



Chartered
Insurance
Institute

590

Advanced Diploma in Insurance

Unit 590 – Principles of Takaful

October 2020 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. Describe briefly the various components of risk. (6)

2. Explain briefly the *Shariah* objection to conventional insurance provision, and **two** important adaptations within *Takaful* insurance provision compared to conventional insurance models. (6)

3. Explain the primary and secondary sources of *Shariah*. (6)

4. *Shariah* regards all forms of interest as *Riba*, the prohibition of which is not necessarily a matter of the insurance transaction but can relate to the operation of the insurer.

Explain how *Riba* can arise in the operation of an insurer. (6)

5. Identify the various types of risks that the *Takaful* operator and the *Takaful* fund are exposed to. (6)

6. Explain the purpose of AAOIFI FAS 13 and the specific disclosures relating to how the surplus is determined and distributed. (6)

7. Outline **three** issues that arise in a *reTakaful* context that require special attention from a *Shariah* perspective. (6)

8. Discuss the opportunities that *Takaful* sector can take advantage of to grow in the emerging market economies. (6)

Part II and III questions continue on pages 6 – 7

Part II

Compulsory question

This question is worth 38 marks

9. ABC *Takaful* Company, an established *Takaful* operator in Malaysia, is planning to expand their operations to the Middle East. The ABC *Takaful* Company believes in having a prudent approach to their asset-liability management by creating a balance between liquidity, return and risk for which having access to all the asset classes of investment is vital to achieve the appropriate balance.

You are the Investment Manager of ABC *Takaful* Company. Upon direction of the Board, the Investment Committee of ABC *Takaful* Company has asked you to prepare a comprehensive report on the following:

- (a) The available investment classes and their limitations, if any, from a *Shariah* perspective. (23)
- (b) Availability of Islamic debt securities and Sukuk. (5)
- (c) Variations in the asset class composition of *Takaful* contributions between Malaysia and Middle East countries. (10)

Part III

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

10. Compare the principal modes of insurance provision. (38)
11. Explain the role of *Takaful* operators in initiating and managing the *Tabarru* and their remuneration structure, explaining the role that *Takaful* operators play in maintaining the solvency of the *Takaful* operation and their obligations and responsibilities in the management of deficit and treatment of surplus. (38)
12. The *Shariah* branch, *Muamalaat* has additional objectives of its own.
Discuss these additional objectives and the core principles prescribed by *Shariah* to achieve these objectives. (38)
13. Explain the basic *Wakalah* model, the modified *Wakalah* model and how the *Wakalah* model is adapted for family *Takaful* business. (38)
14. Explain what a *Takaful* fund is, the importance of segregation of funds, discuss the types of funds and their purpose. (38)

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