General Council for Islamic Banks And Financial Institutions
Affiliated Institution to the OIC
Established under Royal Decree No 23 -2001

CIBAFI

المجلس العام للبنوك والمؤسسات المالية الإسلامية
مؤسسة منتمية لمنظمة التعاون الإسلامي
تأسست بمرسوم ملكي رقم ٢٣ لسنة ٢٠٠١م

Ref. 0425/1379/MB
27th April 2025

Dr. Ghiath Shabsigh
Secretary General
Islamic Financial Services Board
Level 5, Sasana Kijang
Bank Negara Malaysia
2, Jalan Dato' Onn
50480 Kuala Lumpur
Malaysia

Dear Dr. Shabsigh,
السلام عليكم ورحمة الله وبركاته،،

CIBAFI Response to the IFSB's Exposure Draft GN-10 on "Guidance Note on Recovery and Resolution for Takaful Undertakings"

The General Council for Islamic Banks and Financial Institutions (CIBAFI) presents its compliments to the Islamic Financial Services Board (IFSB) and takes this opportunity to express its appreciation of the work that the IFSB does to promote and enhance the Islamic financial services industry.

CIBAFI is the official umbrella for all Islamic financial institutions, whose services and products comply with the Shariah rules and principles. CIBAFI acts as the voice of the Islamic finance industry, and our members comprise more than 140 Islamic banks and non-bank financial institutions, both large and small, from more than 30 jurisdictions.

هاتف: ٣٠١ - ٣٠٠ ٣٥٧ ١٧ ٩٧٣+ فاكس: ٣٠٧ ٣٥٧ ١٧ ٩٧٣+ / ٩٠٢ ٣٢٤ ١٧ ص.ب: ٢٤٤٥٦ المنامة مملكة البحرين
Tel: +973 17 357 300 - 301 Fax: +973 17 357 307 / 17 324 902 P.O Box 24 456 Manama, Kingdom of Bahrain
C.R. No 47423 www.cibafi.org Email: cibafi@cibafi.org

We welcome this opportunity to offer our comments and recommendations on the IFSB exposure draft (ED) on the Guidance Note 10 (GN-10): “Guidance Note on Recovery and Resolution for Takaful Undertakings”. The comments contained in this letter represent the views of the CIBAFI Secretariat and feedback received from our members.

First: The ED's Introduction Section effectively highlights the Shariah-specific considerations, proportionality, and alignment with global standards, setting out the applicability to takaful undertakings and takaful windows. Additional clarity regarding the applicability to other models of Islamic insurance would enhance the document. Furthermore, explicit addressing of applicability to retakaful undertakings would be beneficial, considering their potential systemic significance, similar to reinsurers under conventional frameworks. It is recommended that the ED state its applicability to retakaful undertakings, where relevant.

Second: Para 19 of the ED establishes considerations for using portfolio transfer as a recovery tool, including treatment of outstanding qard, suggesting that "the Regulatory and Supervisory Authority (RSA) may provide financial assistance". While the ED appropriately emphasizes Shariah-compliant recovery tools, the reference to potential RSA financial assistance for outstanding qard during recovery raises considerations regarding recovery plan objectives. Given that recovery plans are designed to ensure that a Takaful Operator can recover without reliance on public sector support, removing references that assume public support availability within recovery plans would reinforce the principle of independent recovery.

Third: Para 47 of the ED identifies the necessity for Point of Non-Viability (PONV) determination at both the fund and entity levels. The document would benefit from further elaboration on the specific indicators for PONV at the Participants' Risk Fund (PRF) level. While Figure 1 provides a helpful stylised illustration, inclusion of additional qualitative and quantitative criteria would enhance clarity and promote consistency across jurisdictions. Such criteria might include persistent deficits beyond defined thresholds, failure to meet claims in a timely manner, or breaches of Shariah governance principles.

Fourth: In Para 56, the ED references "additional Tier 1 (AT1) and Tier 2 (T2) sukuk". This terminology, while established in banking regulation, differs from the conventional approach in insurance regulation, which has not universally adopted an agreed tiering structure for capital resources. Although the International Association of Insurance Supervisors (IAIS) Insurance Capital Standard utilizes a tiering approach, it applies only to a limited number of internationally active insurance groups and employs different terminology. Given that "Additional Tier 1" and "Tier 2" are not referenced in existing IFSB takaful Standards, revision of terminology to align with these Standards or clarification of definitions within the ED would enhance coherence.

Fifth: Para 56 of the ED addresses bail-in mechanisms but would benefit from additional elaboration on their interaction with segregated Takaful fund structures (SHF, PRF, PIF)[1]. Specific guidance on loss allocation principles across these funds in a bail-in scenario would ensure fairness and Shariah compliance. The inclusion of examples or principles to guide jurisdictions would be valuable, particularly addressing whether qard or other inter-fund support mechanisms are permissible under their regulatory regimes.

Finally, Para 68 could be enhanced through explicit reference to how the resolution authority is expected to exercise its powers under Takaful Core Principles (TCPs) 12.8.4, particularly regarding the treatment of outstanding qard. Clarification on this point would ensure greater transparency and consistency in the resolution of outstanding liabilities and the fair distribution of PRF net assets during resolution.

[1] Shareholders' Fund (SHF), Participants' Risk Fund (PRF), and Participants' Investment Fund (PIF)

هاتف: ٣٠١ - ٣٠٠ ٣٥٧ ١٧ ٩٧٣+ فاكس : ٩٠٢ ٣٢٤ ١٧ / ٣٠٧ ٣٥٧ ١٧ ٩٧٣+ ص.ب: ٤٥٦ ٢٤ المنامة مملكة البحرين
Tel: +973 17 357 300 - 301 Fax: +973 17 357 307 / 17 324 902 P.O Box 24 456 Manama, Kingdom of Bahrain
C.R. No 47423 www.cibafi.org Email: cibafi@cibafi.org

CIBAFI expresses appreciation to IFSB for its significant effort and commitment to developing standards that accommodate the interests of the global Islamic finance industry. The CIBAFI Secretariat remains available should any further clarification on the above points be required.

The General Council for Islamic Banks and Financial Institutions takes this opportunity to renew to the Islamic Financial Services Board (IFSB) the assurances of its highest respect and consideration.

Yours sincerely,

Dr. Abdelilah Belatik
Secretary General

هاتف: ٣٠١ - ٣٠٠ ٣٥٧ ١٧ ٩٧٣+ فاكس : ٩٠٢ ٣٢٤ ١٧ / ٣٠٧ ٣٥٧ ١٧ ٩٧٣+ ص.ب: ٤٥٦ ٢٤ المنامة مملكة البحرين
Tel: +973 17 357 300 - 301 Fax: +973 17 357 307 / 17 324 902 P.O Box 24 456 Manama, Kingdom of Bahrain
C.R. No 47423 www.cibafi.org Email: cibafi@cibafi.org