

EXPOSURE DRAFT (ED)-32

Revised Standard on Risk Management for Takāful Undertakings

The Standard aims to support RSAs in developing supervisory expectations and risk management requirements that appropriately reflect the nature, scale, and complexity of takāful operations, while promoting sound and effective risk management practices within the sector.

ISSUE

PROPOSED GUIDANCE

Financial Soundness of the Participants' Risk Fund (PRF)

Resources of the PRF

The PRF is expected to meet its current and prospective obligations from the resources available to it.

→ Retained reserves in the PRF

Supervisors should require each PRF to maintain retained reserves in addition to adequate technical provisions.

Operator remuneration

A high management fee maintained despite deteriorating experience can leave the PRF to bear the impact.

→ Ensuring PRF soundness in setting management fees

Supervisors should require the fee to be based on an independent actuarial assessment, and, where contributions are set below the actuarial recommendation, that the PRF allocation does not fall below its assessed financial requirements.

Participants' expectations

Expectations of surplus distribution may create pressure to distribute, limiting the PRF's capacity to build reserves.

→ Surplus retained for, or distributed to, participants

Surplus should not be distributed while the PRF is in deficit, below the minimum retained reserves, reliant on financial support or carrying unrepaid qard.

PRF deficits and qard

Repeated reliance on qard may delay correction and expose the shareholders' fund (SHF) to uncertain repayment.

→ Deficit correction follows its cause

A deficit resulting from the TO's negligence or misconduct, high management fee or misallocation of income and expenses should be borne by the SHF.

Fund-level Risk Management and Supervision

Fund segregation

A risk immaterial to the undertaking may be material to one fund. Assets are not fungible between funds.

→ Risk management at fund level

Supervisors should assess whether ERM and ORSA operate at both enterprise and fund levels and require TOs to ensure each fund maintains a risk register.

Fiduciary conflicts

The TO manages participants' funds as a fiduciary while earning remuneration from them, which may give rise to conflicts.

→ Participants' interests prioritised in practice

Supervisors should review records of decisions, rather than relying on documented processes alone, and require policies that allocate costs and revenues to the appropriate fund.