CBS

BANKIGA DHEXE EE SOOMAALIYA

البنك المركزي الصومالي

CENTRAL BANK OF SOMALIA

GUIDELINES ON RETAKAFUL ARRANGEMENTS, 2026

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Contents

1. Introduction

1.1 A Retakaful contract is legally a takaful contract. A retakaful contract accepts or take risks from takaful operator that is a primary underwriter.

1.2 A retakaful contract shall be a contract of indemnity between the retakaful operator and a takaful operator against all or portion of the primary takaful risks underwritten by the ceding company under one or more takaful contract. and shall not constitute a legal transfer of part of the underlying risk.

1.3 A retakaful operator shall provide flexibility for takaful operators in the size and types of risks and the volume of business they can reasonably underwrite.

1.4 A takaful operator shall give arrangements consistent with sound takaful principles for re-takaful of liabilities in respect of risks undertaken or to be undertaken by the operator during his carrying takaful business.

2. Objectives

2.1 The objective of this guideline is to ensure that takaful operators—

a) set standards for the use of retakaful and other forms of risk transfer.

b) have a framework to manage the selection, implementation, monitoring, review, control, and documentation of retakaful arrangements that are used to contribute to the takaful operator's ability to meet its obligations to participants; and

c) adequately control and transparently report their risk transfer programmes.

3. Interpretation

3.1 Retakaful means a takaful cover arranged by a takaful operator with a retakaful operator on the risks of the takaful fund it administers.

3.2 Dharura shall mean necessity or emergency circumstances.

3.3 Cedant means a takaful operator who enters into a retakaful arrangement with a retakaful operator.

3.4 Retrotakaful means the transfer of risks, wholly or partly, from one retakaful operator to another retakaful operator.

3.5 Treaty means an agreement between a takaful operator and a retakaful operator stating types or classes of businesses that the retakaful operator will accept from the takaful operator.

3.6 Facultative means a type of retakaful that covers a single risk, or a defined package of risks held by a takaful operator.

4. Applicability

4.1 This guideline shall apply to all takaful and retakaful undertaking in Somalia.

5. Principles

5.1 Risk transfer mechanisms shall play important role in managing a takaful operator's financial soundness.

5.2 In order to be effective, retakaful arrangements and alternative risk mitigation techniques shall be monitored on an ongoing basis by takaful operators.

5.3 A takaful operator shall establish a retakaful and an alternative risk mitigation policy that sets out its procedures for monitoring and managing its retakaful arrangements.

5.4 Retakaful arrangements and other risk transfer techniques shall be used to mitigate a takaful operator's capital requirement under the financial soundness for takaful operators where it satisfies the eligibility criteria.

5.5 A retakaful contract shall be by nature, a business-to-business transaction made between professional counterparties as part of wider risk and capital management approach.

5.6 A takaful operator may obtain retakaful services from a locally licensed or approved foreign retakaful operator.

5.7 In case retakaful is not feasible or available, the Shariah board may give an exceptional approval for the use of conventional reinsurance, where such risk is:

a) Has no Takaful operator known to accept such risk.

b) No takaful operator has the capacity or expertise to accept such risk.

6. Due Diligence on Retakaful

6.1 A takaful operator shall regularly perform a sufficient level of due diligence on its retakaful operators to ensure that the takaful operator is aware of its counterparty risk and is able to assess and manage such risk.

6.2 The level of due diligence a takaful operator shall perform on its retakaful operator shall be—

a) commensurate with its level of exposure to that retakaful operator.

b) not solely dependent on third-party assessments such as rating agency assessments or broker analysis and recommendations; and

c) no less thorough even if the counterparty is a related or interrelated party of the takaful operator.

6.3 In performing due diligence, a takaful operator shall consider the retakaful operators—

a) skills and expertise in respect of the classes of takaful business that it offers to retakaful;

b) claims payment record.

c) expected future claims obligations.

d) balance sheet strength.

e) funding sources, including its level of and access to capital, and form, amount, and sources of liquidity.

f) operational management capabilities.

g) governance, risk management and internal controls; and

h) ability to meet liabilities under exceptional, but plausible adverse events on an on-going basis.

6.4 Where the takaful operator is aware that a retakaful operator relies significantly on retrotakaful, the takaful operator shall also identify and assess the financial standing of the retrotakaful operators.

7. Retakaful Strategy and Program

7.1 A takaful operator shall have a retakaful strategy, approved by its Board of directors which is appropriate to the company's overall risk profile.

7.2 The approved retakaful strategy shall represent a key element of the takaful operator's business and form part of its overall objectives, capital, and risk management strategies.

7.3 A takaful operator shall provide its Board approved retakaful strategy to the Bank upon request.

7.4 A takaful operator shall inform the Bank of any material changes to its retakaful strategy.

7.5 A takaful operator shall document the minimum criteria to be used for the selection of retakaful operators.

7.6 Takaful operators shall seek to select retakaful operators that have proven track record of meeting their obligations as they fall due.

7.7 A takaful operator shall be required to transact takaful business with retakaful operators having a minimum financial rating of B provided by an international ratings agency.

7.8 The takaful operator's risk and capital management strategies shall clearly articulate the part played by retakaful including but not limited to—

a) the objectives that are pursued by using retakaful.

b) the risk concentration levels and ceding limits as defined by the ceding takaful operator's risk appetite; and

c) the mechanisms for managing and controlling retakaful risks.

7.9 When articulating the part played by retakaful in the overall risk and capital management strategies, the takaful operator shall consider its business objectives, levels of capital and business mix, with reference to—

a) risk appetite.

b) peak exposures and seasonality in the takaful portfolio.

c) levels of diversification in the takaful portfolio; and

d) appetite for credit risk posed by retakaful.

7.10 The retakaful programme shall comprise the detailed implementation of the retakaful-related elements of the risk strategies in terms of—

a) terms of coverage.

b) limits.

c) deductibles,

d) layering of risk for large and catastrophic risks

e) signed lines; and

f) market used.

7.11 The programme shall reflect the takaful operator's risk appetite, comparative costs of capital and liquidity positions determined in the retakaful strategy assessed at the level of segregated fund.

7.12 Senior management shall develop the retakaful related elements of the risk management strategy as well as the retakaful programme.

7.13 The Bank shall understand the takaful operator's business objectives and strategies, and how retakaful fits into these, and shall assess the extent to which the objectives and strategies are adequately reflected in the retakaful programme.

7.14 A takaful operator shall consider the impact of its retakaful programme in its liquidity management.

7.15 A takaful operator shall take appropriate measures to manage its risk, including funding requirements in adverse effects.

7.16 A takaful operator may make arrangements with its retakaful operators in order to mitigate its liquidity risk.

8. Internal Controls and Risk Management

8.1 A takaful operator shall establish effective internal controls over the implementation of its programme.

8.2 Control of the retakaful programme shall be part of the takaful operator's overall system of risk management and internal controls.

8.3 The controls and oversight in place shall pay due regard to the segregation of funds.

8.4 A takaful operator shall integrate the characteristics and credit risk of its retakaful program into both its capital adequacy assessment and Own Risk and Solvency Assessment (ORSA), considering its risk appetite, and implement various measures like setting criteria, limits, and risk spread, and incorporating special clauses, to effectively mitigate retakaful credit risk.

8.5 A takaful operator shall have in place procedures for identifying retakaful that meet its security requirements.

8.6 The takaful operator shall consider the segregation of funds in a retakaful to which it cedes risk, to ensure that the assessment of security risk does not rely on the capital resources of the retakaful entity.

8.7 In identifying appropriate retakaful operators, any approved security criteria shall be derived from a high- level statement of what retakaful security will be acceptable to the takaful operator which shall be based on—

a) external opinions.

b) the takaful operator's own view of the retakaful operator.

c) minimum levels of capital.

d) expertise of the retakaful operator.

e) levels of retrocession; and

f) retakaful brokers' security criteria.

8.8 A takaful operator shall have appropriate criteria in place for the obtaining of facultative coverage.

8.9 The takaful operator shall have specific process in place to approve, monitor and confirm the placement of each facultative risk.

8.10 A takaful operator shall have in place processes and adequate controls to document, clearly and promptly, the principle economic and coverage terms and conditions of retakaful contracts.

8.11 The takaful operator shall finalise the formal retakaful contract without undue delay prior to the inception date of the retakaful contract.

8.12 All material reporting due to and from the retakaful operator shall be timely and complete and settlements shall be made as required by the retakaful contract.

8.13 A takaful operator shall consider how its retakaful or other alternative risk management shall operate in the event of an insolvency of itself or the retakaful undertaking.

9. Roles and Responsibilities

9.1 A takaful operator's Board of directors and the Shariah Board shall be responsible for ensuring that the takaful operator complies with the principles and requirements of retakaful arrangements.

9.2 A takaful operator's actuarial function shall periodically review the takaful operator's retakaful and Other Risk Transfer mechanisms and provide an opinion to the Board of directors on its appropriateness considering the takaful risk retained by the takaful operator.

9.3 The actuarial function shall also assess and express an opinion on the appropriateness of all retakaful arrangements considering the retakaful risks retained by the takaful operator, and advice the Board of directors on the appropriate treatment of retakaful arrangements for financial soundness purposes.

9.4 The head of actuarial function of the takaful operator shall provide the Bank with his or her assessment of, and opinion on, any retakaful arrangements used in financial soundness calculations, if requested.

9.5 A takaful operator's auditor shall provide assurance to the takaful operator and the Bank, if requested, that the takaful operator complies with the requirements of this standard.

9.6 A takaful operator's Shariah auditor shall assess whether the retakaful arrangements comply with the principles and guidelines of Shariah and shall also evaluate the risk management practices of the retakaful company to ensure that they are in line with Shariah principles.

10. Administration of Retakaful Arrangements

10.1 A takaful operator shall establish suitable internal controls and administrative arrangements for its retakaful agreements to mitigate operation risks and the adequacy of these measures shall align with the nature and significance of the operational risks associated with retakaful arrangements.

10.2 Terms and conditions of a retakaful arrangement shall provide clarity and certainty on retakaful coverage.

10.3 A takaful operator shall have the following information submitted in respect of each retakaful arrangement namely—

a) type of retakaful treaty.

b) number of lines or slabs, as the case may be.

c) a takaful operator's maximum retention.

d) maximum liabilities under total retakaful treaty.

e) estimated contribution income.

f) aggregate commission loss limit, if any.

g) commission.

h) profit commission.

i) overriding commission.

j) name and addresses of the retakaful operators with their respective shares and their rating by reputable rating agencies.

k) maximum liabilities of each retakaful operator; and

l) name and addresses of broker who placed the retakaful arrangement.

10.4 If the takaful operator's retention is based on maximum probable loss the maximum liabilities of each retakaful operator shall be stated, including the maximum liability under the total retakaful treaty and a separate statement for each class or sub-class of business shall be furnished.

10.5 A retakaful arrangement shall be unambiguous and there should be complete and final agreement on all material terms and conditions of the arrangement, documented in writing, by all parties prior to the arrangement's effective date.

10.6 Where a comprehensive retakaful arrangement can only be duly executed by all parties after the effective date, the takaful operator, in respect of the retakaful coverage, shall—

a) ensure that the retakaful arrangement is enforceable.

b) address any material issues most likely to arise, including all variable or unique agreement terms; and

c) ensure that the final comprehensive retakaful arrangements are in place within a relatively short period of timeframe having regard for the nature, complexity, and materiality of the arrangement.

10.7 The retakaful arrangement shall include specific terms and conditions relating to insolvency of the takaful operator and dispute resolution.

10.8 A takaful operator shall attribute cash flows relating to retakaful arrangements in a manner that pays due regard to interests of its participants.

10.9 The attribution of cash flows to one segregated fund or another shall be important to the fair treatment of takaful participants.

10.10 A takaful operator shall document its policy regarding the attribution of cash flows under retakaful contracts entered into by them as cedants.

10.11 The policy shall include its justification by reference to fairness as between takaful participants and shareholders, fairness between different groups of takaful participants and Shariah compliance.

10.12 The policy shall cover the attribution of outflows in the form of retakaful contributions and wakalah fees or other remuneration to the retakaful operator, and inflows in the form of ceding commissions, profit commissions, brokerage, recoveries, and distributions of surplus.

11. Fronting Restrictions

11.1 A direct takaful operator shall not engage in fronting arrangements in respect of a specific class or sub class of takaful business unless approved by the Bank in writing.

11.2 In requesting for approval, each fronting arrangement shall be submitted to the Bank in writing, and the takaful operator shall ensure that it has adequately reserved for the risk or collateral in place.

12. Alternative Risk Mitigation

12.1 A takaful operator's use of an alternative risk mitigation mechanism shall be subject to appropriate Shariah governance.

12.2 The cession of risks to conventional reinsurers shall be defended on the precept of dharurah, the contention being that without such use of conventional reinsurance markets, the takaful operator shall be unable to maintain or to expand the level of their business.

12.3 A takaful operator's Shariah board, when considering possible finding of dharurah, shall analyze the facts and circumstances that are relevant to the takaful undertaking and in place at the time of that decision.

12.4 A takaful operator shall establish and implement internal policies and procedures that clearly outline the unavoidable circumstances to allow cession to a conventional reinsurer which shall include—

a) no takaful operator or retakaful operator is known to accept the particular risk;

b) no takaful operator or retakaful operator has the capacity or expertise to accept the particular risk; or

c) a retakaful arrangement with takaful operator or retakaful operator creates a potential detrimental effect to the takaful funds.

13. Retakaful Outside Somalia

13.1 A takaful operator shall not place, outside Somalia, any facultative cover for takaful business or any part thereof underwritten by it in Somalia without the permission of the Bank.

13.2 The Bank may grant permission in any of the following circumstances, namely where—

a) the takaful operator or any part thereof is more than the takaful operator's treaty arrangements, and the Bank is provided with documentary evidence that such excess cannot be reasonably placed within Somalia.

b) the takaful business, although covered by a treaty arrangement, shall be desired to be covered facultatively for protecting the treaty or for any other special reason, subject to satisfaction of the Bank; and

c) the takaful business is of special nature, and there are no treaty arrangements for it.

13.3 A takaful operator in Somalia shall not be permitted to exceed its net retention when accepting cover on a facultative basis unless the takaful operator explicitly indicates such a request in the retakaful slip, request note, or through written communication.

14. Shariah Compliance

14.1 A takaful operator shall ensure that all the business it undertakes is compliant with Shariah principles, both contractually and in terms of the underlying risks ceded.

14.2 The Shariah board shall, in their capacity as a governance function of the institution, ensure the following—

a) Policies and procedures are in place with regards to the treatment of surplus arising in the Retakaful Risk Fund.

b) Where the Retakaful Risk Fund enter a winding-down phase, there exists a policy that governs the allocation of any remaining surplus only after settling all valid claims.

c) There is a procedure in place for Shariah assessment of any proposed retakaful arrangements especially where it is proposed that such arrangements are made on a conventional reinsurance basis or with a conventional reinsurer; and

d) There is a procedure in place to ensure, prior to ceding risks to conventional reinsurers, that the contract and any other pre-agreed arrangement by the conventional reinsurer, are Shariah compliant.

15. Enforcement

15.1 The Bank shall enforce this guideline against takaful and retakaful operators.

15.2 Any person who fails to comply with the retakaful arrangements shall be guilty of an offense and if convicted, shall be liable to a penalty as prescribed in the Law.

15.3 The Bank shall enforce compliance with this guideline by exercising its powers against any person who contravenes this guideline