

590

Advanced Diploma in Insurance

Unit 590 – Principles of Takaful

April 2015 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. Identify **six** limitations that disqualify a risk from being insured. (6)

2. Explain briefly **three** elements which need to exist in an Islamic contract. (6)

3. Explain briefly the Wakala-Mudaraba operational model. (6)

4. Explain the main difference between mutual insurance companies and Takaful insurance companies. *(Do not include those operating under a pure mutual model.)* (6)

5. Explain 'Policyholders' Equity' and how it will be presented in the financial statements of a Takaful company. (6)

6. Define 'Qardh Hasan' and briefly explain its main application in Takaful. (6)

7. Identify and explain briefly the methods for treating participants' surplus in Takaful. (6)

8. Explain briefly **three** challenges for the Shariah Supervisory Board. (6)

Part II and III questions continue on pages 6 – 8

Part II

Compulsory question
This question is worth 38 marks

9. The table below pertains to the financial performance/status of ABC Islamic Insurance Company for 2013 and 2012.

| Account | Amount in BD | |
|-------------------------------------------|--------------|------------|
| | 2013 | 2012 |
| Cash and cash equivalents | 19,000,000 | 16,000,000 |
| Zakah Payable | 1,320,000 | 1,190,000 |
| Earned Contributions | 46,000,000 | 49,000,000 |
| Retakaful and Takaful Payables | 12,000,000 | 10,500,000 |
| Distribution of surplus to policyholders | 0 | 1,000,000 |
| Investments | 60,000,000 | 57,000,000 |
| Net Paid Claims | 35,000,000 | 30,000,000 |
| Paid up Capital | 50,000,000 | 50,000,000 |
| Acquisition Cost | 6,000,000 | 7,000,000 |
| Gross Investment Income for policyholders | 1,500,000 | 2,000,000 |
| Wakala Fees | ? | 17,500,000 |
| Mudharib share of investment income | 150,000 | 200,000 |
| Fixed Assets | 4,000,000 | 3,500,000 |
| Amortisation of Development Cost | 200,000 | 200,000 |
| General and Administrative expenses | 30,000,000 | 24,600,000 |
| Investment Revenues for Shareholders | 6,000,000 | 5,000,000 |
| Beginning Balance of Surplus | ? | 10,000 |
| Reinsurance Commission | 5,000,000 | 6,000,000 |

Additional information:

- The company uses Wakala-Mudaraba model in its operation.
- Gross contributions amounted to BD 75,000,000, in 2013 and BD 70,000,000, in 2012.
- The company determines Wakala fees as a percentage of gross contributions.
- Due to the unfavourable financial results in 2012 of the shareholders' fund, the Takaful operator raised Wakala fees to 35% for the year 2013 after obtaining Shariah Supervisory Board approval.
- The company disclosed in the Financial Statements for 2013 and 2012 that it does not have the responsibility for payment of Zakah on behalf of the shareholders.
- Depreciation expense is included under general and administrative expenses.

Using the information shown in the table and 'additional information', prepare the following statements covering the years 2013 and 2012:

- (a) Statement of Policyholders' Revenues and Expenses; (15)
- (b) Statement of Policyholders' Surplus (Deficit) and; (8)
- (c) Income Statement for ABC Islamic Insurance Company. (15)

QUESTIONS CONTINUE OVER THE PAGE

Part III

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

- 10.** Explain the 'Co-operative risk sharing' feature of Takaful. **(38)**

- 11.** Define 'Riba' and explain its prohibition in Takaful compared to its application in conventional insurance. **(38)**

- 12.** Explain the main Shariah rules applied to Sharikat Al-Musahama compared to a Wakala Contract. **(38)**

- 13.** Explain the roles of the Shariah Supervisory Board and Internal Shariah Reviewer/Shariah Compliance Officer. **(38)**

- 14.** Explain how 'The exploitative nature of profits in Commercial Insurance' is considered as a non-permissible practice by Shariah. **(38)**

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