



**GUIDELINES FOR TAKAFUL OPERATORS**  
**GUIDELINES NO. TIU/G-2/2022/16**

**GUIDELINES ON PRODUCT DEVELOPMENT AND PRICING**



## Guidelines on Product Development and Pricing

### 1. INTRODUCTION

- 1.1. These Guidelines are issued pursuant to section 90 of the Takaful Order, 2008 [“the Order”] to provide guidance on the Notice No. SYAFI/N/01/2022 “Notice on Application Process of Islamic Product”, and sound practices in carrying out the core activities of product development and pricing.
- 1.2. These Guidelines are to be read in conjunction with the following:
  - 1.2.1. Section 18(1) of the Order;
  - 1.2.2. Notice on Corporate Governance for Insurance Companies and Takaful Operators [Notice No. TIU/N-3/2017/7];
  - 1.2.3. Notice on Application Process of Islamic Product [Notice No. SYAFI/N/01/2022];
  - 1.2.4. Notice on Establishment and Maintenance of Takaful Funds for Takaful Operators [Notice No. TIU/N-4/2020/15];
  - 1.2.5. Guidelines on Risk Management and Internal Controls for Insurance Companies and Takaful Operators [Guidelines No. TIU/G-3/2018/8];
  - 1.2.6. Notice on Application of Approval of Outsourcing Arrangement for Insurance Companies and Takaful Operators [Notice No. TIU/N-1/2019/11];
  - 1.2.7. Guidelines on Outsourcing Arrangement for Insurance Companies and Takaful Operators [Guideline No. TIU/G-1/2019/10];
  - 1.2.8. Guidelines on Product Transparency and Disclosure for Takaful Operators [Guidelines No. FCI/G4/2019/1]; and
  - 1.2.9. any other notices, directives or guidelines, which the Authority may issue from time to time.
- 1.3. These Guidelines take immediate effect.

### 2. DEFINITIONS

- 2.1. For the purpose of these Guidelines:
  - 2.1.1. “Board” means the Board of Directors of the takaful operator;
  - 2.1.2. “existing product” has the same meaning as “existing Islamic product” in Notice on Application Process of Islamic Product, Notice No. SYAFI/N/01/2022;



## Guidelines on Product Development and Pricing

- 2.1.3. “investment strategy” refers to the formulated strategy to avoid adverse impacts to the takaful fund that considers the nature, term, currency, amount and timing of the takaful liabilities and, commensurate with the takaful fund’s risk appetite<sup>1</sup>;
- 2.1.4. “product(s)” has the same meaning as “Islamic product(s)” in Notice on Application Process of Islamic Product, Notice No. SYAFI/N/01/2022;
- 2.1.5. “new product” has the same meaning as “new Islamic product” in Notice on Application Process of Islamic Product, Notice No. SYAFI/N/01/2022;
- 2.1.6. “takaful operator” means a registered takaful operator under Takaful Order, 2008, unless it is otherwise specified;
- 2.1.7. “Participants’ Risk Fund [PRF]” means a fund to which contributions paid by takaful participants are allocated for the purpose of meeting claims by takaful participants on the basis of mutual assistance or protection;
- 2.1.8. “senior management” means persons having authority and responsibility for planning, directing and controlling the activities of the company as appointed by the Board, including the Principal Officer as defined in the Takaful Order, 2008;
- 2.1.9. “tabarru” refers to the donation or takaful contribution that will be donated into a takaful product’s fund [Risk Fund/Takaful Fund] to help other participants in the event of misfortune; and
- 2.1.10. “takaful fund” refers to a fund established and maintained by that takaful operator pursuant to section 20 of the Order.

### 3. PRODUCT DEVELOPMENT

- 3.1. Product development is the process of working out the features of a product to be marketed to customers in accordance with a takaful operator’s objectives. This includes enhancements or variations to existing products.
- 3.2. The product development process should involve conducting environmental scans, understanding customers’ needs, developing and refining proposals, obtaining the requisite approvals, implementing the approved proposal and conducting post-implementation reviews.
- 3.3. With the product development process, the takaful operator should analyse the information collected to identify emerging trends, and the associated opportunities and threats they may pose to the takaful operator’s objectives.

---

<sup>1</sup> As defined in the Guidelines on Risk Management for Insurance Companies and Takaful Operators [TIU/G-3/2018/8]



## Guidelines on Product Development and Pricing

- 3.4. The proposed product should be consistent with the takaful operator's risk strategy and policies.
- 3.5. The takaful operator's risk management framework should cover operational risk<sup>2</sup>, such as determining the adequacy of expertise of staff and management, and legal, regulatory and reputational risk, such as avoiding ambiguous or inconsistent contract wordings.
- 3.6. The takaful operator should have in place procedures to obtain the Syariah Advisory Body's approval on the proposed product.
- 3.7. A product proposal paper should include the following information to assist the Board or senior management in making informed decisions:
  - 3.7.1. scope and level of coverage proposed for the product;
  - 3.7.2. risk exposure limits (which can be defined by contributions, sum covered, probable maximum loss or other risk measures and may also include interim limits to manage product growth);
  - 3.7.3. retakaful protection;
  - 3.7.4. pricing methodology;
  - 3.7.5. delegation of authority for underwriting and claims;
  - 3.7.6. underwriting and claims assessment criteria;
  - 3.7.7. investment strategy;
  - 3.7.8. projection of contributions, expenses, profitability and solvency under different scenarios to test the sensitivity of results to different operating conditions;
  - 3.7.9. distribution method; and
  - 3.7.10. ability of existing or proposed administrative systems and processes to handle the new product.
- 3.8. The takaful operator should have clearly articulated procedures for withdrawal and re-pricing of existing products when pre-determined criteria are triggered, such as when it is no longer economically viable to offer the product.

---

<sup>2</sup> As defined in the Guidelines on Risk Management for Insurance Companies and Takaful Operators [TIU/G-3/2018/8]



## Guidelines on Product Development and Pricing

- 3.9. The takaful operator should develop a structure setting out the procedures and risk indicators to monitor the product implementation and performance after its launch. These may include the following:
  - 3.9.1. monitoring changes in risk profiles and analysing experience;
  - 3.9.2. monitoring changes in participants' behaviour that may have led to higher lapse rates or deteriorating claims experience; and
  - 3.9.3. monitoring changes in the investment and economic environment which may affect the performance of the portfolio.

## 4. PRICING

- 4.1. The pricing of a product involves the estimation of claims, operational and financing costs and the income arising from investing the contribution received.
- 4.2. The pricing process typically comprises collecting data on the underlying risks to be covered, determining the pricing assumptions and the base rate, setting the final takaful contribution rate, and monitoring and reviewing the appropriateness of pricing.
- 4.3. A takaful operator should assess the possible scenarios of inadequate *tabarru'* charges into the PRF that may lead to the PRF being insufficient to provide protection and obligations associated with the takaful certificate. The assessment should be reported to the Board or relevant Board Committee in a timely manner for decisions on risk management.
- 4.4. The takaful operator should also consider the risk of inconsistent pricing with regard to the different risk categories within the same product and products with similar features. This risk should be discussed with the control functions<sup>3</sup> and reported via a risk register to the Board or relevant Board Committee.
- 4.5. Pricing should be done by modelling all identified risks, using appropriate methodologies depending on the complexity of the risks to be protected and available data which may include market fluctuations and uncertainties.
- 4.6. The takaful operator should not limit itself to using only a single pricing methodology, particularly where there is little historical experience to base the pricing on or where the nature of business does not lend itself to extensive statistical analysis.
- 4.7. The takaful operator should analyse the performance of the PRF, including monitoring the effect of *tabarru'* charges adjustments. There should be procedures in place to monitor emerging trends and changes to the external environment and risk indicators to trigger a pricing review when the takaful operator's objectives are unlikely to be met.

---

<sup>3</sup> As defined in the Guidelines on Risk Management for Insurance Companies and Takaful Operators [TIU/G-3/2018/8]



## Guidelines on Product Development and Pricing

### 5. PRUDENT MANAGEMENT OVERSIGHT

5.1. A takaful operator should:

5.1.1. exercise prudent management oversight; and

5.1.2. implement and maintain adequate controls;

in respect of the development and pricing of products including Syariah aspects.

5.2. The takaful operator should ensure that the Board approve the policies and procedures in respect of the development and pricing of products.

5.3. The policies and procedures in respect of the development and pricing of products should observe **Appendix 1** (where applicable).

**MANAGING DIRECTOR  
BRUNEI DARUSSALAM CENTRAL BANK**

Issue Date: 19 Safar 1444H / 16 September 2022M