



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

**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;<sup>1</sup>

**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;<sup>2</sup>

**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*<sup>3</sup> in the Philippines, the IC recognizes the growing market for *Takāful*;

<sup>1</sup> 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](https://pdp.neda.gov.ph/wp-content/uploads/2021/08/8312021_Updated-PDP-2017-2022.pdf).

<sup>2</sup> 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/>.

<sup>3</sup> 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 Group<sup>4</sup> 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) standards<sup>5</sup>. 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

<sup>4</sup> 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.

<sup>5</sup> 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>.