



590EG01

THE CHARTERED
INSURANCE INSTITUTE

ADVANCED DIPLOMA IN GENERAL INSURANCE

590—TAKAFUL

**Examination Guide
October 2009 examination**

SPECIAL NOTICE

Candidates entered for the April 2010 examination should study this Examination Guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you to understand how examiners seek to assess the knowledge and skill of candidates. You can then demonstrate to the examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the examination it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under examination conditions.

Before the examination

Make sure you have a copy of the current Advanced Diploma in Insurance Information for Candidates

Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current Advanced Diploma in Insurance Information for Candidates brochure, which is essential reading for all candidates; it is available online at www.cii.co.uk or from Customer Service.

Study the syllabus carefully

It is important to study the syllabus, which is available online at www.cii.co.uk or from Customer Service. The questions in the examination paper are based directly on the syllabus, so it is vital that you are familiar with it.

Read widely

Your knowledge should be wider than the scope of one book. While books specifically produced to support your studies will provide coverage of the syllabus areas, you should be prepared to read around the subject. A reading list can be found at the end of the syllabus.

Make full use of the Examination Guide

The best way to understand what the examiners require is to study the CII Examination Guides, and you can obtain copies online at www.cii.co.uk. You can use Examination Guides as 'mock' examination papers, attempting them under examination conditions as far as possible, and then comparing your answers to the model ones. The examiners' comments on candidates' actual performance should be noted.

Understand the nature of assessment

Each Examination Guide contains a full examination paper and model answers. The model answers show the type of responses the examiners are looking for, and which would achieve maximum marks. However, you should note that there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown.

Know the structure of the examination

Familiarise yourself with the structure of the examination paper and the time allowed to complete it. This information can be found on the question paper included within each Examination Guide.

In the examination

Do justice to yourself in the examination

Assuming you have prepared adequately, you will only do justice to yourself in the examination if you follow two common sense rules:

1 Spend your time in accordance with the allocation of marks as indicated on the paper. If you do not complete the whole paper, your chances of passing may be reduced considerably. Do not spend excessive time on any one question. If you have used up the time allocation for that question, leave some space, go on to the next question, and only return to the incomplete question after you have completed the rest of the paper. The maximum marks allocated to each question and any constituent parts are given on the paper; the number of marks allocated is the best indication of how much time you should spend answering it. If part of a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking, so a long answer is a waste of time. Conversely, if part of a question has, for example, eight marks allocated, a couple of lines will not be an adequate answer.

2 Take care to answer the precise question set. You will see that the model answers provided in this Examination Guide are quite focused and precise; alternative answers would only be acceptable if they still answer the question. However brilliantly you write on a particular topic, if it does not provide a satisfactory answer to the precise question as set, you will not score the marks allocated. Many candidates leave the examination room confident that they have written a ‘good’ paper, only to be mystified when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires, before putting pen to paper.

Order of tackling questions

Tackle the questions in whatever order you feel most comfortable with. Generally, it is better to leave any questions which you feel less confident in answering until you have attempted those with which you are more familiar, but remember not to spend excessive time on your ‘good’ questions.

Handwriting

Provided your handwriting is legible, you will not lose marks if it is untidy. We recommend that you do not write in block capitals, because you will be slowed down so much by doing so and, paradoxically, block capitals can become more difficult to read than joined-up writing when done quickly.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use ‘bullet points’ or short paragraphs, since this allows you to communicate your thoughts in the most effective way in the shortest time. The model answers give an indication of which style is acceptable for the different types of question.

Calculators

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 alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. It is important that you show all the steps of any calculation in your answer. The examination is testing your ability to carry out all the appropriate steps in calculating a value. A proficient mathematician is someone who follows the correct method, i.e. carries out the appropriate steps. The majority of the available marks will be allocated for demonstrating the correct method of calculation.

After the examination

All Advanced Diploma in Insurance examiners, one of whom will mark your answer book, are either active practitioners in the insurance industry or are experts on the subject. They have been specially trained to mark papers using a detailed marking scheme: the model answers in Examination Guides are based on those marking schemes.

The marking of each examiner is closely monitored throughout the marking period and all marked answer books are carefully checked. This process means that all answer books are marked to the same standard.

After all the answer books have been marked, a moderation meeting is held, at which all available statistical information is considered, together with the views of the Senior Examiner for that unit and other assessment experts. At the meeting a pass mark is set to ensure that the standard of knowledge and skills required to gain a pass in the paper is comparable with that of previous papers. All candidates at or above the agreed pass mark will pass: the CII does not operate a quota system whereby only a fixed percentage of candidates can pass a paper.

Candidates' overall performance

All candidates should know common Sharia principles such as Riba, but it was refreshing to see candidates were familiar with Sharia components such as Deya, Acqela and Qasama.

In order to gain maximum marks, candidates need to give more tangible details in their answers.

Candidates must realise that Takaful accounting is different to conventional accounting and need to revise more on the accounting chapters. However, the mathematics were good.



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THE CHARTERED INSURANCE INSTITUTE

THURSDAY 22 OCTOBER 2009

**ADVANCED DIPLOMA IN GENERAL INSURANCE
590 - PRINCIPLES OF TAKAFUL**

INSTRUCTIONS

- **Three hours are allowed for this paper.**
- **Read the instructions overleaf carefully before answering any questions.**
- Fill in the information requested on the answer booklet and on 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 booklet and this question paper must be handed in personally by you to the invigilator before you leave the examination. Failure to do this may result in your paper not being marked and you may be prevented from entering this examination in the future.**

THE CHARTERED INSURANCE INSTITUTE

590 – Principles of Takaful

CANDIDATE INSTRUCTIONS

READ THE INSTRUCTIONS BELOW BEFORE ANSWERING ANY QUESTIONS.

Three hours are allowed for this paper. 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 paper 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 are advised to spend no more than 45 minutes on Part I.

The number of marks allocated to each question part is shown next to the question and you should spend your time in accordance with that allocation.

Answer each question on a new page. If a question has more than one part, leave several lines blank after each part.

It is important to show each step in any calculation, even if you have used a calculator.

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.

Part I

Answer ALL questions

Note form is acceptable where this conveys all the necessary information

1. Explain briefly the **four** fundamental factors that should co-exist to establish an ethical and morally proper framework to underpin a Takaful system. (6)
2. Describe the meaning of **Riba** and explain how **Riba** can manifest in insurance transactions. (6)
3. Explain briefly the concept of **Sharia**. (6)
4. Explain the 'Re-insurance Balances' included in the Statement of Financial Position of Takaful insurance companies. (6)
5. Explain the principle of **Haram** and identify the risks that an Islamic insurance company cannot accept. (6)
6. Describe how 'Changes in Unearned Contributions' are applied in respect of a Takaful organisation. (6)
7. Define:
 - (a) Deya; (2)
 - (b) Acqela; (2)
 - (c) Qasama. (2)
8. Explain briefly the meaning of **Ghabn** in commercial contracts. (6)

Part II

Compulsory question This question is worth 38 marks

9. *Al Methaq* Islamic Insurance Company uses Mudaraba–Wakala Model, by the contracts with the policyholders, insurance company receives the following remunerations:

- *Wakala* fee: 20% for managing the insurance portfolio;
- *Mudaraba* share: 30% for managing the investment portfolio;
- gross contributions (premiums) \$200,000;
- reinsurance shares (as a QS 60% of gross contributions);
- changes in unearned contributions \$20,000;
- reinsurance commission \$24,000;
- paid claims \$30,000;
- recovered claims from reinsurers (as per QS 60% of paid claims);
- outstanding claims at the end of the financial period \$21,000;
- recoverable outstanding claims from reinsurers (60% of outstanding claims);
- acquisition cost \$9,000;
- total investment income \$20,000.

Using the above information, construct the Statement of Policyholders' Revenues and Expenses for the year ended on 31 December 2008 (the AAOIFI standard number 12: General presentation and disclosure in the financial statements of Islamic insurance companies).

(38)

Part III

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

10. Explain the types of Mudaraba contract and discuss which type is more suitable for an insurance company. (38)
11. Explain the meaning of Wakala and the Sharia rules governing Wakala. (38)
12. Discuss the principal challenges that confront Takaful. (38)
13. Discuss the objectives of the Takaful clause and the main provisions of the Takaful clause in the Mudaraba–Wakala model. (38)
14. Explain the **Mudaraba**, the **Wakala** and the **Mixed** models. Identify the region in which **each** model is commonly used. (38)

NOTE ON MODEL ANSWERS

The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

- Nea'a, or utmost sincerity of intention for knowingly following guidance and adhering to the rules for Takaful insurance system.
- Integration of Sharia Conditions: namely, risk protection sharing under Taawuni principle, coincidence of ownership, participation in management by policyholders, avoidance of Riba and prohibited investments and inclusion of al Mudaraba and/or Wakala principles for Takaful management.
- Presence of moral values and ethics; business is conducted openly in accordance with utmost good faith, honesty, full disclosure, truthfulness and fairness in all dealings.
- No unlawful element that contravenes Sharia and strict adherence to Islamic rules for commercial contracts; namely the key elements present are:
 - parties have legal capacity (i.e. over 18 years old) and are mentally fit;
 - insurable interest;
 - principle of Indemnity prevails;
 - payment of premium is consideration (offer and acceptance);
 - mutual consent (which includes voluntary purification);
 - specific time period of policy and underlying agreement.

Examiner's comments on Question 1

This question was well answered by the majority of candidates. In some instances, more details were required to elaborate on the risk protection sharing. Few candidates mentioned the six key elements.

Model answer for Question 2

- Riba is an interest-based transaction. Riba also takes place in an unequal exchange of money whether this exchange happens immediately or through a period of time and whether the parties of exchange have come voluntarily to an agreement on the transaction or not.
- One form of Riba in commercial insurance results from paying a sum of money, in one payment or instalments for buying an insurance policy and receiving more. This is when indemnification is greater than the price paid for the insurance policy.
- Riba is also involved in commercial insurance because insurance companies have no restrictions at all in employing their financial resources in interest-earning activities.

Examiner's comments on Question 2

The majority of candidates answered this question well. The definition was answered correctly. Candidates who did not achieve full marks did not identify how indemnification payment surpasses premium amount, hence the existence of Riba.

Model answer for Question 3

- Sharia is the religious law of Islam. It covers every aspect of life. This is because Islam makes no distinction between religion when practiced through rituals or practiced through social relations and economic transactions, thus we have to know that Sharia guides Muslims in performing their religious duties as well as in concluding marriage and business contracts.

Examiner's comments on Question 3

Many candidates did not answer in enough detail to gain high marks. In particular, answers did not provide specific mention of how rituals and economic transactions are both perceived similarly as part of Islam as a religion.

Model answer for Question 4

- At the date of financial statements, an Islamic Insurance Company may have a number of credit balances payable to re-insurers. These balances may include insurance cash balances, retained unearned contributions and retained outstanding claims. All of these items will be added up and presented in the statement of financial position as a liability of the insurance company and is called Re-insurance Balances.

Examiner's comments on Question 4

Candidates did not perform well in this question, showing more revision is needed on this topic and did not identify the types of credit balances that are payable to reinsurers.

Model answer for Question 5

- The underwriting policy in an Islamic insurance company must comply with Sharia principles. According to the rules of ‘whatever is conducive to the haram is itself haram’, ‘good intention does not make the haram permissible’ and ‘doubtful thing are to be avoided’, the insurance company cannot accept Haram.
- All the following are not allowed to be covered by an Islamic insurance company:
- alcohol and illegal drugs based products and activities;
- entertainment (nightclubs/pubs);
- any transaction involving Gharar, Riba, Miser, fraud is strictly prohibited.

Examiner’s comments on Question 5

The question was well answered. Candidates did not gain full marks because they did not mention in their answers the three rules of ‘whatever is conducive to the haram is itself haram’, ‘good intention does not make the haram permissible’ and ‘doubtful thing are to be avoided’.

Model answer for Question 6

- The difference between the opening and closing balances of Unearned Contributions shall be added or deducted from Net Retained Contributions in the statement of policyholders revenues and expenses.
- An increase should be deducted because it represents part of the Retained Contributions not earned in this financial period; in other words, it belongs to the next financial period. However, a decrease of the balance during the financial period should be added to Net Retained Contributions because it represents part of the last financial period Unearned Contributions earned in the current year.

Examiner’s comments on Question 6

Many candidates did not identify the Net Retained Contribution as the item to/from which the Unearned Contributions are added/deducted. Candidates may have understood the definition Unearned Contributions, but the explanation of how an increase or decrease of the balance affects the Net Retained Contributions was generally lacking.

Model answer for Question 7

- (a) • Deya is originally valued in terms of animal stock (camels) or the equivalent amount of money and is to be paid by the person who has committed the crime of killing by mistake.
- (b) • When Deya is collected only from family or tribe people it is called Acqela.
- (c) • In case the person who has committed the killing crime is not known, the extended family or tribe members would divide the amount of Deya among themselves and pay it to the nearest relative/s of the deceased person.

Examiner's comments on Question 7

This question was well answered with some candidates gaining full marks. A critical point to mention about Deya is that the crime must be unintentional killing.

Model answer for Question 8

- Ghabn, in general, is injustice. In transactions, it results from fraud or deception committed deliberately by one party of an exchange in a manner that would justifiably lead to improper underestimation or overestimation of the value of the subject matter of that exchange, a commodity or a service. Ghabn can therefore be defined as fraud or deception that would unfairly harm the interests of one party of an exchange to the benefit of the other party.

Examiner's comments on Question 8

The majority of candidates defined Ghabn. However, many candidates did not elaborate on how the fraud/deception is committed, or just simply identified the unfair element that causes Ghabn to exist. It is important for candidates to mention that the fraud/deception would unfairly harm one party to the benefit of another.

Model answer for Question 9

Statement of Policyholders' Revenues and Expenses

Insurance Revenues	
Gross Contributions	200,000
Less: Reinsurers' share	<u>120,000</u>
Net Retained Contributions	80,000
Less: Changes in Unearned Contributions	<u>20,000</u>
Earned Contributions	60,000
Reinsurance Commissions	<u>24,000</u>
Total Insurance Revenue	84,000
Insurance Expenses	
Paid Claims	30,000
Recovered Claims from Re-insurers and Third parties	<u>18,000</u>
Net Paid Claims	12,000
Outstanding Claims-end of financial period	21,000
Less: Recoverable Outstanding Claims From re-insurers & Third parties	<u>12,600</u>
Net Outstanding Claims	8,400
Remuneration of Owners' equity for Managing insurance operations	40,000
Acquisition cost	9,000
Total Insurance Expenses	69,400
Net Surplus from Insurance Operations	14,600
Investment Income	
Total Investment Income	20,000
Remuneration of Owners' equity share for the management of the investment portfolio	6,000
Net Investment Income	<u>14,000</u>
Surplus of Revenue over Expenses	28,600

Examiner's comments on Question 9

Candidates did not gain maximum marks because they did not identify the Net Retained Contributions and Earned Contributions, or the Net Paid Claims and Net Outstanding Claims.

Model answer for Question 10

Unrestricted Mudaraba

- In an unrestricted Mudaraba all the Mudareb's decisions and actions are taken freely without any constraints or intervention imposed by the capital owner/s. His (Mudarab) business freedom, however, must be exercised only in accordance with the interests of the partnership, within given norms of business customs, and tied by the principal target of the Mudaraba contract, which is making profit.

Restricted Mudaraba

- A restricted Mudaraba contract is one in which the capital provider restricts, as he considers appropriate, the actions of the Mudareb, to a particular location or market, or a particular type of investment. However, restriction should not be in a manner that would unduly constrain the Mudareb's ability to take freely his business decisions or to decide actions and manage his operations in practice, as this may adversely affect profit, which is the major target of the company.

Suitability

- Restricted Mudaraba is likely to be more suitable for insurance companies. It means adoption of cautious policies for the investment of the Takaful resources.
- Moderate and stable profit rates that can be made from the investment of Takaful resources are preferable than adopting policies that target maximization of profits at high-risk in the short or the medium run.

Examiner's comments on Question 10

Candidates answered this question well. The majority of candidates identified Restricted Mudaraba as the more suitable option for insurance companies. Marks were lost in some cases due to lack of elaboration on why Restricted Mudaraba is the more suitable option.

It is vital to state under Restricted Mudaraba that the restriction should not adversely affect profits due to undue constraint of Mudareb's operation.

Model answer for Question 11

Wakala

- In language, Wakala means agency and it is delegation, or authorization to act for others.
- The contract is concluded between Muwakil (Principal) and Wakeel (Agent). Wakala is supposed to achieve the Principal's interest, in a manner that is equal or better than, if this is directly responsible for running own business.

Sharia rules

- The subject matter of agency should be known and clearly defined, specified with full transparency in the contract; this is to avoid uncertainty or Gharar.
- The act for which an agent is authorised should be Sharia permissible and the agency is not allowed in any haram transaction or earnings.
- Wakeel (Agent) receives his commission upon performance of the job which he is authorized to do. Wakeel (Agent) is not an employee who is entitled to a wage or a salary on a regular basis irrespective of conditions of the transaction/s that are run by means of Wakala.
- The Wakala contract can be made only for a certain known transaction. This is called Particular Wakala.
- General Wakala means that there is a general delegation of power from the Principal to the Agent.
- Wakala may also be restricted by specific conditions in the contract. In this case the agent has to strictly observe these conditions.
- Regardless of the amount or scope of authority given to the Agent, the Agent represents the Principal and is subject to the Principal's orders and control. Accordingly the Principal is liable for the consequences of acts that the Agent has been directed to perform. In case of restricted Wakala, the principal will, however, not be held liable for the consequences of the Agent's transactions if this has not observed conditions imposed on his actions.
- An Agent can not delegate another person for the subject matter and responsibility of his Wakala, unless he or she is permitted to do this by the Principal in the original contract.
- The Agent can not be held responsible for loss or damage of part or whole of the subject matter of Wakala (goods, assets, or money) because an agent in Sharia is a trustee and not a guarantor. The Agent is only liable for such loss or damage if proved that he or she was negligent, or acted in agency in an irresponsible manner.
- The agency relationship requires the agent to use reasonable care to serve and protect the interests of the Principal. An Agent who acts in a manner that harms the Principal's interest or turns benefits that accrues from the agency to be in his or her own interest violates the Wakala's basic Sharia responsibilities and will be financially liable to the Principal for any losses incurred thereupon.

Examiner's comments on Question 11

Candidates did not demonstrate the depth of knowledge to gain maximum marks. This type of question must be answered with a comprehensive understanding of the subject.

Model answer for Question 12

Challenges to Takaful

- Among other challenges that need to be addressed for by Takaful industry leaders are:
- broadening distribution channels beyond the agency system, including bancassurance;
- promoting regional and international Takaful cooperation and alliances particularly through establishment of Takaful Associations or Unions;
- expanding and enhancing the capacity for ReTakaful globally;
- addressing the current skills shortages, including skilled underwriters and other technical personnel, by increased training and re-training;
- cross-training Takaful managers to be knowledgeable about Islamic finance as well as risk management (Takaful);
- modernisation of data-processing systems and interface between conventional software and Islamic values;
- development and promulgation of Takaful standards for accounting, management operations and auditing (The Accounting and Auditing Organisation for Islamic Financial Institutions [AAOIFI] based in Bahrain is beginning to address this;)
- improving Takaful competitiveness as compared with mutual's as well as with conventional, stock insurance companies;
- refine regulatory rules to reflect the unique circumstances of Takaful companies without weakening risk management and financial stability standards, provide proper level of consumer protection in terms of risk and disclosure in policy wordings;
- modifying supervisory rules to allow variant asset risk profiles for Takaful as different from conventional insurers due to different capital structure and lower risk appetite;
- adjustments to rating methodologies to account for Takaful risk pool's lower financial security – due to a lack of diversification, short operating history and uncertainty about circumstances of Qard Hassan from shareholders to cover deficits;
- reduce the existing concentration of investment risks by Takaful because of a narrower range of available investment assets that are Sharia compliant for Reference is made to some recommendations by Fitch Takaful Review in October 2007;
- build effective responses to strong competition from conventional insurers, which may be able to earn a greater investment return and have greater economies of scale, many of whom have launched Takaful product lines;
- modest levels of capitalisation among many Takaful businesses, especially within the Takaful fund, can limit capacity to take on risks and delay realisation of surplus for policyholders.

Examiners comments on Question 12

Those candidates who chose to answer this question did not do so in a structured manner. Some candidates elaborated too much on a single point.

Model answer for Question 13

Objectives

- The Takaful clause is needed in order to confirm Sharia compliance of the product, to convert prohibited conventional business to Islamic contract.
- The Takaful clause is to govern the relationship among the policyholders and between them and shareholders.

The main provisions of the Wakala – Mudaraba model Takaful clause can be summarised as:

- this clause is an integral part of, and a complement to, insurance policy;
- by entering into an insurance agreement all insured persons (participants) have mutually agreed to compensate any loss or damage suffered by any participant out of the Takaful fund, according to the terms, conditions and exceptions of the insurance contract;
- the insured appoints an insurance company as his agent (Wakala contract) for the management of insurance fund for the benefit of all insured persons. The insured appoints an insurance company as entrepreneur (Mudharib) for the purpose of investing the insurance premiums in accordance with the Shariah Law (Mudarabh contract);
- the insurance company is entitled to agreed fees (Wakala fees) as remuneration for managing insurance portfolio. The insurance company is entitled to profit share (Mudarabh share) for managing investment portfolio;
- the company performs the surplus calculation. In the event there is sufficient Surplus, the company will distribute such Surplus to the eligible participants, after deduction of allowances and provisions, according to the rule fixed by the Sharia Supervisory Board (SBB).

Examiner's comments on Question 13

The majority of candidates did not attempt this question. Those candidates who did, performed well and demonstrated a good understanding of the subject. Higher marks would have been gained for elaboration on finer yet infinitely important details. One example being that the Takaful clause is to govern the relationship among the policyholders and also between them and the shareholders.

Model answer for Question 14

Mudaraba model

- This mode of operation is used in Malaysia and other Asian insurance markets.

This Mudaraba model is used in insurance operations in the following way:

- the insurance company is totally owned by shareholders;
- insurance funds (premiums) are provided by the participants who are considered as rabb-ul-mal in the Mudaraba contract;
- shareholders manage the insurance funds and invest the surplus and they pay all management expenses from the shareholders funds or their share of the profit;
- all claims and technical reserves are paid out of the Mudaraba fund (premiums);
- in the case of any surplus being available after paying out all technical liabilities, it will be shared as per the agreement between shareholders and participants;
- in the case of any deficit, the policyholders must bear the deficit and policyholders are obliged to pay additional premiums. Shareholders will only be liable in the case of negligence in managing the portfolio;
- policyholders share in the profit/surplus to be added to their account.

Wakala model

- This model is very common in some of the Arabian Gulf markets (e.g. Saudi Arabia).
- The operation of an Islamic insurance company under the Wakala model can be summarised as follows:
- shareholders are the owners of the company as an organisation. They enter into a Wakala contract with policyholders to manage the insurance operations and receive, in return, a specified sum of money to be determined at the beginning of the underwriting year for managing the investment and insurance portfolio;
- shareholders pay for all management expenses of the company at all levels out of its fees;
- both the surplus and investment return are distributed by the company to the policyholders;
- shareholders are entitled to performance fees in case of achieving good results.

Mudaraba – Wakala model

- Both of Wakala and Mudaraba can be combined in one model (Mixed model). Under this model an insurance company has to conduct two types of contracts with policyholders:
- Wakala contract: on a fee-driven basis to manage the insurance portfolio (underwriting, claims, reinsurance arrangements etc). Under this contract the insurance company is entitled to get the fees regardless of the portfolio result. These fees will be taken out of the insurance fund (premiums or contributions).
- Mudaraba contract: on a profit-sharing basis to invest the policyholders' money. Under this contract the insurance company is entitled to get a profit-share (based on Mudaraba rules), out of the investment income. There has been a recent move towards using this model in the Arabian Gulf.

Examiner's comments on Question 14

The majority of candidates answered this question, which revolved around the basis of Takaful. It was clear candidates had a strong understanding of the three Takaful models.

The majority of candidates gained high marks by naming countries wherein certain models are more popular than others.

