



Chartered  
Insurance  
Institute

# 590

## Advanced Diploma in Insurance

### Unit 590 – Principles of Takaful

April 2019 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 why some Muslim's show resistance to taking out insurance contracts for life protection and how Malaysian *Takaful* operators addressed that challenge. (6)
2. Explain the key challenges rating agencies face when rating *reTakaful/Takaful* operators. (6)
3. Identify **three** factors for considering *Shariah*-compliant investment to be an important component of *Takaful* and a tool of effective risk management and mitigation. (6)
4. Identify **six** benefits of segregation of funds in *Takaful*. (6)
5. Explain briefly **three** events that took place during the lifetime of the Prophet Mohammed (PBUH) which supported the concept of insurance, risk mitigation and risk sharing. (6)
6. Explain how Islam is considered the middle path. (6)
7. Explain the limitation of distribution channels in *Takaful* and the solutions to that limitation. (6)
8. Explain the Protection and indemnity (P&I) clubs and the differences between P&I and other mutual arrangements. (6)

**Part II and III questions continue on the following pages**

## Part II

**Compulsory question**  
**This question is worth 38 marks**

9. A newly appointed accountant in ABC *Takaful* firm, which uses Wakala-Mudharaba 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 2018.**

<b>Revenues</b>	<b>(£)</b>
Mudharib Share	500
Reinsurer's share of contributions	130,000
<i>Retakaful</i> payables	2,000,000
Increase in outstanding claims	10,000
Development costs amortised	400
Shareholders' investment income	10,000
Surplus carried forward from previous year	50,000
<b>Expenses</b>	
Wakala fee	60,000
Participants' investment income	5,000
General Expenses	60,000
Purchase of Fixed Assets	100,000
<i>Takaful</i> Payables	10,000,000
<b>Surplus of revenues over expenses</b>	<b>-8,024,100</b>

**Income Statement of ABC *Takaful* firm for the year 2018.**

<b>Revenues</b>	<b>(£)</b>
Gross Contributions	300,000
Reinsurance commission income	40,000
Contribution receivables	1,500,000
Increase in unearned contributions	40,000
Surplus distribution to policyholders	24,000
<b>Expenses</b>	
Reinsurance commission income	40,000
Paid claims	160,000
Acquisition Cost	15,000
Recovered claims from reinsurers	110,000
Other liabilities	3,000,000
<b>Net Income</b>	<b>-1,421,000</b>

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 2018 (after correcting the accountant's errors):

- (a) Prepare the Statement of Policyholders' Revenues and Expenses for the year 2018. (19)
- (b) Prepare the Income Statement for ABC *Takaful* Firm for the year 2018. (10)
- (c) Prepare the Statement of Policyholders' Surplus/(deficit) for the year 2018. (9)

**QUESTIONS CONTINUE OVER THE PAGE**

**Part III**

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

- 10.** Explain the technical meaning of *Shariah* and its primary and secondary sources. **(38)**
  
- 11.** Explain the core principles of Islamic Finance. **(38)**
  
- 12.** Explain *Gabn* and *Haram* products and their prohibition in *Shariah*. **(38)**
  
- 13.** Explain the contractual steps for establishing a *Shariah*-compliant insurance solution. **(38)**
  
- 14.** Explain the requirements of *Shariah* governance which *Takaful* companies must comply with. **(38)**



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