Takaful institutions' risk management policy

TAKAFUL & RE-TAKAFUL (EUROPE)

By Ezzedine Ghlamallah

Takaful institutions in Europe as well as globally cover many aspects in risk management policy. The following are some of the aspects covered:

1. Reinsurance and other risk mitigation techniques

    - The identification of the appropriate level of risk-sharing taking into account the risk tolerance limits defined by the Takaful institution and the type of reinsurance contracts that are most appropriate to the Takaful institution's risk profile.
    - The principles for the selection of counterparties for risk mitigation and procedures for evaluating and monitoring the financial strength and diversification of reinsurance counterparties.
    - The procedures for evaluating the actual sharing of risk and taking into account the basic risk; using liquidity management to deal with any discrepancy between the deadlines of payment of claims and recovery in reinsurance.

2. Asset liability management information

    - A description of the procedure for the detection and evaluation of different types of asymmetry between assets and liabilities, at least with regard to maturity dates and currencies.
    - A description of the mitigation techniques to be used and the expected effect of the relevant risk mitigation techniques on asset/liability management.
    - A description of the underlying methodology and the frequency of the simulations and stress scenarios to be carried out.

3. Investment risks

    - Levels of security, quality, liquidity, profitability and availability assigned by the Takaful institution to the entire asset portfolio, and how it plans to achieve these objectives.
    - Quantitative limits on assets and exposures, including off-balance sheet commitments, which must be established to help ensure that the Takaful institution achieves the desired level of security, quality, liquidity, profitability and availability for the portfolio.
    - Level of availability that the Takaful institution aims to achieve with respect to the entire portfolio of assets and how it plans to achieve this objective.
    - Examination of the situation of the financial markets.
    - Conditions under which the Takaful institution may pledge or lend assets.
    - Link between market risk and other risks in adverse scenarios.
    - Procedure for the proper valuation and verification of investment assets.
    - Procedures for monitoring the return on investments and reviewing the policy when the circumstances so require.
    - How assets should be selected in the best interests of participants and beneficiaries.

Takaful institutions set targets for the return on investment they seek to achieve by taking into account the need for a sustainable return on the asset portfolios to meet the reasonable expectations of participants. These institutions also ensure that its investments through unit-linked contracts are selected in the best interests of members and beneficiaries, taking into account all published policy objectives and the liquidity constraints.

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