

590

Advanced Diploma in Insurance

Unit 590 – Principles of Takaful

April 2016 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. Compare fundamental risk and particular risk giving **one** example of each. (6)
2. Define Gharar and briefly explain how it applies to conventional insurance. (6)
3. Define Shariah and identify **three** of its sources. (6)
4. Compare the financial liability of an insurer towards the insured in conventional insurance and Takaful, excluding mutual insurers. (6)
5. Explain the differences between gambling and insurance. (6)
6. Explain briefly the pure mutual model. (6)
7. Identify the main features of the investment policy of a Takaful firm and give **two** examples of Halal investment channels. (6)
8. Identify **three** lessons from the Takaful experiences in Sudan, the Gulf Cooperation Council, Malaysia and the United Kingdom. (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, a firm which uses the Wakala-Mudaraba model in its operation, has prepared the statement of Policyholders' Revenues and Expenses for the year 2014, as shown below.

Statement of Policyholders' Revenues and Expenses

	2014
Insurance Revenues	
Paid up Capital	100,000,000
Wakeel Fees	20,000,000
Mudareb Share	176,000
Balance of Retained Surplus at end of 2013	2,000,000
Reinsurance Commission	5,026,000
Total Insurance Revenue	51,052,000
Insurance Expenses	
Earned Contributions	46,026,000
Net Paid Claims	25,000,000
Dividends Payable	50,000
Acquisition Cost	6,026,000
Distributions to policyholders	1,000,000
Total Insurance Expense	77,052,000
Net Surplus from Insurance Operations	-26,000,000
Investment Income	
Investments	10,000,000
Less: Gross Investment Income	1,526,000
Net Investment Income	8,474,000
Surplus of Revenues over Expenses	-17,526,000

After reviewing the statement prepared by the accountant, the Takaful firm's Chief Financial Officer discovers that it contains some errors.

- (a)** Explain briefly to the accountant the purpose of the Statement of Policyholders' Surplus (Deficit) and how it is prepared. **(6)**

Using the information shown in the Statement of Policyholders' Revenues and Expenses, prepare the following statements after correcting the accountant's errors:

- (b)** The Statement of Policyholders' Revenues and Expenses for the year 2014; **(22)**
- (c)** The Statement of Policyholders' Surplus (Deficit) for the year 2014. **(10)**

QUESTIONS CONTINUE OVER THE PAGE

Part III

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

- 10.** Explain the Islamic evidence supporting the concept of insurance. **(38)**

- 11.** Discuss the differences in the acceptance criteria in the underwriting process of a conventional insurance firm and the underwriting process of a Takaful firm. **(38)**

- 12.** Explain Ghabn and Jahalah as major prohibited practices in Takaful. **(38)**

- 13.** Explain Sharikat Al Mudaraba and its contractual arrangements as an operational model. **(38)**

- 14.** Explain how the distribution channels and recent trends in the Takaful landscape may be considered constraints to the future growth of Takaful. **(38)**

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