

Response to feedback received

Broader Application of *Ta`awun* in Takaful

Introduction

Bank Negara Malaysia (the Bank) issued today the Policy Document on Broader Application of *Ta`awun* in Takaful (PD) for licensed takaful operators and professional retakaful operators. The PD incorporates proposals from the exposure draft (ED) issued on 28 June 2024 and has taken into consideration the feedback received during the consultation period.

The Bank received written responses from 19 respondents consisting of family and general takaful operators and retakaful operators (TOs). Respondents were broadly supportive of the policy direction outlined in the ED and sought guidance on operational considerations to meet Shariah and regulatory requirements.

This document summarises the key feedback received during the consultation period and the Bank's responses. Other comments and suggestions for clarification, where relevant, have been incorporated in the PD.

Bank Negara Malaysia
28 November 2025

1. Type of surplus for broader application of *ta`awun* (BT) in takaful

Feedback received

All respondents indicated no objections to the proposed types of surplus for BT, namely distributable surplus (DS) and orphan surplus (OS).

However, several respondents raised the following concerns:

- a. the utilisation of DS for BT purposes may potentially undermine the long-term sustainability of takaful funds. This could necessitate adjustments in product pricing to maintain a meaningful level of surplus available for BT, while also meeting shareholder expectations and ensuring equitable distribution; and
- b. the current definition of OS may be overly restrictive. In practice, TOs may opt to merge the takaful fund before all outstanding liabilities have fully run off, which could limit the availability of OS for BT purposes.

The Bank's response:

- 1.1 As outlined in paragraph 7.1 of the BT Policy Document (PD), in promoting equitable wealth circulation and social cohesion, licenced takaful operators (TOs) may utilise DS belonging to takaful participants or OS, subject to Shariah and regulatory requirements specified in Part C and Part D of the PD respectively.

Utilisation of DS

- 1.2 For the purpose of BT, TOs shall determine the quantum of DS in accordance with the requirements outlined under the Policy Document on Takaful Operational Framework (TOF). The process must be underpinned by actuarial rigour, where the appointed actuary's recommendation serves as the primary basis for distribution, ensuring that such determinations are consistent with TOs' internal policies and supported by acceptable underlying Shariah contract. This approach safeguards both the integrity of the takaful funds and the best interest of takaful participants.
- 1.3 The application of BT funded through DS shall not lead to any unintended adverse consequences for the takaful participants. This includes safeguarding the long-term sustainability of the takaful fund and maintaining a balanced alignment between developmental or innovation objectives and financial prudence.
- 1.4 Any adjustment in pricing or contribution rates, whether arising from BT implementation or general business cost pressures, shall be guided by the Bank's prevailing policy requirements. These include, but are not limited to, the product pricing, product risk management and comprehensive disclosure and transparency requirements, as set out in the Policy Documents on TOF,

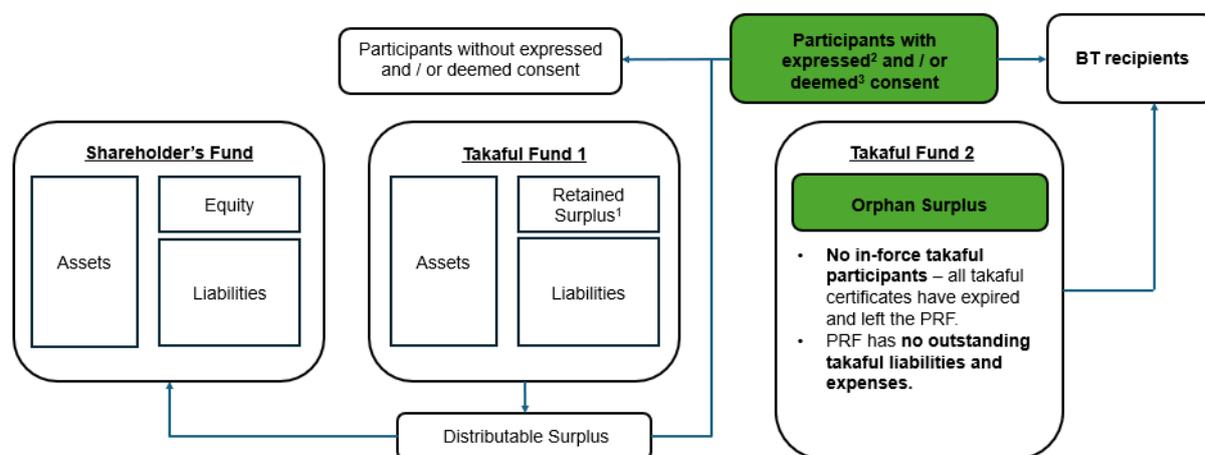
Introduction of New Products and Product Transparency and Disclosure. Additionally, TOs must adhere to the Policy Document on Fair Treatment of Financial Consumers, ensuring that pricing decisions uphold fairness, avoid disproportionate financial burden on takaful participants and mitigate the risk of undue financial hardship in the event of increase in pricing.

- 1.5 As stipulated under paragraph 10 of the PD, TOs must uphold robust governance and oversight mechanisms at the Board level to ensure the effective implementation of BT. This entails the establishment of clear policies, comprehensive internal controls and continuous monitoring mechanisms to oversee the utilisation of DS. The determination and management of DS shall be subjected to the Policy Documents on TOF and Appointed Actuary: Appointment and Duties.

Definition of OS

- 1.6 The definition of OS has considered the diverse practices of TOs in addressing concerns related to the ownership of surplus within participants' risk fund (PRF). For clarity, any surplus maintained in a specific PRF is, at all times, deemed to be collectively owned by the pool of existing takaful participants. Consequently, when determining the existence of an OS, it is important to first verify that the surplus is held in a specific PRF that no longer has any in-force takaful certificates (i.e. all takaful certificates have either expired or been terminated) and that the relevant takaful fund has no outstanding takaful liabilities and expenses. This verification process must be consistent with the requirements outlined in paragraph 5.2 of the PD.
- 1.7 When utilising OS for the purposes of BT, TOs must ensure that its application is fully compliant with Shariah principles and the existing legal and regulatory requirements. The utilisation process must uphold the principles of fairness, transparency and the protection of takaful participants' interest, ensuring that any deployment of surplus does not compromise the integrity or sustainability of the takaful fund. It is imperative that the surplus identified as OS is no longer attributable to any in-force certificate and its allocation reflects the spirit of mutual assistance (*ta`awun*) and equitable benefits for the intended purposes.
- 1.8 For ease of reference, the following illustration outlines the different types of surpluses that may be utilised for BT.

Illustration on types of surpluses that can be utilised for BT



¹ Refers to unappropriated surplus carried forward.
² As outlined in paragraph 9.5 of the PD.
³ As outlined in paragraph 12.2 of the PD.

2. Exploration of new takaful operational models and industry-wide *ta`awun* initiative

Feedback received

Some respondents expressed interest and shared ongoing initiatives to explore new takaful operational models that leverages diverse Shariah contracts. Respondents highlighted that such exploration remains at a nascent or exploratory stage and may require a recalibration of existing requirements under the TOF to accommodate innovative structures and operational dynamics.

Respondents were also broadly supportive of the guidance encouraging the takaful industry to consider collective industry efforts in implementing BT. This could potentially include establishment of an industry-wide *ta`awun* fund. Notwithstanding the above, respondents emphasised the need for greater clarity on operational aspects of such initiatives, specifically, the overall model design, governance structure and clearly defined roles and responsibilities of each participating TO before large-scale implementation can be effectively pursued.

The Bank’s response:

New takaful operational models

2.1 Consistent with TOF, TOs may adopt new takaful operational models using Shariah contracts beyond *Wakalah* and *Mudarabah*. Such adoption is subject to the prior approval of the Shariah Advisory Council of Bank Negara Malaysia. The Bank endeavours to foster an accommodative and responsive regulatory

framework that facilitates the development and implementation of new takaful operational models, while ensuring adherence to Shariah principles and sound governance practices.

- 2.2 In pursuing new takaful models or product offerings based on diverse Shariah contracts, TOs may refer to the guiding principles outlined in Appendix 1 of the PD, which provide considerations for exploration based on various Shariah contracts. TOs must comply with the requirements stipulated under the Policy Document of Introduction of New Product by Insurers and Takaful Operators, which governs the process for introducing new products. Where appropriate, TOs may also leverage the Regulatory Sandbox to pilot and validate innovation solutions, particularly where such initiatives face potential regulatory challenges, thereby enabling a controlled environment to assess viability, manage risks and refine implementation prior to full market deployment.

Industry-wide ta`awun fund

- 2.3 In establishing an industry-level *ta`awun* fund, TOs, acting collectively as an industry, are encouraged to draw upon the guidance set out under paragraphs 11.5 and 11.6 of the PD. This guidance is particularly relevant in operationalising the governance and business models of the *ta`awun* fund, ensuring that its structure and administration are aligned with Shariah principles, sound governance practices and industry best standards. The *ta`awun* fund may be jointly managed alongside other industry initiatives (such as Islamic banks) that share similar objectives, thereby fostering greater collaboration, operational efficiency and wider developmental impact.
- 2.4 The Bank emphasises all relevant requirements specified in the PD, particularly those relating to participant consent and disclosure for utilisation of DS and/ or OS shall apply in the context of an industry-wide *ta`awun* fund without exception. In this regard, the Bank reiterates the critical importance of establishing and maintaining clear, transparent and robust governance mechanisms to safeguard the best interest of takaful participants. Such mechanisms should not only ensure strict compliance with regulatory and Shariah requirements, but also enhance accountability, promote equitable treatment and uphold the integrity of the BT implementation.