

590

Advanced Diploma in Insurance

Unit 590 – Principles of Takaful

April 2017 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. Explain briefly the incentive risk and conflict of interest in the basic *Wakalah* operational model. (6)
2. Identify **three** features of a generic *Takaful* provision model. (6)
3. Explain briefly the concept of *Dharurah*. (6)
4. Identify **three** historical practices of insurance in Islam. (6)
5. Identify **three** disclosures required by Financial Accounting Standard No. 13. (6)
6. Explain briefly the reasons for crediting any proceeds claimed as recoveries from the *reTakaful* operator to the participants' risk fund if the *Takaful* operator becomes eligible to recover from the *reTakaful* operator. (6)
7. Identify the opportunities provided to the *Takaful* sector by economic growth in emerging market economies. (6)
8. Explain briefly the difference between conventional insurance, excluding mutual, and *Takaful* as risk management mechanisms. (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, which uses *Wakalah-Mudharabah* model, 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 for the year 2016

	2016
Revenues	
<i>Mudharib</i> fee	300
Reinsurer's share of contributions	120,000
Increase in outstanding claims	3,500
Development costs amortised	500
Shareholders' investment income	6,000
Expenses	
<i>Wakalah</i> fee	50,000
Participants' investment income	3,000
General expenses	50,000
Surplus of revenues over expenses	27,300

Income Statement for ABC *Takaful* firm for the year 2016

	2016
Revenues	
Gross contributions	200,000
Recovered claims from reinsurers	12,000
Increase in unearned contributions	20,000
Expenses	
Reinsurance commission income	35,000
Paid claims	23,000
Acquisition cost	11,000
Net Income	163,000

After reviewing the statements prepared by the accountant, the *Takaful* firm's Chief Financial Officer discovered that they contain some errors. Using the information shown in the statements, prepare the following statements covering the year 2016 (*after correcting the accountant's errors*):

- (a) Prepare the Statement of Policyholders' Revenues and Expenses for the year 2016. (16)
- (b) Prepare the Income Statement for ABC *Takaful* Firm for the year 2016. (7)

Senior management of the firm have asked you to communicate with the *Shariah* liaison officer and advise them on the following items:

- Prudent allocation of the surplus amount based on priorities excluding the distribution of surplus to participant; and
 - Purposes of maintaining a surplus amount more than the amount required by regulation or recommended by the actuaries.
- (c) Prepare the response to senior management on the matters listed above. **(15)**

QUESTIONS CONTINUE OVER THE PAGE

Part III

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

- 10.** Explain the function of risk management in insurance. **(38)**

- 11.** Compare the basic co-operative *Takaful* operational model and the *Mudharabah* operational model. **(38)**

- 12.** Explain the challenges for growth faced by the *Takaful* industry. **(38)**

- 13.** Explain the primary and secondary sources of *Shariah*. **(38)**

- 14.** Explain the contractual steps to establish a *Shariah*-compliant insurance solution. **(38)**

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