



Circular Letter (CL) No.:	2022-04
Date:	27 January 2022
Supersedes:	None

CIRCULAR LETTER

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

SUBJECT : BASELINE REGULATORY FRAMEWORK FOR TAKĀFUL UNDERTAKINGS

WHEREAS, Republic Act (RA) No. 11439 (entitled, *An Act Providing for the Regulation and Organization of Islamic Banks*), also known as the “Islamic Banking Act,” constitutes the general legislative framework for Islamic banking and finance in the Philippines;

WHEREAS, the Updated Philippine Development Plan (PDP) 2017-2022 identifies the need for a resilient and inclusive financial sector and lays down, as one of the strategies, the development of legal infrastructure for Islamic banking and finance;¹

WHEREAS, while Islamic financing is not a widely known banking concept in the Philippines, as it effectively excludes Islamic Filipinos from the mainstream of the financial system, Islamic finance is a rapidly growing segment of international finance, which when expanded in the Philippine setting, may attract funds from Islamic investors looking for opportunities to support social and infrastructure requirements in the country;²

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

WHEREAS, the subject of *Takāful* (Islamic Insurance) undertakings is a budding area that the insurance sector can explore in light of the implementation of the Updated PDP 2017-2022;

WHEREAS, although there is no regulatory framework for *Takāful*³ in the Philippines, the IC recognizes the growing market for *Takāful*;

¹ National Economic and Development Authority (2021). Updated Philippine Development Plan 2017-2022. https://pdp.neda.gov.ph/wp-content/uploads/2021/08/8312021_Updated-PDP-2017-2022.pdf.

² Dominguez, C. (2021, June 08). Strong Islamic bank system to boost BARMM development–Dominguez. Department of Finance. <https://www.dof.gov.ph/strong-islamic-bank-system-to-boost-barmm-development-dominguez/>.

³ Funa, D. (2015, July 14). Takaful Insurance. BusinessMirror. <https://businessmirror.com.ph/2015/07/14/takaful-insurance/>.

WHEREAS, on 25 August 2021, the Bangko Sentral ng Pilipinas (BSP) issued Office Order No. 1064 (superseding Office Order No. 1210 dated 24 May 2019) to reconstitute the Interagency Working Group⁴ on Islamic Banking and Finance to promote the BSP's financial inclusion agenda, with the aim of developing regulatory framework for Islamic banking and finance, and establishing the necessary instruments and infrastructures to foster the expansion and long-term sustainability of the domestic Islamic banking and finance industry, among others;

WHEREAS, in order to properly implement, regulate, and supervise *Takāful* insurance undertakings, a regulatory framework must be in place through the issuance of a Circular Letter;

WHEREAS, this Circular Letter does not encompass all regulations that can be conceived in formulating a regulatory framework for *Takāful* undertakings;

WHEREAS, this regulatory framework only contains the baseline, minimum, and initial regulatory rules for *Takāful* insurance undertakings;

WHEREAS, subsequent issuances will deal with the details for the implementation of a framework for *Takāful* insurance in the country;

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 are hereby promulgated:

Section 1. Definition of Terms. The following list of terms are a general understanding of the terms used in this Circular Letter, and were mostly cited from the latest Islamic Financial Services Board (IFSB) standards⁵. It is not an exhaustive list.

a. <i>Fatāwā</i> / <i>Fatwā</i>	Legal opinions and rulings issued by <i>Shari'ah</i> scholars.
b. <i>Shari'ah</i>	The practical divine law deduced from its legitimate sources: the <i>Qur'an</i> , <i>Sunnah</i> , consensus (<i>ijmā'</i>), analogy (<i>qiyās</i>) and other approved sources of the <i>Shari'ah</i> . (IFSB, 2018)
c. <i>Takāful</i>	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 agree among themselves to

⁴ The Interagency Working Group on Islamic Banking and Finance is composed of the following participating agencies: (i) Bangko Sentral ng Pilipinas; (ii) Securities and Exchange Commission; (iii) Bureau of the Treasury; (iv) Philippine Deposit Insurance Corporation; (v) Department of Trade and Industry; (vi) Asian Development Bank; (vii) Insurance Commission; (viii) Bureau of Internal Revenue; (ix) Financial Reporting Standards Council; and (x) National Commission on Muslim Filipinos.

⁵ Islamic Financial Services Board (2018). IFSB-20 - Key Elements in the Supervisory Review Process of Takāful/Retakāful Undertakings. <https://www.ifsb.org/download.php?id=4967&lang=English&pg=/published.php>.

	support one another jointly for the losses arising from specified risks. (IFSB, 2018)
d. <i>Takāful</i> operator	Any establishment or entity that manages a <i>Takāful</i> business – usually, though not necessarily, a part of the legal entity in which the participants' interests are held. (IFSB, 2018)
e. <i>Takāful</i> participant	A party that participates in the <i>Takāful</i> product with the <i>Takāful</i> undertaking and has the right to benefit under a <i>Takāful</i> contract. (IFSB, 2018)
f. <i>Takāful</i> undertaking	An undertaking engaged in <i>Takāful</i> 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 <i>Takāful</i> operator managing the business. (IFSB, 2018)

Section 2. Applicability. These Guidelines shall apply to all existing and authorized insurance companies and mutual benefit associations that will set up *Takāful* window.

Section 3. Compliance with *Sharī'ah* Rules and Principles. The *Takāful* operator shall have in place an appropriate mechanism for obtaining rulings from *Sharī'ah* scholars, applying *Fatāwā* and monitoring *Sharī'ah* compliance in all aspects of its products, operations and activities.

Section 4. Governance Policy. The *Takāful* operator shall establish a comprehensive governance policy framework, which sets out the strategic roles and functions of each organ of governance and mechanisms for balancing accountabilities to stakeholders.

Section 5. Anti-Money Laundering/Combating the Financing of Terrorism. The *Takāful* operator shall maintain procedures for and compliance with relevant laws, rules and regulations on anti-money laundering and prevention of terrorism finance.

Section 6. Product Approval. The *Takāful* operator shall only engage in the issuance or delivery of products in the form previously approved by the Insurance Commissioner.

Section 7. Solvency and Capital Adequacy Requirements. The *Takāful* operator shall maintain a suitable solvency position to ensure that capital is adequate to meet its requirements and financial obligations in the *Takāful* undertaking.

Section 8. Reporting Standards. The *Takāful* 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 9. Reserve Liabilities. The *Takāful* operator shall establish adequate reserves to meet its obligations towards *Takāful* 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.

Section 10. Investment Strategy. The *Takāful* operator shall adopt a sound investment strategy, which is appropriately aligned to the risk and return expectations of *Takāful* participants.

Section 11. Transparency in Financial and Non-Financial Reporting. The *Takāful* 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 *Takāful* participants and the public.

Section 12. On-Site Inspection and Off-Site Examination. The *Takāful* operator shall, whenever the Insurance Commission deems necessary, be subject to supervisory on-site or off-site examination through collection and analysis of financial and non-financial information.

Section 13. Complaint Handling. The *Takāful* operator shall provide an appropriate procedure for *Takāful* participants to handle complaints, with a procedure that is fair, clear and effective, and which provides for the follow-up and resolution of complaints without delay.

Section 14. Enforcement. The *Takāful* operator shall be subject to supervisory enforcement action when a supervisory action is judged inadequate, or where breach is so severe that the Insurance Commission considers that enforcement action is warranted.

Section 15. Additional Provisions. The Insurance Commission may issue such other provisions as it deems necessary to enforce the provisions of this Circular Letter.

Section 16. Separability Clause. If any portion, provision or section of this Framework 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 thereby remain valid.

Section 17. Effectivity. This Circular Letter shall take effect immediately.



DENNIS B. FUNA
Insurance Commissioner

