



Circular Letter (CL) No.:	2024-13
Date:	28 May 2024
Supersedes:	2022-04

CIRCULAR LETTER

TO : ALL INSURANCE COMPANIES AND MUTUAL BENEFIT ASSOCIATIONS AUTHORIZED TO TRANSACT BUSINESS IN THE PHILIPPINES

SUBJECT : CONSOLIDATED GUIDELINES FOR TAKAFUL WINDOW OPERATION

WHEREAS, the Insurance Commission (IC) recognizes the need to provide broader insurance coverage and options for all Filipinos, especially our Muslim community;

WHEREAS, the IC recognizes the growing market for Takaful;

WHEREAS, in order to properly implement, regulate, and supervise Takaful operation, a detailed regulatory framework must be in place to guide regulated entities in their operation;

WHEREAS, Section 437 of RA No. 10607 (entitled, An Act Strengthening the Insurance Industry, further Amending Presidential Decree No. 612, otherwise known as "The Insurance Code," as Amended by Presidential Decree Nos. 1141, 1280, 1455, 1460, 1814 AND 1981, and Batas Pambansa Blg. 874, and for Other Purposes), empowers the Insurance Commissioner to "issue such rulings, instructions, circulars, orders and decisions as may be deemed necessary to secure the enforcement of the provisions of this Code, to ensure the efficient regulation of the insurance industry in accordance with global best practices and to protect the insuring public";

NOW, THEREFORE, pursuant to the authority vested in me by Section 437 of RA No. 10607, the following Consolidated Guidelines for Takaful Window Operation are hereby promulgated:

TITLE I

APPLICABILITY

Section 1. These Guidelines shall apply to all existing and licensed insurance companies and mutual benefit associations that will set up a Takaful window.

TITLE II

DEFINITION OF TERMS

Section 2. Whenever used in this Circular Letter, the following terms shall mean:

Certificate	This pertains to the Takaful contract.
Covered Person	The person(s) named on the Schedule as the Covered Person and must be a Filipino, permanent resident of the Philippines legally employed in the Philippines and/or their spouse and children who are legally residing in the Philippines.
Fatawa / Fatwa	A juristic opinion or pronouncement of facts given by the Shariah board, a mufti (Islamic jurist), or a faqih (a person trained in Fiqh or Islamic jurisprudence) on any matter pertinent to Shariah issues, based on the appropriate methodology.
Fiqh	Knowledge of the legal rulings pertaining to conduct, which have been derived from specific evidence.
Family Takaful	It deals with the provision of financial relief to the participants and/or their families in the event of misfortunes that relate to the death or disability of the participants.
General Takaful	These are basically contracts of joint guarantee on a short-term basis (normally one year), providing mutual compensation in the event of a specified type of loss.
Participant	A party that participates in the Takaful product with the Takaful undertaking and has the right to compensation of other entitlements under a Takaful contract.
Participants' Risk Fund	A fund to which a portion of contributions paid by Takaful participants is allocated for the purpose of meeting claims by Takaful participants on the basis of mutual assistance or protection.
Qard (Qard Hasan)	A non-interest-bearing loan intended to allow the borrower to use the loaned funds for a period with the understanding that the same amount of the loaned funds would be repaid at the end of the period.
Riba	An increase in wealth that is not related to engaging in a productive activity; in Islamic finance, money is not a commodity to be traded; thus, the acceptance of deposits and payment of interest, or lending of money and the charging of interest, without any underlying trading and

	exchange of real assets or services are deemed as riba and is therefore prohibited.
Retakaful	An arrangement whereby a Takaful undertaking cedes a portion of its risks on the basis of treaty or facultative retakaful as a representative of participants under a Takaful contract, whereby it would contribute a portion of the contribution as tabarru' into a common fund to cover against specified loss or damage.
Shariah	The practical divine law deduced from its legitimate sources: the Quran, Sunnah, consensus (ijma), analogy (qiyas) and other approved sources of the Shariah.
Takaful	A mutual guarantee in return for the commitment to donate an amount in the form of a specified contribution to the participants' risk fund, whereby a group of participants agrees among themselves to support one another jointly for the losses arising from specified risks.
Takaful operator	Any establishment or entity that manages a Takaful business – usually, though not necessarily, a part of the legal entity in which the participants' interests are held.
Takaful undertaking	An undertaking engaged in Takaful business in which the participants' risk fund(s) and any participants' investment fund are managed separately from the shareholders' fund (if any) attributable to the Takaful operator managing the business.
Zakat	An obligatory donation, which is the third of the five main pillars of Islam and originates from the Arabic word meaning 'to purify', as it is a mechanism to purify the wealth of the rich and redistribute it to achieve social justice; Zakat is only paid out once a person's wealth reaches the Nisab (or the minimum amount that one needs to have before being obliged to pay Zakat).

TITLE III

COMPLIANCE WITH SHARIAH RULES AND PRINCIPLES

Section 3. The Takaful operator shall have in place an appropriate mechanism for obtaining rulings from Shariah scholars, applying Fatawa and monitoring Shariah compliance in all aspects of its products, operations and activities.

TITLE IV
GOVERNANCE POLICY

Section 4. The corporate governance framework of a Takaful Operator shall promote the development, implementation of policies that clearly define and support its objective, define the strategic roles and functions of each organ of governance and mechanisms for balancing accountabilities to stakeholders.

Section 5. The Takaful Operator shall ensure that it is Shariah-compliant at all times. For this purpose, the Takaful Operator shall establish a Shariah Committee that shall act as the advisory board on Shariah principles relating to Takaful operations. The Committee shall consist of at least three (3) members – two (2) who are scholars in Shariah principles (Shariah qualified person), and one (1) must be with adequate expertise in financial services.

Section 6. The Takaful Operator shall observe the standards and qualifications of its Shariah Committee members, Board of Directors and officers in accordance with the third paragraph (3rd par), Section 193 of the Amended Insurance Code.

TITLE V
ANTI-MONEY LAUNDERING/COMBATING THE FINANCING OF TERRORISM

Section 7. The Takaful Operator shall ensure its compliance with Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) requirements, proper implementation of the AML/CFT policies, and compliance with appropriate AML/CFT procedures. The Takaful Operator shall likewise ensure that its AML/CFT mechanism is regularly assessed to ensure its efficiency and sufficiency to address any change in ML/TF trends.

Section 8. The Takaful Operator shall establish and maintain effective internal controls to ensure compliance with AML/CFT regulations. A compliance officer must be designated to oversee the implementation of AML/CFT measures.

TITLE VI
AUTHORITY TO OPERATE TAKAFUL WINDOW OPERATION

Section 9. Amendment of Articles of Incorporation. – An insurance company intending to operate as a Takaful window Operator must amend its Articles of Incorporation to reflect such purpose.

Section 10. Takaful Window Specific Requirements. – No company shall carry on Takaful business unless it is authorized to carry on Takaful business as a Takaful window Operator. An application for authorization shall be submitted with the following documentary requirements:

- a. Copies of the Articles of Incorporation and By-Laws;
- b. Certified true copy of Board Resolution pertaining to the proposed establishment of Takaful window;
- c. Operating model duly endorsed by the Shariah Advisory Committee and approved and adopted by the Board of Directors;
- d. Business plan setting the proposed structure and operations of the window;
- e. Three years' financial projections for the Takaful activities;
- f. Appointment documents of a full-time Head of a Takaful Division to be established to handle Takaful window operations with relevant experience and knowledge and shall not be associated with the conventional insurance operations of the company in any manner;
- g. Appointment documents of the member of the Shariah Committee.

Section 11. Takaful services in existing extension, satellite and/or branch offices. – A Takaful Window Operator must obtain a separate written approval for operating Takaful services in an existing extension and/or branch office previously approved by the Insurance Commission.

Section 12. Takaful Agents. – No person shall be allowed to solicit, negotiate, procure, or deliver Takaful products unless such person has been appointed by a Takaful Window Operator.

A Takaful Window Operator may appoint a person to act as its agent provided that such person is a duly licensed insurance agent by the Insurance Commission for conventional insurance business and has undergone an appropriate training program and such fact has been certified under oath by a duly authorized representative of the Takaful Window Operator.

The Takaful Window Operator shall ensure that its appointed Takaful agents have the appropriate qualifications, skills, practical experience and commitment to effectively fulfill the role and responsibilities of an agent.

The Takaful Window Operator shall maintain an up-to-date register containing the list of all its appointed agents and update the Insurance Commission, as and when there are:

- a. New agents appointed;
- b. Changes in appointed agents' status to 'active' or 'inactive', as well as changes in appointed agents' address or contact details; or
- c. Exit, expiry or ending of appointed agents' tenure.

Section 13. Validity of Authority. – All authorizations issued under this Circular shall be valid from the date of the issuance and its expiration date shall coincide with the expiration of the license as conventional insurance company unless sooner suspended or revoked for valid cause/s, subject to renewal.

TITLE VII
TAKAFUL CONTRACTS

Section 14. All certificates issued by insurance companies are required to be approved by the Insurance Commission in accordance with 232 of the Insurance Code, as amended by Republic Act No. 10607 which provides: *“No policy, certificate or contract of insurance shall be issued or delivered within the Philippines unless in the form previously approved by the Commissioner, and no application form shall be used with, and no rider, clause, warranty or endorsement shall be attached to, printed or stamped upon such certificate, certificate or contract unless the form of such application, rider, clause, warranty or endorsement has been approved by the Commissioner.”*

Chapter 1

Family Takaful Products and Forms

Section 15. This Chapter shall be applicable to all requests for approval of Family Takaful products, forms, or other product-related requests issued by Takaful operators, such as but not limited to:

- a. Products
- b. Forms (Certificate Contract, Certificate of Coverage, Endorsements, Application Forms, etc.)
- c. Introduction of New Distribution Channels
- d. Changes in Marketing Name

For group Takaful products, any changes in net contribution rates must be submitted to this Commission for approval.

Section 16. Documentary Requirements. - Notwithstanding any other documentary requirements required under a separate circular issued/to be issued by the Insurance Commission, any submission of request for approval of a Takaful product, form or other product-related requests by a Takaful operator must be accompanied by the following documents:

a. For New Products/Forms:

1. Transmittal Letter
2. Duly Notarized Deed of Undertaking
3. Actuarial Notes (for product submissions only)*
4. Viability Study for the complete duration of the plan/rider or 20 certificate years, whichever is shorter, for decennial ages (soft copy should be in Excel format with formulas and for product submissions only)*
5. Duly Notarized Actuary's Certification
6. Duly Notarized Legal Counsel's Certification
7. Certificate of Shariah Compliance
8. Certificate/Rider Contract*
9. Certificate Data Page*

10. Sales Proposal*
11. Application Form*
12. Certificate of Coverage*
13. Endorsement Form*
14. Distribution and Marketing Materials*
15. Other Contract Forms*
16. Other supporting documents deemed necessary

b. For Revised Products/Forms:

1. Transmittal Letter
2. Duly Accomplished Summary of Revisions in Certificate Contract, Rider Contract and/or Endorsement Forms
3. Duly Notarized Deed of Undertaking
4. Duly Notarized Actuary's Certification
5. Certificate of Shariah Compliance
6. All other applicable documentary requirements under subsection a. (For New Products/Forms)
7. Copy of Insurance Commission's Approval of underlying fund (for inclusion of new investment fund for variable family Takaful contracts)

c. For Introduction of New Distribution Channels:

1. Transmittal Letter
2. Business Plan/Proposal/Model
3. Process Flow
4. Screenshots/Wireframes*
5. Telemarketing Scripts*
6. Other supporting documents deemed necessary

Section 17. Font Size. - All certificate/rider contracts, certificate data page, sales proposal and endorsement forms must have at least Arial 10 font size or its equivalent.

Section 18. Transmittal Letter - This letter serves as the covering letter for the application and must contain specified information about the request being filed. The information that must appear in the transmittal letter shall include the following:

- a. Information identifying the Takaful operator
- b. Attention line to the Actuarial Division
- c. Name of the product including marketing name, if applicable
- d. A brief description of the product, form or request being filed
- e. A statement about how the Takaful operator intends to market the product including the manner of distributing the product (distribution channel) and a description of the product's target market, if applicable
- f. A list of all the attachments, if applicable
- g. The name, email address and contact number of the responsible officer of the Takaful operator that the Insurance Commission can contact regarding the filing
- h. Signature of the President/Chief Executive Officer or any authorized senior officer of the Takaful operator

Section 19. Deed of Undertaking. - The Deed of Undertaking shall be executed by the President/Chief Executive Officer or by any authorized senior officer of the Takaful operator other than the Actuary who signed the Actuarial Certification in Section 16.

The name/s of those authorized to execute the Deed of Undertaking must be submitted to the Insurance Commission.

Section 20. Standard Certificate Contract, Rider Contract and/or Endorsement Forms. - Each Takaful operator must have only one (1) set of standard general provisions which shall be used in all certificate contracts, rider contracts or endorsements to be issued. Each Takaful operator must exert all efforts to ensure that the general provisions it uses are consistent across all its products and that the said provisions are compliant with the amended Insurance Code, Shariah rulings, pertinent circulars and guidelines issued by the Insurance Commission.

For all requests for approval of certificate contracts, rider contracts or endorsements, a summary containing a detailed list of revisions including any deviations from the Takaful operator's standard contract provisions and the rationale of such revision/deviation must be attached.

Chapter 2

General Takaful Products and Forms

Section 21. This Chapter shall be applicable to all requests for approval of General Takaful products, forms, or other product-related requests issued by Takaful operators, such as but not limited to:

- a. Products
- b. Forms (Certificate Contract, Certificate of Coverage, Endorsements, Application Forms, etc.)

Section 22. Documentary Requirements. - The Takaful Operator shall submit to the Commission the following documentary requirements:

- a. Cover letter requesting for approval of the certificate form signed by the duly authorized representative of the company
- b. Specimen Certificate form/s
- c. Certificate of Shariah Compliance
- d. In case of changes in the previously approved certificate form, a side-by-side presentation of the changes to the previously approved certificate form with the proposed revised certificate form.

Section 23. Font Size. - All certificate/rider contracts, certificate data page, sales proposal and endorsement forms must have at least Arial 10 font size or its equivalent.

Section 24. Only those requests with complete documentary requirements will be accepted. In order for the Commission to conduct a proper compliance review or compliance audit of a Takaful product, all items associated therewith must be included.

A request for approval of a basic general Takaful certificate form will be determined incomplete and will be disapproved if it does not contain all applicable items.

A licensed Takaful operator must ensure that the terms and conditions stipulated in the legal documentation of a Takaful product fulfill the requirements of the adopted Shariah contracts.

The company, in submitting its request for approval of the Takaful product must also submit a statement of compliance stating that: the certificate form/s strictly complies with the pertinent requirements of the Insurance Code, pertinent circulars and guidelines issued by the Commission; that it is Shariah compliant; that it was reviewed by the company's lawyer; and, that the company is responsible for any willful misrepresentation and/or willful violation committed by any of its officers and/or authorized representatives in connection with the application for approval of the certificate form.

Section 25. The General Takaful product must specify the following:

- a. The parties between whom the contract is made
- b. Description of the subject matter or task to be delegated by Takaful participants to a licensed Takaful operator or the risks covered against
- c. The contribution or if the Takaful product is of a character where the exact contribution is only determinable upon which the final contribution is to be determined
- d. The property or covered person
- e. The amount to be covered except in the cases of open or running Takaful product;
- f. The interest of the covered person in the property, if he is not the absolute owner thereof
- g. The risk covered against
- h. The period of the contract
- i. Claims Management - a licensed Takaful operator must have in place and implement internal policies, procedures, system and controls to manage claims which shall be reflected in the general Takaful contract
- j. Conditions for dissolution of the contract, which include:
 1. Circumstances in which the contract will be dissolved; and
 2. Treatment of the wakalah fees in the event of a dissolution in accordance with the short rate cancellation table adopted by the Takaful operator

Chapter 3

Common Provisions

Section 26. Takaful operators shall ensure that a comprehensive end-to-end Shariah-compliant product development and implementation process of Shariah governance framework is in place

Section 27. Takaful operators must ensure that the following requirements are met prior to offering a new product:

- a. the product (including its accompanying documentation) must be approved by the Takaful operator's Shariah Committee;
- b. all contract form/s, product benefits, and underlying features of the Takaful product must be consistent with Shariah rulings;

Section 28. Takaful operators must ensure that the product development process is comprehensive and robust to minimize the risk of non-compliance with Shariah rulings. In particular, Takaful operators must ensure that:

- a. Appropriate processes have been established to ensure proper Shariah governance and compliance with all Shariah requirements. Specifically, all product proposals must be assessed, endorsed, and validated by the Shariah Committee of the Takaful operator. The terms and conditions contained in all relevant documents used in the product transaction including all contract forms, advertisements or marketing materials, marketing illustrations and brochures used to describe the product must be endorsed by the Shariah Committee;
- b. All Shariah issues are thoroughly researched prior to the deliberation by the Shariah Committee and the certification by the Shariah Committee must be backed by the relevant fiqh literature, evidence and reasoning; and
- c. There is an effective process in place to monitor Shariah compliance of all Shariah-compliant products on an on-going basis. This includes ensuring that all operational decisions concerning the product are conducted in a Shariah-compliant manner, for instance, ensuring that invested assets or risks to be covered under Takaful products are Shariah-compliant.

Section 29. In addition, licensed Takaful operators must ensure that their policies and procedures regarding product offering and distribution activities contain:

- a. Requirements for officers and distribution channels of the Takaful operator to make appropriate disclosures to ensure that consumers are fully informed of the relevant Shariah principles associated with the product; and
- b. The basis for determining the fees and charges imposed on consumers complies with Shariah rulings
- c. Existing Circular Letters shall remain applicable in so far as they are not inconsistent with Shariah principles.

Section 30. Post-Audit and Recall of Approval.

- a. The Insurance Commission may conduct an on-site or off-site examination of product, form or other product-related requests to verify if it fully complies with the requirements of the pertinent provisions of the Insurance Code, circulars and guidelines issued by the Insurance Commission, and Shariah rulings.
- b. The Insurance Commission may also examine the Takaful operator's methods of doing business pertaining to the implementation of the terms and conditions stipulated in the certificate contract including but not limited to processes, documents, code of conduct and controls, monitoring processes of

marketing/distribution practices and the activities of agents and other intermediaries.

- c. Approval of any product, form or other product-related requests shall be subject to recall at any time if there is a finding of violation of the Insurance Code and circulars and guidelines issued by the Insurance Commission, without prejudice to the authority of the Insurance Commissioner to impose the applicable penalties prescribed under Section 438 of the Insurance Code and/or other administrative sanctions provided in the same Code.

TITLE VIII

SOLVENCY AND CAPITAL ADEQUACY REQUIREMENTS.

Section 31. The Takaful operator shall maintain a suitable solvency position to ensure that capital is adequate to meet its requirements and financial obligations in the Takaful undertaking.

Any Insurance Commission-regulated entity authorized to transact business in the Philippines as a Takaful operator must show to the satisfaction of the Commission that it has satisfied and complied with the minimum capitalization and net worth requirements as provided for under Sections 194, 197, 200 and 289 of Republic Act No. 10607 (otherwise known as the "Amended Insurance Code"), and Circular Letter ("CL") Nos. 2015-02-A, 2017-14 and 2021-61.

TITLE IX

REPORTING STANDARDS

Section 32. The Takaful operator shall ensure that the reporting of their financial and non-financial information meets the local requirements as well as internationally recognized financial reporting standards as recognized by the Philippine Financial Reporting Standards Council (FRSC).

Section 33. Segregation of Funds, Books and Records. - The capital/fund of the Takaful operator's Shareholders' Fund is completely segregated from the Participants' Risk Fund. Further, the capital/fund of the Takaful operator's Shareholders' Fund and the Participants' Risk Fund shall also be completely segregated and not be invested in, or commingled with other funds held by the conventional insurance, if the entity with Takaful undertakings is a Takaful window in a conventional insurance. The books and records of a Takaful window shall contain full information relative to its Takaful and financing transactions and activities. Also, during the window implementation, Takaful financial position shall form part of the total audited statement, and the segregation of Takaful business shall be shown on disclosures.

Section 34. Shariah Committee. - The Shariah Committee shall be responsible for ensuring that reporting of financial and non-financial transactions are in accordance with Shariah principles.

TITLE X

AUDITED FINANCIAL STATEMENTS

Section 35. As a general rule, the face of the audited financial statements, reports and all the note disclosures required for conventional insurance shall also be applicable to entities with Takaful undertakings unless otherwise expressly specified.

Section 36. Face of the Audited Financial Statements and Other Reports. - The audited financial statements shall at a minimum, consist of the following:

- a. Statement of Financial Position;
- b. Statement of Comprehensive Income;
- c. Statement of Changes in Equity;
- d. Statement of Changes in Participant's Fund;
- e. Statement of Cash Flows; and
- f. The Shariah Compliance Statement/Report.

Section 37. Minimum Disclosure Requirements to the Audited Financial Statements. - The requirements under the following paragraphs refer specifically to disclosures that form part of financial statements.

A regulated entity with Takaful undertakings shall make disclosures in the financial statements in accordance with the requirements of the Philippine Financial Reporting Standards. This shall be presented along with any other information that may be required by the Insurance Commission.

Explanatory notes to be disclosed in the annual financial statements of Takaful operator shall include but not be limited to the following information:

- a. Takaful certificate liabilities;
- b. Retakaful assets;
- c. Takaful receivables (including details of outstanding contributions and wakalah fee receivable);
- d. Other receivables (including detailed information on hand);
- e. Takaful payables;
- f. Retakaful payables;
- g. Allowance for credit losses provision;
- h. Expense liabilities;
- i. Gross and net earned contribution;
- j. Gross and net benefits and claims;
- k. Wakalah/Mudarabah Fees and commission income;
- l. Deferred acquisition cost/deferred commission expense;
- m. Management expenses;
- n. Commitments and contingencies with a breakdown by types and amount distinguishing between contingent liabilities and commitments;
- o. Amount and nature of earnings (expenditure) from sources or by means which are not permitted by Shariah and how the Takaful operator intends to dispose of the assets generated by prohibited earnings or acquired through prohibited expenditure; and

- p. Amount of zakat payable and method of calculating zakat as approved by the Takaful operator's Shariah Committee; and
- q. Intercompany charges with a breakdown by type of services received.

Section 38. Standard Chart of Accounts. - The regulated entity with Takaful undertakings may use the following accounts in addition to the accounts in its conventional insurance undertaking:

Statement of Financial Position

a. **Asset**

1. **Retakaful Share of Unearned Contributions** - This represents balances due to the company as a result of treaty/facultative acceptances from Retakaful companies.
2. **Retakaful Share on IBNR** - This represents the amount recoverable from Retakaful companies as their share on claims in respect of claim events that have occurred but have not yet been reported to the company as of the valuation date.
3. **Takaful and Retakaful Receivable** - This account is the sum of Due from Takaful companies, Deferred Wakalah Fee, Due from Retakaful Companies, Due from Takaful Participants, and Due from brokers.
4. **Retakaful Receivable from Outstanding Claims** - This account represents amounts recoverable from outstanding claims in the Retakaful operation.
5. **Deferred Commission Expense** -- This account represents commission already paid but not yet incurred.

b. **Liability**

1. **Outstanding Claims including IBNR / Takaful Contract Liabilities** - This represents claims incurred but not yet paid as of the report date under the Takaful operation. This account also includes the amount provided for claims with respect to claims events that have occurred and not yet been reported as of the report date.
2. **Unearned Contribution Reserve** - This represents all future claim payments are related expenses for certificate maintenance, to be made after the valuation date, arising from future events for which the company is liable under Takaful operations.
3. **Payable to Participant's Takaful Fund ("PTF")** - This refers to the amount set up for payment to the participants' Takaful fund.
4. **Takaful Payable** - This account refers to the financial benefits payable to the Takaful participants or their beneficiaries in the occurrence of the pre-agreed event.
5. **Retakaful Payable** - This account represents amounts due to Retakaful Companies.
6. **Payable Related to Takaful Contracts** - This account represents amounts due to Takaful brokers, and Takaful contract holders.

7. **Unearned Wakalah Fees** - This represents wakalah fees already received for the Takaful operation undertaken but not yet earned as of the report date.
 8. **Unearned Mudarabah Fees** - This represents mudarabah fees already received for the Takaful operation undertaken but not yet earned as of the report date.
- c. **Participants' Risk Fund**
1. **Surplus in Participants' Risk Fund** - This account refers to the excess of assets over the liabilities of a Takaful operator which may be distributed to the participants.
 2. **Investments fair value reserve**
 3. **Statement of Comprehensive Income**
- d. **Revenue**
1. **Gross Earned Contribution** - This represents the total amount of contributions collected by the Takaful operator during a specific period. It includes contributions earned from all types of Takaful certificates, such as family Takaful, general Takaful, and group Takaful.
 2. **Earned Contributions Ceded to Retakaful** - This refers to the portion of gross earned contributions in Takaful operations that is passed on to a Retakaful company to share the risk covering the certificate holders.
 3. **Gross Contributions Written** - This represents the aggregate contribution arising from Takaful undertakings for the period being reported.
 4. **Retakaful Contributions Accepted** - This represents aggregate contributions accepted from Retakaful companies.
 5. **Retakaful Contributions Ceded** - This represents aggregate contribution ceded on Retakaful companies
 6. **Commission Income** - This represents commissions earned under Retakaful cessions.
 7. **Wakalah Fees Income** - This represents the revenue earned by the agent (i.e., the financial institution or company) for providing services such as managing investment portfolios, issuing Islamic bonds (sukuk), or providing other financial services that involve the use of wakalah contracts.
- e. **Expenses**
1. **Gross Benefits and Claims Paid** - This represents the total amount of benefits and claims paid to certificate holders by a Takaful operator during a specified period.
 2. **Claims Ceded to Retakaful Operators** - Refers to the amount of claims that the Takaful operator has transferred to a Retakaful operator.
 3. **Retakaful Share of Accepted Claims Paid** - This represents aggregate losses and claims on its acceptances of Retakaful undertaking.
 4. **Gross Change in Certificate Liabilities** - This includes all changes in the Takaful operator's liability to its certificate holders, regardless of whether the changes are due to claims payments, certificate cancellations, or other factors.

5. **Mudareb Share** - This refers to fees for the partner (entrepreneur) who provides labor. Both the capital provider (rabbul mal) and entrepreneur (Mudareb) share the profit generated from the capital
6. **Wakalah Fees** - This represents the costs incurred by the company for providing financial services based on the wakalah contracts such as salaries and other operating expenses.
7. **Commission Expense** - This refers to the amount paid by a Takaful operator to its agents or intermediaries for distributing Takaful policies to customers.
8. **Surplus Transferred to Participant's Individual Fund** - This refers to the portion of the surplus that is allocated to certificate holders and credited to their individual accounts within the Participants' Individual Fund.
9. **Surplus Attributable to Shareholder's Fund** - This refers to the portion of the surplus that is retained by the Takaful operator and credited to its Shareholder's fund.
10. **Zakat** - It is an expense that reflects the obligations of Muslims to give a portion of their wealth to charity.

TITLE XI

RESERVE LIABILITIES

Section 39. The Takaful operator shall establish adequate reserves to meet its obligations towards Takaful participants and their beneficiaries. All reserve valuations shall be made according to the standard adopted by the entity, as may be prescribed by the Insurance Commission, in accordance with internationally accepted actuarial standards.

TITLE XII

GUIDELINES ON INVESTMENTS

Section 40. The following guidelines shall apply to all investments, whether general or separate variable accounts, denominated in Philippine Peso (Php) and in foreign currencies acceptable to the Bangko Sentral ng Pilipinas ("BSP") as part of its international reserves. The objective of these guidelines is to provide a framework for allowable investments and asset management activities in line with Shariah principles, ensuring the protection of participants' interests and the overall stability of the Takaful industry.

Section 41. Investment Policy Framework ("IPF"). - Takaful operators/windows are required to submit to the Commission its Investment Policy Framework duly approved by the Board of Directors (BOD) and its Shariah Committee. The Takaful operator/window shall ensure that all investment activities outlined in its IPF are in accordance with the Shariah rules and principles and all regulatory requirements.

The IPF should contain, at the minimum, the following information:

- a. Overall investment objectives and strategies that are consistent with the company's financial condition and risk tolerance;
- b. Portfolio objectives that set out the acceptable instruments, diversification parameters and other elements of sound investment management practices;
- c. Internal process to identify, monitor, and manage risks and limits relating to credit risk, market risk, liquidity risk, settlement risk, counterparty risk, issuer risk, and concentration risk, among others;
- d. Periodic and timely reviews of the investment strategy and performance to be conducted at the individual and portfolio levels; and
- e. Appropriate valuation procedures and mark-to-market methodology that enable the company to value its investments on a continuing and consistent basis and to measure their sensitivity to market movements. This should include performing, at regular intervals, stress tests that reflect extreme market conditions.

For Takaful Operators/Windows that will invest in complex instruments such as derivatives, structured products, and other foreign currency-denominated investments, the IPF must also include a detailed discussion of the risk management system and approved process for new investment approvals and risk limit monitoring and renewals. It should also specify the appropriate valuation methodology including the ability to obtain prices from recognized third-party data providers or calculation agents on a regular basis.

Section 42. Amendments of the IPF. - Any amendment to the IPF shall require review and approval by the respective BOD and Shariah Committee and shall be submitted to the Insurance Commission within thirty (30) calendar days after obtaining the relevant Board approval. The amended IPF must be accompanied by a comprehensive narrative report outlining the rationale behind the revision, along with an analytical report detailing the financial repercussions and risk-return implications of said revision.

Section 43. Role of the Shariah Committee. - The Shariah Committee has the responsibility of ensuring compliance with Shariah rules and principles and all regulatory requirements. The Committee shall establish a risk management framework that appropriately captures risk exposures and affords proper management of inherent risks in their investment activities.

Section 44. General Investments Guidelines. - All investments made by Takaful Operators/Windows must be in compliance with the Shariah principles, avoiding prohibited investment activities/instruments.

Prohibited investment related to the following activities may include, but are not limited to:

- a. Financial services based on riba (interest);
- b. Gambling and gaming securities;
- c. Manufacture or sale of non-halal products or related products securities;
- d. Entertainment activities that are non-permissible according to Shariah;

- e. Manufacture or sale of tobacco-based products or related products;
- f. Stock broking or share trading in Shariah non-compliant securities; and
- g. Other activities deemed non-permissible according to Shariah principles

Further, all investments made by Takaful operators/Windows must comply with all relevant laws, regulations, and guidelines related to their investment activities, including those issued by the Insurance Commission and other regulatory bodies.

Section 45. Admissible Investments of Takaful Operators / Windows. - The following investments are hereby considered admissible without the need for prior approval from the Commission:

- a. Money Market Instruments. Savings/current accounts, time deposits, special savings accounts, deposit certificates and restricted profit-sharing investment accounts with maturity of one (1) year or less, in currencies acceptable to the Bangko Sentral ng Pilipinas (BSP) as part of its international reserves under an Islamic account or a Shariah facility;
- b. Fixed Income Instruments. Sukuk bonds and other Shariah-compliant debt securities issued by the Government of the Philippines, and by any solvent corporation or institution, including foreign currency-denominated debt securities issued by domestic or foreign companies with a credit rating of at least "B" by S&P, "B2" by Moody's, "B" by Fitch, or any equivalent Sukuk rating from other reputable credit rating agency.
- c. Equity Securities. Shariah-compliant equities of companies listed in the Philippine Stock Exchange, including foreign currency-denominated equity securities issued by domestic or foreign companies with a credit rating of at least "B" by S&P, "B2" by Moody's, "B" by Fitch, or any equivalent Sukuk rating from other reputable credit rating agencies.
- d. Structured Products. Shariah-compliant structured products with the principal purpose of principal protection, diversification, leverage, yield enhancement, access to non-traditional asset classes, amongst others, issued by a financial institution or a Special Purpose Vehicle/Special Purpose Trust sponsored by a financial institution, provided that the issuer/sponsor and the reference asset/underlying asset issuer has obtained a minimum credit rating of "B" as rated by S&P, "B2" as rated by Moody's, "B" as rated by Fitch, or any equivalent Sukuk rating from other reputable credit rating agencies.
- e. Financial Derivatives. Shariah-compliant financial derivatives which shall only be used as a risk management tool for reducing risk and costs. The Takaful operator/windows shall ensure that Shariah documentation such as the Islamic Derivative Master Agreement (IDMA) or any other documentation is obtained to support the Shariah-compliant structure of the instrument.
- f. Investment Vehicles. Shariah-compliant investment vehicles provided that the activities and operations carried out by the fund managers and/or the investment management company should not contravene with Shariah rules and principles.
- g. Investments in other Takaful or Retakaful operators; and
- h. Real estate properties included in the IPF.

Section 46. Investment Management Agreements. - Takaful Operators/Windows may outsource some of its investment activities to any financial institution or investment management company subject to professional and regulatory oversight and which possesses the requisite registration and authorization from the pertinent regulatory authority governing its operational jurisdiction. Further, the following provisions shall be incorporated into the management agreement:

- a. All investments under the Agreement shall be registered in the name of the company;
- b. All investments shall be in accordance with the provisions of this Circular Letter and other regulations issued by the Insurance Commission; and
- c. Investment risk exposures should be clearly defined and measured in accordance with the Investment Policy Framework.

Section 47. Segregation of Funds, Books and Records. - The funds of the Takaful Operator/Window shall not be invested in, or commingled with other funds held by the conventional/parent Insurance company. Its books and records of account shall contain full information relative to its Islamic investing transactions and activities and shall be kept separate and distinct from the books and records of transactions performed by the other departments/units of the conventional/parent insurance company.

Section 48. Investment Portfolio Examination. - The Commission shall conduct periodic reviews, both on-site and off-site, to ensure that investment activities and portfolios are consistent with the IPF and existing rules and regulations. Further, the Commission may, at any time, implement appropriate regulatory measures for prudential reasons if the Takaful Operator/Window fails to maintain an adequate risk management system and conducts business in an unsafe and unsound manner. The Commission reserves the right to issue warnings, order liquidation of investments, non-admit assets, and suspend, modify, downgrade, limit or revoke any investment authority, among others.

Section 49. Reportorial Requirements. - In addition to the IPF required under Section 41 of this Circular Letter, all Takaful Operators/Windows must submit to the Commission the following reportorial requirements:

- a. Monthly Investments Made and Sold or Disposed of to be submitted fifteen (15) days after the end of each month (Annex A).
- b. Quarterly Investment Portfolio Statement to be submitted 20 days after the end of each quarter (Annex B).

Section 50. Other Investments. - Unless otherwise approved by the Insurance Commissioner, all other investments not enumerated in Section 45 of this Circular Letter shall be considered non-admitted assets.

TITLE XIII

TRANSPARENCY IN FINANCIAL AND NON-FINANCIAL REPORTING

Section 51. The Takaful operator shall make adequate and timely disclosure of material and relevant financial and non-financial information on the products and investment accounts that they manage, to Takaful participants and the public.

In order to enhance market discipline and understanding of the risks to which an Insurance Commission-regulated entity authorized to transact business in the Philippines as a Takaful operator is exposed and the manner in which those risks are managed, the latter shall disclose material, relevant, comprehensive and adequate information on a timely basis in order to give certificate holders and Takaful participants a clear view of the business activities, performance and financial position.

TITLE XIV

ON-SITE INSPECTION AND OFF-SITE EXAMINATION

Section 52. The Commission shall, in the fulfillment of its regulatory mandate, on an annual basis and whenever deemed necessary in the interest of the Takaful participants, conduct an examination into the operations, financial standing, method of business, and Shariah compliance of each Takaful operator duly authorized to conduct business in the Philippines.

The Takaful Operator shall be required to provide the necessary documents, records, and reports to the Commission's designated examiner.

Section 53. The Insurance Commission is not precluded from performing a supervisory on-site or off-site examination into the affairs, financial condition, and methods of doing business of an Insurance Commission-regulated entity authorized to transact business in the Philippines as Takaful operator, pursuant to Sections 253 and 412 of the Amended Insurance Code, whenever it deems proper and necessary to detect, as early as possible, any financial difficulties and practice and/or engagement of improper or unlawful activities to ensure financial stability of all regulated entities for the protection of all certificateholders/Takaful participants.

TITLE XV

COMPLAINT HANDLING

Section 54. The Takaful Operator shall establish and maintain an effective and transparent complaint handling process that is fair, reasonable, and facilitates the expeditious resolution of complaints. This must be communicated to Takaful participants and other stakeholders detailing the steps involved and the contact information for complaint submission.

A comprehensive record of all complaints received, including details of the nature of the complaint, actions taken for resolution, and the final outcome, must be maintained by the Takaful Operator. This must be regularly reported to the Commission.

TITLE XVI

ENFORCEMENT

Section 55. The Commission has the authority to enforce supervisory enforcement actions when the effectiveness of a prior supervisory action is deemed insufficient or when the breach is so severe that enforcement action is necessary. This action may be initiated when, following a supervisory action, the Commission concludes that the Takaful Operator has not adequately addressed identified concerns, or when the breach is of such severity that it necessitates more regulatory measures.

These enforcement actions may include, but are not limited to, the imposition of fines, suspension or revocation of the Takaful Operator's Certificate of Authority, or any other measures deemed appropriate by the Commission to rectify the non-compliance or breach.

Section 56. The Commission shall periodically review the effectiveness of its supervisory enforcement actions and make the necessary adjustments to ensure that it remains responsive and proportionate to evolving circumstances.

TITLE XVII

APPLICATION OF EXISTING RULES

Section 57. Notwithstanding the foregoing, existing regulations issued by the Insurance Commission shall remain applicable insofar as they are consistent with Shariah principles.

TITLE XVIII

AMENDMENTS

Section 58. The Insurance Commission may issue such other provisions as it deems necessary to enforce the provisions of this circular letter, decisions, legal opinions, or rulings.

TITLE XIX

SEPARABILITY CLAUSE

Section 59. If any portion, provision or section of this Guidelines or the application thereof to any person or circumstance is held invalid by the courts, the other portions, provisions or sections thereof or their application to other persons or circumstances shall not be affected and thereby remain valid.

TITLE XX
EFFECTIVITY

Section 60. This Circular Letter shall take effect immediately.


REYNALDO A. REGALADO
Insurance Commissioner

