



Chartered
Insurance
Institute

590

Advanced Diploma in Insurance

Unit 590 – Principles of Takaful

October 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 the effect of developments in technology on *micro-Takaful* provision. (6)

2. Explain briefly a *Waqf* (trust fund) arrangement and its application in *Takaful*. (6)

3. Identify **six** responsibilities of a *Takaful* operator. (6)

4. Describe briefly the *Takaful* insurance provision important adaptations to the conventional insurance models and the adaptations results. (6)

5. Explain briefly risk-return participation in Islamic finance and insurance and identify different forms of participation in *Takaful*. (6)

6. State **three** risks arising from segregation of funds. (6)

7. Outline the limitations of alternative assets to *Takaful* funds. (6)

8. Explain briefly the Saudi Arabian regulator's approach to *Takaful*. (6)

Part II and III questions continue on the following pages

Part II

Compulsory question
This question is worth 38 marks

9. As the Chief Financial Officer of ABC *Takaful* firm, which uses the Wakala-Mudharaba model, your accountant has collected the quantitative data and reported it to you as shown in the table below.

Statement of Policyholders' Revenues and Expenses for the year 2018.

| Account | (£) |
|--|------------|
| Reinsurance Commission Income | 48,000 |
| Mudharib share | 600 |
| Contribution receivable | 1,800,000 |
| Reinsurer's share of contributions | 156,000 |
| <i>Retakaful</i> payables | 2,400,000 |
| Acquisition cost | 18,000 |
| Increase in outstanding claims | 12,000 |
| Other liabilities | 3,600,000 |
| Development costs amortised | 480 |
| Increase in unearned contributions | 48,000 |
| Shareholders' investment income | 12,000 |
| Paid claims | 192,000 |
| Surplus carried forward from previous year | 60,000 |
| Gross contributions | 360,000 |
| Wakala fee | 72,000 |
| Participants' investment income | 6,000 |
| Recovered claims from reinsurers | 132,000 |
| General expenses | 72,000 |
| Surplus distribution to policyholders | 28,800 |
| Purchase of fixed assets | 120,000 |
| <i>Takaful</i> payables | 12,000,000 |

After reviewing the quantitative data presented in the table on page 6, the Board of Directors has requested you to prepare the Statement of Policyholders' Revenues and Expenses for the year 2018.

- (a)** Prepare the Statement of Policyholders' Revenues and Expenses for the year 2018. **(19)**

The Board is also considering investing in and/or acquiring *Takaful* firms in Malaysia and Middle East countries. They have requested you to provide a comparison between the asset composition of *Takaful* contribution pools between the key markets of Malaysia and Middle East countries.

- (b)** Prepare the comparison for the Board of Directors. **(19)**

QUESTIONS CONTINUE OVER THE PAGE

Part III

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

- 10.** Explain the limitations and challenges facing *Takaful* as a developing industry and how *Takaful* companies are dealing with such limitations and challenges. **(38)**

- 11.** Discuss the *Takaful* windows. **(38)**

- 12.** Explain *Riba* and *Jahalah* and their prohibition in *Shariah*. **(38)**

- 13.** Describe the mutual insurance provision model. **(38)**

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

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