

Consultation Fact Sheet

Revised Standard on Risk Management for Takāful Undertakings

Body Islamic Financial Services Board (IFSB)	
Published 2026-10	Consultation deadline 2026-11-06
Scope of application Risk management, internal controls and risk-based supervision of takāful undertakings conducting family, general or composite takāful business, including takāful windows and subsidiaries; retakāful undertakings are excluded	Impacted / targeted stakeholders Regulatory and supervisory authorities responsible for takāful oversight and by extension takāful operators, including their boards, control functions and Sharī'ah governance organs

Synthesis

The Islamic Financial Services Board is seeking feedback on a revised Standard on risk management for takāful undertakings that would supersede IFSB-14. It addresses risks arising from the distinctive structure of takāful, in which participants collectively bear underwriting risk through the Participants' Risk Fund without being directly represented in its governance. The fund is instead managed by the takāful operator, which must act in participants' interests while being paid out of the same funds it manages, which can create conflicts of interest. Supervisors would require each Participants' Risk Fund to hold retained reserves in addition to technical provisions, management fees to be based on independent actuarial assessment, and surplus not to be distributed while the fund is in deficit, below minimum reserves or reliant on financial support. Operators would have to rectify, without recourse to qard, deficits caused by their own decisions that inappropriately reduced the fund's resources. Risk management, internal controls and supervisory assessment would operate at fund as well as enterprise level, with Sharī'ah non-compliance risk integrated throughout.

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Purpose & rationale

Since IFSB-14 was issued, international insurance risk management standards have advanced significantly, including the IAIS's revised Insurance Core Principles (2019) and the IFSB's Core Principles for Islamic Finance Regulation [Takāful Segment] (IFSB-27, 2022), with which the revision aligns the Standard.

Although risk management objectives are broadly shared with conventional insurance, the takāful model creates distinct risk profiles. Participants collectively bear underwriting risk through the PRF without being directly represented in its governance, while the takāful operator manages their funds as a fiduciary and earns remuneration from them. Non-fungible segregated funds, reliance on qard, surplus expectations, uneven Islamic financial market development, limited retakāful capacity and Sharī'ah non-compliance risk therefore call for a tailored approach.

Specific policy objectives:

- Supplement TCP 9 and TCP 16 with takāful-specific guidance rather than restating general insurance requirements.
- Safeguard the financial soundness of each PRF so that it can meet its obligations from its own resources.
- Ensure that risk management, internal controls and supervisory assessment operate at fund as well as enterprise level.
- Manage conflicts between the takāful operator's fiduciary duties and commercial interests, and integrate Sharī'ah non-compliance risk throughout the risk management framework.

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Key proposals

Building on eight illustrative takāful-specific risk considerations, the draft sets out guidance for supervisors, including what they should require of takāful operators, to be applied proportionately to the size, complexity, nature and risk profile of each takāful undertaking without compromising the protection of participants.

Area	Issue	Proposed guidance
Financial soundness of the PRF		
Retained reserves	The PRF is expected to meet its current and prospective obligations from its own resources, including through adverse underwriting cycles.	Each PRF should hold retained reserves in addition to technical provisions, built from contributions and retained surplus, at no less than a supervisor-set minimum and higher where actuarially warranted.
Operator remuneration	A fee maintained despite deteriorating experience, or set at the regulatory ceiling regardless of the PRF's position, can leave the PRF bearing the impact.	Fees should rest on an independent actuarial assessment and expense study, not solely on a regulatory ceiling. Where contributions are set below the actuarial recommendation, the PRF allocation should not fall below its assessed financial requirements, with any adjustment reflected in the fee; amounts inappropriately charged should be restored to the PRF.
Underwriting surplus	Participants' expectations and peer practices can create pressure to distribute surplus, limiting the PRF's capacity to build reserves.	Surplus should be retained for, or distributed to, the PRF's participants, but not while the PRF is in deficit, below minimum retained reserves or reliant on financial support.
Deficits and qarḍ	Repeated reliance on qarḍ may delay correction and expose the shareholders' fund (SHF) to uncertain repayment.	Takāful operators should address the causes of deficits and rectify, without recourse to qarḍ, any deficit caused by their own decisions that inappropriately reduced PRF resources. Supervisors should monitor qarḍ use and, where the PRF cannot recover, consider write-off or orderly run-off.

Area	Issue	Proposed guidance
Participants' Investment Fund (PIF)	Takāful operators remuneration from the PIF may encourage investment risk inconsistent with participants' risk profiles.	Investment policy should match participants' risk profiles and how the product was presented, with liquidity managed against expected and stressed surrenders.
Fund-level risk management and internal controls		
Fund-level ERM and ORSA	A risk immaterial to the undertaking may be material to one fund, and assets are not fungible between funds.	Enterprise risk management and the own risk and solvency assessment should operate at enterprise and fund levels, with fund-specific risk appetite, risk registers, escalation thresholds and stress scenarios such as retakāful failure or forced divestment.
Fiduciary conflicts and inter-fund allocation	The takāful operators manages participants' funds as a fiduciary while earning remuneration from them; judgement-based cost and revenue allocation can shift value to shareholders.	Supervisors should review records of actual investment, surplus and remuneration decisions, not documented processes alone, and require allocation policies and fund-level control testing, including for retakāful commissions.
Sharī'ah non-compliance risk	Non-compliance may invalidate contracts and cause losses, while some conventional mitigation tools are unavailable and some regulatory requirements may conflict with Sharī'ah principles.	Sharī'ah parameters should be integrated across the framework, with Sharī'ah Board consultation and escalation protocols, divestment processes for non-compliant investments, clear criteria and reassessment triggers for any conventional reinsurance used under necessity, and functionally equivalent solutions where regulation conflicts with Sharī'ah.
Windows, groups and outsourcing	Shared systems, staff and providers unfamiliar with takāful can cause commingling and compliance failures.	Takāful operators should safeguard against commingling with conventional operations, assess providers' Sharī'ah capability before outsourcing and retain fiduciary responsibility for outsourced activities.
Risk-based supervision		
Fund-level supervisory assessment	Entity-level information can obscure weaknesses in individual funds, particularly the PRF.	Each segregated fund should be assessed separately, with comparable PRF reporting on underwriting results before and after the management fee, reserves, liquidity and outstanding qarḍ.
Early warning and intervention	Weaknesses in the PRF, operator remuneration or Sharī'ah governance call for takāful-specific triggers and remedies.	Minimum early warning indicators include persistent PRF deficits, reliance on financial support and repeated Sharī'ah incidents; measures range from contribution adjustments and surplus limits to restructuring or run-off of structurally unviable PRFs.

Appendix

Key concepts and definitions

Term	Definition
Takāful	A mutual guarantee under which participants agree to support one another jointly against losses from specified risks, from a fund to which all commit to donate.
Takāful operator	The entity that manages the takāful business and funds; together with the funds it manages, it forms the takāful undertaking (TU).
Participants' Risk Fund	The fund that receives participants' contributions and pays claims and related expenses; it is owned collectively by participants and managed by the TO.
Participants' Investment Fund	The fund, primarily used in family takāful, that holds the savings or investment portion of contributions, often managed on a profit-sharing basis.
Operator remuneration	The aggregate of the management (wakālah) fee or muḍārib fee, the TO's share of investment returns and any permitted performance fee linked to PRF underwriting surplus.
Qarḍ	An interest-free loan from the SHF to the PRF, repayable from the fund's future surpluses; its use and solvency treatment vary across jurisdictions.