

590

Advanced Diploma in Insurance

Unit 590 – Principles of Takaful

October 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 difference between physical hazard and moral hazard. (6)
2. Define *Istihsan* and identify **three** reasons for its application. (6)
3. Explain briefly the concept of *Jahalah* and its prohibition in *Shariah*. (6)
4. Identify **six** objectives of Islamic insurance standardisation. (6)
5. Explain briefly the controversy associated with the modified *Mudharabah* model from a *Shariah* perspective. (6)
6. Explain briefly what a managing general agent (MGA) is and what its responsibilities are. (6)
7. Define *Shariah* and identify **three** objectives of *Shariah* considered necessary for human existence. (6)
8. Explain briefly **three** features clarifying the definition of insurable interest. (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 one income statement for the firm and stated that only one statement is needed to present overall financial performance, as shown below.

Statement of Policyholders' Revenues and Expenses for the year 2016

Revenues	2016
Investment income - Shareholders	5,000
Gross investment income for participants	3,000
Wakalah fees	80,000
Mudharib fees	300
Net earned contributions	70,000
Reinsurance commission	45,000
Total Revenues	203,300
Expenses	
Net claims	6,000
General expenses	50,000
Acquisition cost	12,000
Development costs amortised	500
Total Expenses	68,500
Net Income	134,800

After reviewing the statement prepared by the accountant, ABC *Takaful* firm's chief financial officer and the Shariah liaison officer discovered that it was not properly prepared and presented. Using the information shown in the statement above, prepare the following statements covering the year 2016 (*after correcting the accountant's errors*):

- (a) Prepare the revised Statement of Policyholders' Revenues and Expenses for the year 2016. (11)
- (b) Prepare the Income statement for ABC *Takaful* firm for the year 2016. (7)

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

- The concept of *Qardh-al-Hasan*, its application in a *Takaful* model and how it will be repaid; and
 - The profit commission arising from reinsurance and/or re*Takaful* and its application from a *Shariah* perspective.
- (c) Prepare a response to senior management on the matters listed above. (20)

QUESTIONS CONTINUE OVER THE PAGE

Part III

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

- 10.** Explain the concept of *Takaful* windows and the guidelines provided by scholars to increase their reliability and effectiveness. **(38)**

- 11.** Compare the proprietary insurance provision model and the mutual insurance provision model. **(38)**

- 12.** Explain the core principles for *Muamalaat*. **(38)**

- 13.** Explain the concept of corporate governance and its challenges in a *Takaful* model. **(38)**

- 14.** Explain the opportunities available to the *Takaful* industry to realise its potential and increase its share. **(38)**

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