

**590**

# Advanced Diploma in Insurance

## Unit 590 – Principles of Takaful

October 2011 examination

### Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**



## Unit 590 – Principles of Takaful

### Instructions to candidates

#### Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 200 marks as follows.

Part I	8 compulsory questions	48 marks
Part II	1 compulsory question	38 marks
Part III	3 questions selected from 5	114 marks

- You should answer **all** questions in Part I, the compulsory question in Part II and three out of the five questions in Part III. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- You are advised to spend no more than 45 minutes on Part I.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page and leave six lines blank after each question part.

**PART I**

**Answer ALL questions in Part I.  
Each question is worth six marks.**

**Note form is acceptable where this conveys all the necessary information.**

1. (a) Describe **three** conditions that would identify a risk as uninsurable. (3)  
(b) Outline **three** typical investment channels that an Islamic insurance company would pursue. (3)
2. State **six** types of risks that a Takaful insurance company cannot accept. (6)
3. Describe the difference between mutual insurers and assessment mutuals. (6)
4. Describe the **four** basic features of contracts in Shariah. (6)
5. State the basic guidelines, and outline the options available to shareholders, in the treatment of a deficit within the Participants' Fund in a Takaful organisation. (6)
6. List **six** marketing characteristics of Insurance. (6)
7. List **six** main values of co-operatives. (6)
8. Describe the form of risk management that Takaful operates. (6)

## Part II

**Compulsory question**  
**This question is worth 38 marks**

9. (a) ABC Islamic Insurance Company is based in Bahrain. As per the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) financial accounting standards, ABC Islamic Insurance Company is due to prepare the company's set of financial statements for 2011.

Identify and prepare, **showing all your workings**, the ABC Islamic Insurance Company financial statement of policyholders' revenue and expenses for the year 2011.

(26)

Item	Debit (BHD)	Credit (BHD)
Gross contributions		600,000
Acquisition Cost	60,000	
Remuneration of ABC for managing insurance operations		150,000
Total policyholders' investment income		4,000
Reinsurers share of contributions	420,000	
Reinsurance Commissions		126,000
Paid Claims	40,000	
Unearned contributions	80,000	
Recovered claims from reinsurers	30,400	
ABC share for managing investments		400
Outstanding claims-end of period	80,000	
Recoverable outstanding claims from re-insurers		60,000

- (b) Describe **three** different methods that could be used to distribute surplus.

(12)

Questions continue over the page

**Part III**

**Answer THREE of the following FIVE questions  
Each question is worth 38 marks**

- 10.** In the context of Shariah and Islamic contracts, define and evaluate the following:
- Riba;
  - Gharar;
  - Ghabn;
  - Jahala.
- (38)**
- 11.** Explain, in detail, the governance issues and rights of Takaful policyholders. **(38)**
- 12.** Compare Takaful insurance and conventional insurance. **(38)**
- 13.** Evaluate how Islam views profits in conventional commercial insurance as exploitative in nature. In your answer, you must describe how moral hazards can contribute to exploitative profits and how Takaful can offer a relevant alternative. **(38)**
- 14.** Analyse the Shariah rules governing the Wakala Contract in the Islamic Law of Contracts. **(38)**



