



Chartered
Insurance
Institute

590

Advanced Diploma in Insurance

Unit 590 – Principles of Takaful

April 2018 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. Identify **three** unique selling points to *Takaful* target customers to brand *Takaful* as a value driven product. (6)
2. Explain the risks arising from the segregation of *Takaful* funds. (6)
3. Identify and explain **three** guidelines provided by *Shariah* scholars to enable the establishment of effective *Takaful* windows. (6)
4. Explain briefly *Ijma* and *Qiyas*. (6)
5. Explain briefly when an action or object may be classified to be *Haram*. (6)
6. Identify **six** responsibilities that fall within the role of a *Takaful* operator in a *Takaful* operational model. (6)
7. Outline **six** responsibilities that fall within the role of a *Shariah* supervisory board in a *Takaful* operational model. (6)
8. Explain the reasons behind the relatively less significant impact of the financial crisis on the *Takaful* sector, when compared to the conventional insurance sector. (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 *Wakala-Mudharaba* model, has prepared the Statement of Participants' Revenues and Expenses and the Income Statement for ABC *Takaful* firm for the year 2017, as shown below.

Statement of Participants' Revenues and Expenses for the year 2017

<u>Insurance Revenues</u>	
Fixed Assets	10,000,000
Remuneration for managing investments	500,000
Wakala Fee	9,600,000
Gross Contribution	48,000,000
Total Insurance Revenues	68,100,000
<u>Total Expenses</u>	
Paid Claims	30,000,000
Reinsurer's Share of Contribution	19,200,000
Reinsurance Commissions Income	10,000
Total Insurance Expenses	49,210,000
Net Surplus from insurance operations	117,310,000
Investment Income for Shareholders	3,000,000
Surplus of revenue over expenses	114,310,000

Income Statement for ABC Takaful firm for the year 2017

<u>Revenues</u>	
Paid Up Capital	100,000,000
General & Administrative Expenses	6,000,000
Recovered Claims from Reinsurers	16,000,000
Total Revenues	122,000,000
<u>Total Expenses</u>	
Gross Investment Income for Participants	3,500,000
Acquisition Cost	75,000
Amortisation of Development Costs	2,000
Total Expenses	3,577,000
Net Incomes	118,423,000

- (a) After reviewing the statements prepared by the accountant, the *Takaful* firm's Chief Financial Officer discovered that they contained some errors. Using the information shown in the statements, prepare the Statement of Participants' Revenues and Expenses and the Income Statement for ABC Takaful Firm for the year 2017 (*after correcting the accountant's errors*). (29)
- (b) The newly appointed board members of the firm requested you to coordinate with the Shariah Liaison Officer and advise them on different segregated funds in *Takaful*.
- Prepare a response to the Board of Directors. (9)

QUESTIONS CONTINUE OVER THE PAGE

Part III

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

10. Explain the types of insurable risk under a *Takaful* operational model. **(38)**

11. Explain the concept and prohibition of *Gharar, Riba and Jahalah* in a *Takaful* operational model. **(38)**

12. Explain the *Wakalah* models used in general *Takaful* and compare them to the *Wakalah-Mudharabah* hybrid model and the *Waqf* model. **(38)**

13. Explain the major asset classes available to the Islamic investment managers of *Takaful* companies and the challenges they present to Islamic investment managers. **(38)**

14. Explain the *reTakaful* model and the associated *Shariah* issues which require attention from a *Shariah* perspective. **(38)**

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