

**GUIDANCE NOTES FOR QUANTITATIVE IMPACT STUDY
PROPOSED GUIDELINES ON TAKAFUL CAPITAL ADEQUACY
FRAMEWORK & REVISED GUIDELINES ON INSURANCE
CAPITAL ADEQUACY FRAMEWORK**

Background

- 1.0 The Quantitative Impact Study (QIS) has been designed with aims to:
- (i) assess the impact of the proposed risk-based capital (RBC) requirements on the Labuan insurance and takaful industry; and
 - (ii) identify potential implementation issues prior to the proposed framework adoption.

- 2.0 Labuan FSA has implemented the RBC requirements via a phased approach:
- (i) Phase I: valuation basis for insurance liabilities in 2016 and takaful liabilities in 2018; and
 - (ii) Phase II: capital buffers for the insurance sector in 2024.

Labuan FSA is extending the Phase II RBC requirements to the takaful sector with the development of the exposure draft (ED) on the proposed *Guidelines on Takaful Capital Adequacy Framework* (TCAF). Concurrently, the *Guidelines on Insurance Capital Adequacy Framework* (ICAF) have also been revised to ensure greater alignment and consistency of requirements across the insurance and takaful sectors, where applicable.

QIS Scope and Submission

- 3.0 The table below sets out the Labuan entities required to undertake the QIS, the key changes under the EDs and the relevant reference documents:

| No. | Licensees | Key Changes | Relevant Documents |
|-----|--|--|--|
| (A) | Labuan (re)takaful operators | Introduction of risk-based capital adequacy requirements to replace the current margin of solvency. | <ul style="list-style-type: none"> • Guidelines on TCAF • TCAF Reporting Templates (Full Fledged Takaful) |
| (B) | Labuan (re)insurers with Islamic windows | <p>Adoption of ICAF Phase II requirements with the following key modifications:</p> <p>(i) Addition of treatment specific to takaful fund:</p> <p>(a) Expanding the category of capital resources to include qard provided from shareholders' fund (SHF) to takaful fund in the event of a deficit;</p> <p>(b) Limitation in the recognition of capital available of takaful fund to meeting its own capital needs;</p> <p>(c) Introducing capital charges for SHF's expense liabilities;</p> <p>(d) Clarification that operational risk also encompasses Shariah non-compliance risk and any failure of Labuan (re)insurers with Islamic windows in discharging their fiduciary duties; and</p> <p>(e) Refinement to the computation of total capital required for takaful fund (i.e. credit risk, market risk and takaful liabilities risk) and SHF (i.e. credit risk, market risk, expense liabilities risk and operational risk) which reflect the different risks borne by the respective funds.</p> <p>(ii) Incorporation of surrender value into the lapse risk component for family (re)takaful business.</p> <p>(For ease of reference, the key differences between TCAF and ICAF are highlighted in blue.)</p> | <p><u>For conventional business</u></p> <ul style="list-style-type: none"> • Guidelines on ICAF • ICAF Reporting Templates (with Islamic window) <p><u>For Islamic window</u></p> <ul style="list-style-type: none"> • Guidelines on TCAF • TCAF Reporting Templates (with Islamic window) <p>* Separate reporting templates for Islamic business.</p> |

| No. | Licensees | Key Changes | Relevant Documents |
|-----|--|---|---|
| (C) | Labuan life (re)insurers with no Islamic windows (only those with surrender value) | <p>Incorporation of surrender value into the lapse risk component for life (re)insurance business.</p> <p>(For ease of reference, the proposed changes are highlighted in blue.)</p> <p><u>Note:</u> While Labuan life (re)insurers with no surrender value are not required to undertake the QIS, they must formally confirm their non-participation by stating the reason through email to Labuan FSA using the email address specified in paragraph 6.0.</p> | <ul style="list-style-type: none"> Guidelines on ICAF ICAF Reporting Templates (Conventional) |

4.0 All participants are required to complete and submit the QIS reporting templates based on the scenarios specified under the **Appendix**. The templates must be signed off by the Principal Officer.

5.0 For the avoidance of doubt, any unfavorable Capital Adequacy Ratio (CAR) arising from the QIS results will not trigger supervisory actions. The QIS is conducted solely for testing and recalibration of the TCAF Phase II and revised ICAF Phase II.

6.0 Completed QIS reporting templates are to be emailed to Labuan FSA as per email address below by **Friday, 12 June 2026**. The Excel templates should be password-protected, with the password provided to Labuan FSA in a separate email. For any clarification, please contact our officers:

| Name | Contact No. | Email Address |
|------------------------|--------------|-----------------------------|
| Ms. Nurhamizah Basaran | 03-8873-2110 | nurhamizah@labuanfsa.gov.my |
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Labuan Financial Services Authority

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Appendix QIS Scenarios

1.0 All participants are required to complete and submit the QIS reporting templates based on the following scenarios:

- (i) Scenario 1: Unaudited financial statements and actuarial valuation (calendar year Quarter 4) as at **31 December 2025**; and
- (ii) Scenario 2: A stress test reflecting recent adverse developments i.e. escalation of US–Iran conflict leading to prolonged disruption of Middle East shipping routes, sustained energy price shock and global financial market volatility. This scenario assumes simultaneous stress across underwriting, market and credit risks and aims to assess the impact of such shocks on the capital adequacy positions of Labuan (re)takaful operators and Labuan (re)insurers.

At a minimum, the shocks below should be applied to asset and liability valuations, where applicable:

- (a) Market shocks
 - Interest rate: +150 basis points (bps) or -150 bps, whichever results in a higher impact on CAR
 - Equity: -30%
 - Real estate: -15%
 - Other alternative long-duration assets: -15%
 - Credit risk: default on corporate bonds
- (b) Non-market shocks (these stresses may be omitted where exposure to the Middle East is immaterial)
 - Hardening market conditions
 - General (re)insurance/(re)takaful: affected lines of business may include marine, aviation, property, business interruption, energy, other specialty lines, etc.

- Life (re)insurance/family (re)takaful: mortality, total and permanent disability, renewal expense and lapse rates
- Claims inflation and reserving assumptions: increased claims severity (e.g. claims ratio +50%), longer settlement periods, potential legal disputes (e.g. war exclusions versus coverage) and reserve deterioration
- Reinsurance/retakaful: default of reinsurers/retakaful operators, with no recovery of current outstanding or expected reinsurance/retakaful recoveries within one year.

Participants shall provide a brief summary of the key assumptions stressed and explanations for any material movements between scenario 1 and scenario 2.