

590

Advanced Diploma in Insurance

Unit 590 – Principles of Takaful

April 2014 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. Under family Takaful, two separate accounts exist; namely participant's fund and participant's special fund.

Explain briefly when each account is triggered to pay and how much each account would pay. (6)
2. Explain briefly the differences between Ghabn and Jahalah, in the context of prohibited elements under Islamic contracts. (6)
3. Compare the **three** different methods of surplus distribution, with the aid of equations and formulas where applicable. (6)
4. List the **six** key elements which are mandatory to form a binding Islamic insurance contract. (6)
5. Explain the main provisions of the "Takaful Clause" integrated in the policy wording of companies using the Wakala-Mudaraba model. (6)
6. Define the term "Musharaka" and identify the key elements that need to be incorporated to form a binding Musharaka contract. (6)
7. Explain the differences between "fraternal benefits societies" and "assessment mutual insurers". (6)
8. Describe the meaning of Riba and explain how it may manifest under insurance transactions. (6)

Part II

Compulsory question

This question is worth 38 marks

9. (a) Explain the Shariah rules governing Mudaraba and Wakala contracts under the Islamic Law of Contracts. (28)
- (b) Illustrate, using a diagram, how you would integrate both contracts to form the insurance Mudaraba-Wakala model. (10)

Questions continue over the page

Part III

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

- 10.** Two of the major challenges that face global Takaful industry are:
- (a)** Penetration of distribution channels. **(15)**
 - (b)** Advancing transparency and better governance. **(23)**
- Discuss the impact of these constraints on the future growth of Takaful.
- 11.** You are the Shariah Compliance Officer for Enma Islamic Insurance Company. As part of the induction-training program to the management team, you have been asked to conduct a presentation about permissibility of Insurance under Sharia.
- Draft presentation notes detailing Islamic evidence supporting the concept of insurance. **(38)**
- 12.** In addition to the Statement of Financial Position, the Accounting and Auditing Organization for Islamic Financial Institutions established other statements to address reporting standards for Islamic insurance companies.
- (a)** Explain what each of the statements used identifies. **(21)**
 - (b)** Illustrate the structure of the Statement of Financial Position and explain the elements under the liability section. **(17)**

- 13.** “In Islamic insurance, all technical aspects of the conventional underwriting process are applicable”.

Evaluate the above statement with regards to risk acceptance criteria. **(38)**

- 14.** Compare the following:

(a) Mutual insurance companies and Takaful insurance companies. **(10)**

(b) Conventional insurance companies and Takaful insurance companies. **(28)**

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