriar Siddiqui	Bangladesh Bank
Mrs. Shireen Abdulkarim Al Sayed	Central Bank of Bahrain
Mr. Haji Muhammad Shukri bin Haji Ahmad (until April 2024)	Brunei Darussalam Central Bank
Dr. Mariawati Omar (since July 2024)	Brunei Darussalam Central Bank
Dr. Jardine Husman (until April 2024)	Bank Indonesia
Dr. Rifki Ismal (since July 2024)	Bank Indonesia
Mrs. Nyimas Rohmah	Otoritas Jasa Keuangan, Indonesia
Dr. Alireza Naserpour (until April 2024)	Securities and Exchange Organization of Iran
Mr. Ahmed Yousif Kadhim Al-Helli (until April 2024)	Central Bank of Iraq
Mr. Mustafa Abd Nazzal (since July 2024)	Central Bank of Iraq
Mr. Mahmoud Ibrahim Moh'd Alsbeihat (until April 2024)	Central Bank of Jordan
Mr. Anuar Kaliyev (until April 2024)	Astana Financial Services Authority

Dr. Mohammad Bader Al Khamees	Central Bank of Kuwait
Dr. Ali Abusalah Elmabrok Amreeghah	Central Bank of Libya
Mr. Nik Faris Nik Sallahuddin	Bank Negara Malaysia
Mrs. Sharifatul Hanizah Bin Said Ali	Securities Commission Malaysia
Dr. Mohammed Zougari Laghrari (since July 2024)	Bank Al-Maghrib
Mr. Muhammad Hamisu Musa (until April 2024)	Central Bank of Nigeria
Dr. Abdurrahman Abdullahi (since July 2024)	Central Bank of Nigeria
Mr. Ahmad Usman Kollere (since July 2024)	National Insurance Commission (NAICOM), Nigeria
Mr. Ghulam Muhammad Abbasi (until April 2024)	State Bank of Pakistan
Ms. Nighat Tanveer (since July 2024)	State Bank of Pakistan
Mr. Hisham Saleh Al-Mannai	Qatar Central Bank
Mr. Bader Abdulmohsen Alissa (until April 2024)	Capital Market Authority, Saudi Arabia
Mr. Walid Alzahrani (since July 2024)	Saudi Central Bank
Dr. Muhammed Habib DOLGUN (since July 2024)	Central Bank of the Republic of Türkiye
Dr. İlker KOÇ's	Banking Regulation and Supervision Agency, Türkiye
Mrs. Emine Nur Ozturk Alkan (until April 2024)	Insurance and Private Pension Regulation and Supervision Agency of Türkiye
Mr. Abdulaziz Saoud Al Mualla	Central Bank of United Arab Emirates

\* In alphabetical order of the country the member's organisation represents, except international organisations, which are listed first.



**WORKING GROUP FOR THE GUIDANCE NOTE ON RECOVERY AND RESOLUTION FOR  
TAKĀFUL UNDERTAKINGS**

**Chairman**

Dr. Waziri Mohammed Galadima – Nigeria Deposit Insurance Corporation (Until April 2024)

Mr. Ahmad Usman Kollere- National Insurance Commission, Nigeria (Since September 2024)

**Deputy Chairman**

Ms. Emine Nur Öztürk Alkan- Insurance and Private Pension Regulation and Supervision Agency of  
Turkey (IPRSA), Turkey (From October 2023 to April 2024)

**Members\***

Mr. Yousif Ahmed Mohamed Al Hamar	Central Bank of Bahrain
Mr. Alis Subiyantoro	Otoritas Jasa Keuangan, Indonesia
Mr. Haitham Riyadh Jasim	Central Bank of Iraq
Mr. Mohammed Abdulla Alemadi	Qatar Central Bank
Mr. Sabiu Bello Abubakar	National Insurance Commission, Nigeria
Mr. Boboev Boburkhon	National Bank of Tajikistan
Dr. Ahmad Al-Razni Al-Shammari	Central Bank of United Arab Emirates

\* In alphabetical order of the country the member's organisation represents, except international organisations, which are listed first.

## THE SHARĪ'AH BOARD

### Chairman

Dr. Mohamed Ali Ibrahim Elgari

### Deputy Chairman

Dr. Nizam Muhammad Saleh Yaquby

### Members

Dr. Aznan Hasan	Member
Mufti Muhammad Hassan Kalim	Member
Dr. Sa'id Adekunle Mikail	Member

## SECRETARIAT, ISLAMIC FINANCIAL SERVICES BOARD

Dr. Ghiath Shabsigh	Secretary-General
Dr. Bello Lawal Danbatta (until January 2024)	Secretary-General
Mrs. Aminath Amany Ahmed	Acting Assistant Secretary-General, Research and Standard Development
Professor Dr. Volker Nienhaus	Consultant
Mr. Mohamed Omer Mohamed Elamin Abbasher	Member of the Secretariat, Research and Standard Development
Mr. Erfanul Alam Siddiquee	Member of the Secretariat, Research and Standard Development