

590

Advanced Diploma in Insurance

Unit 590 – Principles of Takaful

April 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 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

Note form is acceptable where this conveys all the necessary information

1. State **six** marketing characteristics of Islamic and Conventional Insurance business. (6)
2. Explain how conventional insurance and Islamic insurance manage risk differently. (6)
3. State **six** different ways of defining 'risk'. (6)
4. Explain the difference between a pure risk and a speculative risk. (6)
5. (a) State **three** halal investment channels available to an Islamic insurance company. (3)
(b) Identify **three** potential issues that could affect the Islamic insurance company investment portfolio. (3)
6. Define Deya and explain how social funds were created using Deya. (6)
7. Identify **six** limitations that would typically disqualify a risk as uninsurable. (6)
8. Explain the concept of cooperation and its relevance in Islamic insurance. (6)

Part II

Compulsory question
This question is worth 38 marks

9. (a) CBA Islamic Insurance Company is based in Bahrain. As per the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) financial accounting standards, CBA Islamic Insurance Company is due to prepare the company's set of financial statements for 2010.

Using the information below, prepare the CBA Islamic Insurance Company's financial statement of policyholders' revenues and expenses as at 31 December 2010.

(26)

Item	Debit (BHD)	Credit (BHD)
Gross contributions		300,000
Acquisition Cost	30,000	
Remuneration of CBA for managing insurance operations		75,000
Total policyholders' investment income		2,000
Reinsurers share of contributions	210,000	
Reinsurance Commissions		63,000
Paid Claims	20,000	
Unearned contributions	40,000	
Recovered claims from reinsurers	15,200	
CBA share for managing investments		200
Outstanding claims-end of period	40,000	
Recoverable outstanding claims from re-insurers		30,000

- (b) Identify **twelve** General Disclosure Requirements notes, which Islamic insurance companies need to accompany their financial statements.

(12)

Questions continue over the page

Part III

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

10. Outline the titles of the main elements of a commercial insurance transaction, and for **each**, provide an insight into how Takaful is relevant. Your answer must be based on:
- contract between insurer and insured;
 - compensation for loss paid from collective fund;
 - insurance contractor policy;
 - risk contingent;
 - major player in modern economy. (38)
11. Evaluate the responsibilities and challenges for Shariah Supervisory Boards and how the Shariah compliance officer assists them. (38)
12. Discuss the challenges for the future of Takaful. (38)
13. Analyse and evaluate the main principles of the underwriting policy of an Islamic insurance company. *In your answer, you must also refer to rating, terms and conditions.* (38)
14. Identify and summarise the **four** models used in Takaful to provide for clear segregation between the Participant and the Operator. (38)

