

590

Advanced Diploma in Insurance

Unit 590 – Principles of Takaful

October 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 and explain briefly **three** characteristics of an insurable risk. (6)

2. Identify the **three** drivers that have prompted rapid growth in insurance in Muslim-dominated countries. (6)

3. Define Ijtihad and explain briefly its importance. (6)

4. Define participants' deficit and explain briefly the methods for addressing it. (6)

5. Explain briefly the contractual rights and governance rights of policyholders in mutual insurers. (6)

6. Explain briefly the challenges that a Takaful firm may face in investment and portfolio management. (6)

7. Identify **two** forms of Riba in conventional insurance. (6)

8. Explain **three** of the required disclosures in the financial statements of a Takaful firm in terms of Zakat and Charity Funds. (6)

Part II and III questions continue on pages 6 – 8

Part II

Compulsory question
This question is worth 38 marks

9. A newly appointed accountant in ABC Takaful firm has prepared the statement of Policyholders' Revenues and Expenses and the Income Statement for ABC Takaful firm, as shown below.

Statement of Policyholders Revenues and Expenses

	2014	2013
Revenues		
Earned Contributions	46,005,500	49,005,500
Mudharib Share of Investment Income	155,500	205,500
Wakala Fees	26,255,500	17,505,500
Total Revenues	46,161,000	49,211,000
Expenses		
Net Paid Claims	35,005,500	30,005,500
Acquisition Cost	6,005,500	7,005,500
Total Expenses	41,011,000	37,011,000
Gross Investment Income	1,505,500	2,005,500
Surplus of Revenues over Expenses	6,655,500	14,205,500

Income Statement for ABC Takaful

	2014	2013
Revenues		
Investment Revenues	6,005,500	5,005,500
Reinsurance Commission	5,005,500	6,005,500
Total Revenues	11,011,000	11,011,000
Expenses		
General and Administrative Expenses	30,005,500	24,605,500
Development Cost	205,500	205,500
Total Expenses	30,211,000	24,811,000
Net Income before Zakah	(19,200,000)	(13,800,000)
Zakah Payable	1,350,000	1,200,000
Net Income	(20,550,000)	(15,000,000)

Additional information:

- The Takaful firm uses Wakala-Mudaraba model in its operation.
- The Takaful firm does not have the responsibility for payment of Zakah on behalf of the shareholders.
- The Takaful firm is not responsible for the collection and payment of Zakah on behalf of its policyholders.
- 2013 was the first financial year of the Takaful firm.
- The Takaful firm distributed BD 1,000,000 to participants in 2013.

After reviewing the statements prepared by the accountant, the Takaful firm's Chief Financial Officer discovered that they contain some errors. Using the information provided in the statements and the 'additional information', prepare the following statements covering the years 2013 and 2014 (*after correcting the accountant's errors*):

- | | | |
|-----|--|------|
| (a) | Statement of Policyholders' Revenues and Expenses; | (15) |
| (b) | Statement of Policyholders' Surplus (Deficit) and; | (8) |
| (c) | Income Statement for ABC Takaful firm. | (15) |

QUESTIONS CONTINUE OVER THE PAGE

Part III

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

- 10.** Discuss whether the concept of insurance is acceptable in Islam. **(38)**

- 11.** Identify the **two** types of Mudaraba contract and explain the main features of each. **(38)**

- 12.** Explain the current challenges that face Takaful industry leaders and how these can be addressed. **(38)**

- 13.** Explain the main principles that govern the Islamic business model and summarise from these principles the main guidelines of the underwriting policy of a Takaful firm. **(38)**

- 14.** Discuss the 'Information-Asymmetry' problem in Wakala and Mudaraba contracts and explain the solutions available to address the problem. **(38)**

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