

Gulf University for Science & Technology
Islamic Banking and Finance (FIN 351)
3rd Midterm Exam, Spring 2014/15
Tuesday, 22nd Dec., 2015

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True/ False

(A = True & B = False on scantron sheet)

- 3 1. Mitigation of risk while carrying out commercial activities is not permissible in Islam. F
- 4 2. Premiums paid by takaful policyholders are considered as donations towards the common cause to assist those members who suffer any loss. T
3. Islamic law restricts the role of the insurance company to merely an operator who is appointed to manage the portfolio and invest the insurance contribution for and on behalf of the participants. T
4. There are two main parties in the conventional insurance: the insurance company and the operator. F
5. The parties in takaful are many and the participants insure one another against any loss and this is carried out mutually. T
6. The Takaful operator manages the investment activities of the Takaful fund through Mudarabah contracts only. F
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7. The Hybrid model includes Mudaraba and Musharaka. F
8. In conventional insurance the underwriting surplus belongs to policyholders. F
9. In Takaful insurance the underwriting surplus is used to pay back debts and build reserves. T
10. Through Tabarru contracts we avoid the Gharar element in Takaful insurance. T
11. Two-tier structure is used when the Takaful is used for commercial purpose. T
12. The Takaful operator provides Qard Hassan to the Takaful fund whenever the need arises. T
13. The Takaful operator manages the investment activities through Musharakah contracts. F
14. The Hybrid model includes Mudaraba and Wakala. T
15. Most of the time the underwriting activities are done by the TO through Wakala contract. T
16. Takaful Operator is a company owned by shareholders. T
17. Malaysia was the first country to establish a Takaful firm in 1970's. F
18. In contrast to the Anglo-American model of corporate governance, the Franco-German model emphasises the interests of the shareholders. F
19. The Franco-German model incorporates the interests of shareholders and non-shareholders but with more emphasis on the non-shareholders who are considered as the stakeholders. T
20. The Anglo-American model is closer and of more relevance for Islamic finance as it aims to align management's interests with shareholders' interests. F
21. Under the Islamic paradigm of corporate governance only selected stakeholders such as executive management are able to serve on the Sharī'ah supervisory board to ensure transparency, accountability, fairness, and mutual consultation. F
22. Accountability in business transactions includes true and fair disclosure and transparency so that the interests of all stakeholders, particularly management and employees, will be protected. F
23. IFSB and AAOIFI standards are intended to guide conventional, as well as Islamic financial institutions across the world, to be more competitive. F
24. The role of corporate governance in Islamic financial institutions includes establishing a harmonious relationship among the shareholders, board of directors, management, stakeholders, and, above all, with God. T

25. Shari'ah governance and corporate governance are so close and cannot be separated in an Islamic corporate entity. **T**
26. The primary objective of Shari'ah audit in corporate governance is to ensure the compliance of Islamic financial institutions with the Shari'ah board verdicts. **T**
27. The Shari'ah system of governance was introduced to replace the corporate governance of conventional financial institutions. **F**
28. The institutionalisation of Shari'ah governance in Islamic financial institutions is carried out through *hisbah* and collective *ijtihad* models. **T**
29. The function of the Shari'ah supervisory board is linked to its advisory role in ensuring Shari'ah compliance of new products. **T**
30. Diverse approaches for corporate governance in IFIs are adopted in different jurisdictions. **T**

Multiple Choice

31. Which ONE of the following BEST describes the two-tier structure of a General Takaful undertaking?
1. The structure consists of underwriting and investment funds which belong to the policyholders
 2. The structure consists of funds which belong to the policyholder and a company with share capital manages the underwriting fund
 3. The insurance operator can manage the capital backing for the fund's structure either on a Murabaha basis or Wakal basis
 4. The insurance operator always has to segregate the policyholders' funds from its own fund
32. Which ONE of the following statements explains the technique used in Takaful to avoid Gharar?
- A/ The owners of the Takaful company are policyholders.
 - B/ Policyholders donate their premium to the Takaful company.
 - C/ The owners manage themselves the Takaful company.
 - D/ The funds of the Takaful company are invested in non-interest bearing assets
33. Which ONE of the following statements concerning the utilization of the underwriting surplus of a Takaful company is FALSE?
- A/ The surplus is used to build up reserves.
 - B/ The surplus is distributed to the policyholders.
 - C/ The surplus is used to re-pay Takaful loans.
 - D/ The surplus is used to pay the management fees.
34. How will the underwriting surplus be applied?
- I/ to repay Qard Hassen from operator
 - II/ to build up reserve
 - III/ to distribute to participants
- A/ I and II
 - B/ I and III
 - C/ II and III
 - D/ I, II and III

35. Which of the following relate to Islamic insurance contract?

- I/ Tabarru'
- II/ Qard Hassen
- III/ Wakala
- IV/ Mudaraba

- A/ I and II only
- B/ II and III only
- C/ I and III only
- D/ II and IV only
- E/ I, II, III and IV

36. Major definitions of corporate governance are given by:

- a) Organization for Economic Corporation and Development (OECD)
- b) International Chamber of Commerce (ICC)
- c) the Cadbury Report
- d) all of the above

37. The following are common features shared by the majority of corporate governance definitions EXCEPT:

- a) a system of relationships defined by structures and processes
- b) relationships with different and in some cases contrasting interests
- c) stakeholders, by and large, play a passive role in the direction and control of the company
- d) rights and responsibilities are properly distributed among the stakeholders

38. _____ defined Corporate Governance to be "a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined".

- a) Organization for Economic Corporation and Development (OECD)
- b) International Chamber of Commerce (ICC)
- c) the Cadbury Report
- d) none of the above

39. The Anglo-American model accomplishes its scheme through a number of mechanisms such as:

- a) shareholder representation on the Board of Directors
- b) manager compensation scheme
- c) external market discipline
- d) all of the above

40. Which one of the following models tends to emphasise the stakeholder-value system?

- a) the Anglo-American model
- b) the middle Eastern model
- c) the Franco-German model
- d) the Southeast Asian model

Fill the Blanks

1. In Takaful, the contributions of the insured to the Takaful underwriting fund are made with the intention of sale contract. donation
2. Under two-tier Takaful structure the Takaful underwriting fund will be managed by operator
3. Whenever there is deficit in the underwriting fund, the Participant provides back-up capital.
4. There are 3 possible legal models that organize the relationship between TO and Takaful underwriting fund:- Pure Mudaraba model, pure Wakala model, and Combined model.
5. In Takaful the underwriting surplus belongs to policyholders.
6. The Islamic insurance/ Takaful functions on two-tier structure to separate the underwriting fund from the Takaful operator's fund.
7. The first Islamic insurance/ Takaful company was established in 1979 in Sudan.
8. Corporation is a legal entity that is separate and distinct from its owners. Corporations enjoy most of the rights and responsibilities that an individual possesses; that is, a corporation has the right to enter into contracts, loan and borrow money, sue and be sued, hire employees, own assets and pay taxes. The most important aspect of a corporation is limited liability.
9. Corporate Governance is a system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.
10. Guiding Principles: IFSB-10 for Shari'ah Governance Systems for Institutions Offering Islamic Financial Services was issued by IFSB in 2009.