Advanced Diploma in General Insurance

590 – The principles of Takaful

October 2010 Examination Guide

SPECIAL NOTICE

Candidates entered for the April 2011 examination should study this Examination Guide carefully in order to prepare themselves for the examination.

All questions in the April 2011 paper will be based on English law and practice applicable in the tax year 2010/2011, unless stated otherwise, and should be answered accordingly.

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

590 – THE PRINCIPLES OF TAKAFUL

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how Examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you 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

Read the Diploma in Financial Planning information for candidates and important notes for candidates

Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current Diploma in Financial Planning Information for Candidates and important notes for candidates, 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 crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk or from Customer Service. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

Read widely

It is vital that your knowledge is widened beyond the scope of one book. *It is quite unrealistic to expect that the study of a single coursebook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide

The best way to understand what the examiners require is to study the CII Examination Guides. You can purchase copies of Examination Guides online at www.cii.co.uk. CII members can download free copies of past Examination Guides online at www.cii.co.uk/knowledge. This guide and the previous guides can be treated as ‘mock’ examination papers, attempting them under examination conditions as far as possible and then compare your answers to the model ones. The examiners’ comments on candidates’ actual performance in each question should be noted carefully.

Know the layout of the tax tables

Familiarise yourself with the tax tables printed at the back of each examination paper and the Examination Guide. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination.*

Note the assumed knowledge

For the Diploma in Financial Planning, candidates are assumed to have already the knowledge gained from studying the relevant units of the Certificate in Financial Planning or the equivalent.

Understand the nature of assessment

Assessment is by means of a two-hour written paper. This Examination Guide contains a full examination paper and model answers. The model answers show the types 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

The paper is made up of 15 short questions. The paper will carry a total of 130 marks. Each question clearly shows the maximum marks which can be earned.

In the examination

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

1. **Spend your time in accordance with the allocation of marks as indicated on the paper.** The maximum marks allocated to each question and its constituent parts are given on the paper; the number of marks allocated is the best indication of how much time you should spend on each question. If 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 a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably. Do not spend excessive time on any one question; if the time allocation for that question has been used up, 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, if you have time.

2. **Take great care to answer the precise question set.** The model answers provided in this Examination Guide are quite focused and precise; alternative answers will only be acceptable if they still answer the question. *However brilliantly a candidate writes on a particular topic, if it does not provide a satisfactory answer to the precise question as set, the candidate will not achieve 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 feels most comfortable. Generally, it is better to leave any questions which are felt to be very challenging until the more familiar questions have been attempted, but *remember not to spend excessive time on the questions you are most confident about.*

Answering different question parts

Always read all parts of a question before starting to answer it, otherwise, you may find that after answering part (a), the answer you have given is really more appropriate to part (b) and it would be necessary to duplicate much of what has already been written. The examiners will normally only give credit for an answer if it is contained within its correct question part.

Handwriting

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. *It is strongly recommended that candidates do not write in block capitals,* because they will be slowed down so much by doing so.

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 least time. The model answers indicate what 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 to show all the steps of your 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 marks will be allocated for demonstrating the correct method of calculation.

After the examination

All examiners who mark Diploma in Financial Planning answer books are either active practitioners in the financial services 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.

After each examiner has provisionally marked a small number of answer books, there is a co-ordination meeting of all the examiners at which the Senior Examiner goes through the marking scheme with the other examiners. Based on the feedback from the initial marking, the detailed marking scheme is finalised.

The marking of each examiner is closely monitored by a Senior Examiner during the marking period and sampling of marked answer books is carried out.

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 and other assessment experts. At the meeting a pass mark is set which should ensure that the standard of knowledge and skills required to pass the paper is comparable with that of previous papers. All candidates at or above the agreed mark will pass: the CII does not operate a quota system whereby only a fixed percentage of candidates can pass a paper.

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THE CHARTERED INSURANCE INSTITUTE

OCTOBER 2010

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. State **three** sayings of Prophet Mohamed (pbuh) that encourage the concept of Takaful. **(6)**

2. Explain why gambling is an uninsurable risk. **(6)**

3. Explain how the combination of social co-operation and rational behaviour represents the cornerstone of the concept of insurance. **(6)**

4. Describe the difference between Mutual Insurers and Assessment Mutuals. **(6)**

5. Define Zakat and explain how it supports the theory of insurance. **(6)**

6. From a technical point of view, Conventional and Takaful have the same four broad characteristics of insurance risks. Identify these **four** characteristics. **(6)**

7. Compare the terms ‘Acqela’ and ‘Qasama’. **(6)**

8. Prophet Mohamed (pbuh) said: ‘It is better to leave (i.e. after your death) your inheritants wealthy rather than leaving them poor and asking people for charity’.

Explain the objectives of this saying. **(6)**

Part II

Compulsory question
This question is worth 38 marks

9. ABC Islamic Insurance Company is based in Dubai. As per Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) financial accounting standards, ABC Islamic Insurance Company is due to prepare the company's set of financial statements for 2009.

Using the information below, prepare the ABC Islamic Insurance Company statement of financial position as at 31 December 2009. **(38)**

Item	**Debit (AED)**	**Credit (AED)**
Authorised & Paid up Capital	50,000	
Gross contributions		376,000
Acquisition cost	20,000	
Remuneration of ABC for managing insurance operations		94,000
Total policyholders' investment income		2,500
Reinsurers share of contributions	235,000	
Outstanding claims		7,000
Fixed assets (net)	10,000	
Other liabilities	1,000	
Investments	93,400	
Reinsurance Commissions		70,000
Paid Claims	35,000	
Cash & cash equivalents	26,900	
Development costs	2,000	
Unearned contributions	33,850	
Recovered claims from reinsurers	23,000	
ABC share for managing investments		300
Contributions receivables	10,300	
Outstanding claims-end of period	40,000	
Recoverable outstanding claims from re-insurers		32,000
Shareholders' investment revenue		4,000
General & Administrative expenses	90,000	

Additional information:

	AED
Zakah payable	2,000
Tax payable	1,500
Legal reserve	500
Dividends payable	1,000
Surplus distributed to policyholders	3,000
Amount of development cost amortized in 2009	400

Part III

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

10. Evaluate how Islam views profits in conventional commercial insurance as exploitative in nature.

In your answer, you must describe how moral hazards can contribute to exploitative profits and how Takaful can offer a relevant alternative. **(38)**

11. In the context of Shariah and Islamic contracts, define and evaluate the following:

- Riba
- Gharar
- Ghabn
- Jahala **(38)**

12. You are a keynote speaker at a conference. The title of your speech is “Musharaka: Sharikat Al-Musahamah”.

Prepare your speech by introducing the concept of Musharaka before evaluating how Sharikat Al-Musahamah is implemented in Islamic companies. **(38)**

13. Analyse the Sharia rules governing the Wakala Contract in the Islamic Law of Contracts. **(38)**

14. Define Cooperatives, identifying their main values, and the characteristics of a mutual insurance contract and explain how such a contract is operated within the context of Islamic Insurance and how surpluses and deficits are treated. **(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.

1. "The true believers in their mutual feeling of affection and mercy prevailing among them resembles just like one body, whenever any part of this body is afflicted with pain, all other parts will share and feel this pain".

"The example of one believer to another believer is just like a building whereby every part in it strengthens the other parts".

"Allah SW will always help His servant for as long as he helps others".

2.
- Gambling is a speculative risk,
- Involving three possible outcomes:
  - Loss
  - No change
  - Gain
- For a risk to be insurable there must be no opportunity for gain by the insured.

3. Under normal social conditions, there is a willingness to protect or to secure one's own interests against possible or probable accidents, misfortune or loss of wealth that may happen unexpectedly in future.

This willingness is leads to co-operation as it is shared with other people in the same society. No one separately or individually will be able to insure or to secure him or herself against possible accidents or financial loss etc.

The willingness to protect or to secure one's own interests against possible or probable accidents or loss in future and taking action with the others towards this end is expressing a cautious yet, more importantly, a rational human or social behaviour.

4.
- Mutual Insurers are typically for-profit organisations that are co-owned and operated by the policyholders, underwriting general insurances. Any profits (or resultant losses), are shared collectively by the policyholders.
- Assessment Mutuals are usually smaller than Mutual Insurers. Assessment Mutuals specialize in coverage of agricultural properties, underwriting "assessable policies". Such policies collect only minimal advance fees to cover operating expenses with additional amounts being assessed when needed.

5.
- Zakat is one of the five pillars of Islam.
- Zakat is an obligatory charity imposed upon every rich Muslim to purify the soul by spending on the poor and needy a percentage of his/her own earnings and wealth.
- Zakat is spent also to help those who may become heavily indebted because of accidents or sudden misfortune.
- Zakat embodies the concept of Takaful, which is the surety or solidarity to extend help to the one who becomes in need of help.

6.
- A large number of familiar loss exposure units of homogenous risks.
- Losses are definite, measurable and important - the insurer must have standards that serve as the basis for determining the value of loss in monetary terms
- Losses are fortuitous and beyond the control of the individuals or group(s) concerned
- The potential for catastrophic loss is unlikely

7. Acqela and Qasama both involve the payment of Deya. The Deya is an amount in the form of a compensation to be paid, in the event of unintentional killing, to the family of the deceased person.

In the case of Acqela, the Deya amount is collected from the killer's family (or tribe members, friends, neighbours) due to the killer's financial inability to pay the Deya amount.

Qasama only comes into place when the killer is not known. Here, the extended family of the deceased person (or tribe members) would divide the amount of Deya among themselves and pay it to the nearest relative(s) of the deceased person.

8. The saying is an advice to those who are supporting a family to take care towards protecting his family's future welfare after death.

This relates to the principle of rational behaviour which states that Roshd (or rational behaviour) should guide a person to take care to protect his or her interests and his family against possible risk or loss at present or in future.

This principle of rational behaviour strongly supports the concept of insurance.

9. ABC Islamic Insurance Company Statement of Financial Position
As at 31st December 2010

	(AED)
Assets	
Cash and cash equivalents	26,900
Investments	93,400
Contributions receivables	10,300
Fixed assets (net)	10,000
Development cost	2,000
Total Assets	142,600
Liabilities, Policyholders' equity and Owners Equity	
Liabilities	
Outstanding Claims	7,000
Unearned Contributions	33,850
Dividends Payable	1,000
Other liabilities	1,000
Zakah payable	2,000
Tax payable	1,500
Total Liabilities	46,350
Policyholder's Equity	42,850
Owners Equity	
Paid up Capital	50,000
Legal Reserves	500
Retained Earnings	2,900
Total Owners' Equity	53,400
Total Liabilities, Policyholders' Equity and Owners' Equity	142,600

10. Insurance companies would always be subject to “moral hazard” which companies face with “asymmetric information”, i.e. customers not giving full or accurate information about themselves or their cases when buying their insurance policies. This is just a minor example of why an insurance company would pursue exploitative profits for purposes other than maximising the shareholders’ interests. The problem of asymmetric information would be minimized or eliminated when the owners of the company are themselves those insured.

Islam has strong objections to adopting unethical methods for achieving profits. The question of ethics here is judged by Sharia. Hence it is objectionable to make a profit from any business, trade, or activity that is prohibited (haram).

For example, according to the Quran, it is not permissible to make profit out of wine (i.e. alcoholic drinks or drugs), pork and meat or poultry that are not compliant with the rules of Sharia. In Sunnah (the Prophet’s traditions) it is not allowed to make profit out of lending money, prostitution, or by claiming that you can foretell a person’s future.

It is also prohibited to make profit by raising prices in a monopolistic manner, by fraud, or by exploiting the unhappy events or circumstances that force the seller to accept unrealistic or unfair price.

Islamic business ethics also motivates people to be tolerant in their transactions and urges lenders to be merciful and patient in getting back their interest-free loans from borrowers. In general profits within Islamic ethics should be clean, non exploitative and always linked with real productive efforts.

On these ethical bases Islam objects to the exploitative nature of profits that are achieved by selling the insurance service. Islam does not exclude services from productive activities and restricts real production only to material products. Islam recognized the real productive nature of a wide range of services such as teaching, leasing houses or providing means to carry people or goods, or guarding houses or business etc.

With respect to conventional commercial insurance, the company would be realizing its underwriting profit by selling insurance policies for premiums paid those insured and its investment profit on the other hand by investing its financial resources. The company owners, who are the shareholders, are a separate entity from the insured persons.

The company would be able to fairly estimate, through available relevant information, financial losses or accidents that will most probably take place as a percentage of the total number of the insured group. The amount of the premium is determined by the operation of the law of averages as calculated by actuaries. Within this frame the company's job is to manage risk for all operations with the main target of maximizing its profit.

Insurance expertise is basically used in estimating probabilities of accidents and people's misfortune and in terms of actuarial calculations needed to maximize their profits. As such profits here resemble those realized by business involved in modern gambling. Commercial insurance though is not typically gambling but is almost dependent on gambling rules for realizing abnormal profits.

Islamic Sharia forbids gambling (Maiser) and is definitely against any kind of business that relies on practices that are similar to gambling or involves doubts that gambling is involved. Islamic Sharia also prohibits any practices that may lead to what is prohibited.

Thus under commercial insurance the rational motive of individuals to take care of their future life and protect their economic interests is exploited for sake of profit making. The principal factor that is needed for a successful production of the insurance service, which is social co-operation, is exploited for the sake of making commercial profit.

The moral values that are often mentioned to defend insurance on the basis of co-operation have been lost because a group of people, the share holders who own the insurance company are benefiting at the expense of all the others who seek the insurance service. Exploitation of this sort while it intensifies in a monopolistic insurance market would be relatively reduced in a competitive insurance market. Yet, it can never be eliminated unless the insurance company and the insured persons become one entity.

11. The word Riba, in Arabic language, literally means an “increment” or “addition”. In Islamic Fiqh the term Riba is equivalent to interest; Riba is an unjustified increment in borrowing or lending money, paid in kind or in money above the amount of loan, as a condition imposed by the lender or voluntarily by the borrower. Riba defined in this way is called in Fiqh “riba al-duyun” (debt usury). Accordingly, interest in any type is Riba.

To emphasize interest or Riba prohibition reference should be made to three Fiqh rules;

- (1st) A benefit gained from a loan is Riba a rule which is based on the ethics of Qard Al-Hassan (Benevolent or good loan) in Quran. And in Hadith of the Prophet (Pbuh) “the only reward for a loan is the thanks giving (i.e. to lender) and the repayment”.

- (2nd) “A Return versus a Guarantee”) which means that the capital owner has to choose either a “return” on his capital by sharing profit or loss, or a “guarantee” that his principal will be paid back intact. In the first case the capital owner is playing the role of investor and in the second he is a lender. An investor can not be a lender at the same time, or in other words a “return” can not accompany a “guarantee” on capital. If a combination is allowed the return obtained on capital is Riba,

- (3rd) “If gain is desirable Loss also should be acceptable ” which means that the capital owner will be entitled to “Profit” provided that he is ready to accept “loss” if this happened.

- Gharar means hazard or risk. Most Fiqh scholars define Gharar as a combination of the unknown and the doubtful. Gharar exists in contracts when the subject matter of exchange concerns probable items whose existence or characteristics are doubtful or not certain. For example Gharar exists in any sale, or deal that lacks fixation (or proper fixation) of price, quantity, quality or delivery date or time.

- Gharar can result from accepting speculative risk. In business rational behaviour requires risk aversion. Thus if risk or hazard, is deliberately ventured in any deal it changes its nature and makes it akin to gambling, which is forbidden in Islam.

- In conventional insurance contracts involves agreements on matters that may or may not happen and the insured person pays for buying the insurance policy in any way. If the person is subject to misfortune or the event that deserves getting indemnification the insurance company pays otherwise it gains whatever paid by the insured (akin to gambling).

- 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 unjustifiably 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.

- In insurance contracts, as in all other contracts, information concerning the subject matter of the service should be stated in clear cut manner to the contract's parties in order to avoid Ghabn. It can be said that Ghabn is unlikely to exist when full, and perfect information are available to everyone. In insurance business companies face "moral hazard", i.e. risk linked with uncertainty of the information delivered by the insured.

- Within frame of Islamic Sharia and ethical values, A true Muslim, when concluding a contract, knows that if any information is hidden with deliberate purpose to unduly benefit from the other party Ghabn is committed. Ghabn is not only a sin but it also might entirely invalidate the contract.

- To explain, Ghabn is divided by fuqaha into two kinds; minor and major Ghabn. Minor Ghabn, is a slight one and it would happen when the value of transaction is insignificantly fixed in favour of one party of the concerned exchange.

- Major Ghabn, that is a large one that takes place when the value of the concerned transaction is excessively fixed in favour of one party, which unfairly harms the other party and unduly inflicts loss upon him. It is major Ghabn which would surely invalidate a contract or renders compensation necessary.

- Literally, Jahalah means ignorance. In contracts it means loss or absence or serious imperfection of information concerning the subject matter of the agreement or its terms. It renders the contract void.

- It should be noticed that ignorance is directly or indirectly an important source of Gharar and Ghabn. Elimination of Jahalah means that parties of the contract have to be aware of all conditions and obligations that it includes. In modern Islamic companies when contracts are readily pre-repaired and printed in standard forms, a person who is willing to join the company should read and understand all details of the contract, which must be clear, transparent and set within Sharia boundary.

- The standard contract is in fact "an offer" presented by the business entity and once it is signed it means that this offer has received "acceptance". From this moment the contract becomes effective and mandatory to both parties and the person who joined the company by signing the contract cannot claim ignorance of his (her) obligations.

12. Musharaka

Musharaka means Partnership. Musharaka can generally be defined as: "Partnership of two persons, or more, to mix wealth, funds, labour or profession, in different or equal shares, and jointly carry trade, business, or any economic activity for purpose of achieving Profit within boundaries of Islamic Sharia".

Sharikat Al-Musahamah

This is the Joint-Stock company which is of limited liability. Capital resources will be formed primarily by issuing shares. The joint-stock company has an independent juristic entity through its incorporation by law in such a way that it cannot avoid its obligations to people dealing with it.

This separates the liability of the company from the liability of its shareholders (the co-owners) and also establishes for it a separate legal capacity as required for necessary legal arrangements, irrespective of the legal capacity of the shareholders. By definition, a joint stock company is entitled to initiate legal claims through its representative. It is subject to the jurisdiction of the place of its incorporation.

This form of corporation was unacceptable to Muslim fuqaha (jurists) till the 1970s, because of its independent juristic entity and limited liability character. However, in the 1980s, some renowned Muslim jurists ratified this company, a matter that allowed for its approval and endorsement among Islamic companies.

The company should be involved only in activities that are permissible by Sharia, should not resort to interest-based borrowing whether by issuing bonds or by borrowing from banks and should avoid any Sharia prohibited practices in its transactions.

For the purpose of establishing an Islamic insurance company, the limited liability joint stock company, on legal and economic grounds, is the most suitable in our time.

Main Sharia Rules concerning Sharikat Musahamah in Modern Islamic Fiqh:

(a) It is a form of Sharikat Al-Amwal, i.e. Company based on partnership in Capital

(b) Its capital is divided into equal units of tradable shares.

(c) It is not permitted to issue preference shares.

(d) Any shareholder is a co-owner with all other shareholders in the company and his liability is limited to his share in the capital.

(e) Although decisions in the general assembly are taken by majority vote, every shareholder is held responsible for these decisions. If a shareholder is not giving his (her) vote for the decisions he (she) has to declare his opposition. Thus attending the general assembly of the company is a Sharia responsibility.

(f) This type of company cannot be unilaterally terminated by one party or a minority of its shareholders as possible in traditional Islamic companies.

(g) It is not permitted for someone to sell shares that he does not own and the promise of a broker to lend the shares to him at the date of delivery does not constitute ownership or possession of the shares.

(h) It is permissible to sell shares in the company subject to rules and regulations of the company that do not conflict with Islamic Shari'a such as pre-emptive rights of the existing shareholders to purchase the shares.

13.

- 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 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 wage or salary on regular bases 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". On the other hand "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 cannot 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 cannot 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. Thus the Agent when carrying an investment or trade for the Principal has to seek the best investment opportunities, best possible market values in trade, secured deals, and best modes of payment.
- An agent who acts in a manner that harms the Principal's interest or turns benefits that accrues from 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.
- The Principal (Muwakil) and the agent (Wakeel) have equal rights to withdraw from a Wakala agreement by giving agreed upon notice. If there is no notice clause in the agreement, Wakala can be terminated at any time.

14. A Cooperative is an independent association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-run organisation”.

The main values of co–operatives are:

- Self-help, self-responsibility
- Democracy, equality, equity
- Solidarity
- Honesty, openness
- Social responsibility, caring for others.

Mutuality or co-operative risk sharing is at the core of Islamic insurance but it cannot alone create an Islamic insurance operation. Islamic insurance is based on more than one contractual relationship: the relationship between the Takaful Operator and the policyholders and the relationship between policyholders themselves.

The latter is a mutual insurance contract similar to a pure mutual insurance relationship, taking into consideration the concept of donation (Tabarru) instead of premiums and an ethical framework of Islamic transactions. The main logic behind co-operative insurance is that Tabarru or donation eliminates possibility of Gharar and other the prohibited elements.

The main characteristics of such a contract are summarized below:

- Policyholders pay premiums to a co-operative fund with the intention of it being a donation to those who will suffer losses (Tabarru)
- Policy holders are entitled to receive any surplus resulting from the operation of the co–operative insurance fund
- Policy holders are liable to make up for any deficit that results from the operation of the co–operative insurance fund
- The amount of contribution (premium) differs from one participant to another based on the degree of risk in general insurances and actuarial principles in life assurance

(A) Surplus treatment
(i) Distribution of the surplus to all policy holders
Under this method all policyholders are entitled to get a proportion of the surplus (if any) whether they made claims during the financial year or not. The surplus will be shared proportionally based on the premium (contribution) paid to the mutual fund.

(ii) Distribution of the surplus only to policyholders with no claims
This method only allows surplus to the policyholders who did not make any claims during the financial year in question. The logic behind this method is similar to that used in a no claims bonus scheme in conventional insurance. A proportional basis is used but only among the policyholders with no claims during the year. Some practitioners have criticised this method because it is against the principle of equity and the aim of co-operation.

(iii) Distribution of the surplus to all policy holders based on the net result of each policy holder
This method mixes the rationale of the two previous methods. It allows all policyholders to share the surplus proportionally based on the underwriting result of each of the policyholders (premiums–claims). This method would appear to be the most equitable.

(B) Treatment of the deficit
A deficit is the situation where the insurance fund falls short of meeting liabilities: in technical terms when the loss ratio is more than 100%. The principles of co–operation are based on the liability of policyholders for any deficit, regardless of who received and who did not receive any claim payments during the financial year in question.

There are two different methods to implement this principle in practice. These are summarised below.

(i) Call for money from the participants
Under this method the insurance company calls for money from the participants at the end of the financial year. This is regardless of whether they made claims or not during the financial year (or from policyholders reserves (if any)).

(ii) Shareholders providing a loan to the company
Under this method the shareholders will provide the money needed to finance the deficit as an interest free loan (Qardh Hassan (Qard Hasan), and they may collect the repayment of their money either through:

- Increasing the premiums (contributions) in the next year(s) or
- Using the next year(s) surplus (if any)

The contract between the shareholders and policyholders to finance the deficit by giving (Qardh Hassan), is called a Kafalah (Sponsorship) contract. The method of handling the surplus and deficit must be stated in the insurance policy at the inception of the insurance contract.