

PGDM-IBM, 2020-22
Sub.: Principles of Insurance
Paper Code: INS-103
Trimester-I, End Term Examinations: October-2020

Time Allowed : 2½ hrs.

Roll No.: _____

Marks: 50

Instruction: Students are required to write Roll No. on every page of the question paper. Writing anything except the Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously.

| Sections | No. Of Questions to attempt | Marks | Total Marks |
|----------|--|-------------------------|-------------|
| A | Minimum 3 question with internal choices and CILO (Course Intended Learning Outcome) covered Or Maximum 6 questions with internal choices and CILO covered (as an example) | 3*10 6*5 | 30 |
| B | Compulsory Case Study with minimum of 2 questions | 20 | 20 |
| | | | 50 |

Section A

A1. (a) Gloria Eun Hye Lee, 36, owned the Prince and Princess Pet Boutique in Las Vegas. Lee and her husband were facing huge financial problems and were bankrupt. In an attempt to resolve the situation, Lee and her boyfriend, Kirk Bills, attempted to burn down the store and use her insurance money. However, the security cameras in the store captured the event and foiled her attempt at insurance fraud. Fortunately, the sprinklers doused the flames and no animals were killed. Lee was tried and was given a sentence of 5 to 14 years. Explain which of the requirements of an insurable risk are met and which are not met by the arson peril? (5 Marks) (CILO1)

A1. (b) AOL Company is an oil and gas company, operating in Southeast Asia. The management decided to expand its commodity-based business to countries in Asia and Europe. What types of risk may be faced by the company? What are the techniques that can be used to manage those risks? (5 Marks)

Or

A1. (a) Sarah works in a small local company. She owns a small apartment on the third floor and has several goods in her apartment (clothes, computer, tablet, smartphone, TV set, etc.) worth €20,000. She has an old bike, which she uses to commute to the work (she has to pass a small forest) as well as for recreation purposes. However, she likes riding quite fast and, from time to time, she hits pedestrians. She has enough money to buy a new bike, but in the past three of her bikes were stolen. She loves bubble baths and watching soap operas. Unfortunately, she is impatient—while preparing a bath, she usually watches TV and sometimes she forgets to turn the tap off after the tub

is full. For each of the following risks or loss exposures, identify an appropriate risk management technique that could have been used to deal with the exposure. (5 Marks)

Explain your answer

- a. Theft of her bike
- b. Flooding of Sarah's apartment and the ones downstairs because she left the water running in the bathroom
- c. Liability lawsuit against Sarah arising out of hitting a pedestrian while riding a bike
- d. Total loss of clothes, TV set, computer, tablet, and other personal goods because of burglary
- e. Damaging the bike's tire in the forest f. Bike's failure resulting in falling down and physical injury

A1. (b) If risk is distasteful, how do you account for the existence of gambling, a pastime in which the participants indicate that they obviously prefer the risk involved to the security of not gambling? (5 marks)

A2 (a) Mr M made a claim under his household policy for possessions stolen after burglars gained access to his home by kicking in a panel in the back door. The insurer accepted the claim, and had the door replaced by one of its approved contractors. At the next renewal of the policy, Mr M completed a questionnaire for the insurer in which he confirmed that external doors had "a mortise deadlock and security bolts or a key operated locking system". Shortly after the renewed, Mr M suffered a second burglary when entry was again gained by kicking in a rear door panel. The insurer discovered that the door did not have security bolts or a key operated locking system. As a matter of law, the insurer was entitled to avoid the policy on the basis of the misrepresentation. It refused to pay Mr M's claim. The court instructed the insurer to meet the claim. Explain the reason for the same. (5 marks) (CILO 2)

A2. (b) ABC Insurance sells a property insurance policy to 123 Shopping Centre for Rs 10,00,000. Bakery XYZ is a tenant in the 123 Shopping Centre. One day, some bakery employees make a mistake with the ingredients and create an explosion. They cause Rs 400,000 of property damage. 123 Shopping Centre files a claim with ABC Insurance to get money for repairs. Will insurance company liable to pay money? Yes, or no. Will the principle of subrogation apply in this case? Justify (5 marks)

Or

A2. (a) You are in a store, and the item you want to buy is in an aisle that is blocked with a sign that says, "slippery floor—stay off floor." You decide to reach to get your item, which is close to arm's length away. As you reach, your feet move into the aisle, and you slip and fall, injuring your hip. You are hospitalised for 15 days and due to food provided by the hospital, you developed stomach infection. At the time of discharge, Insurance Company denied the claim under health Insurance. As a claim manager, find the proximate cause of claim. Will the claim be paid or not ? (5 marks)

A2. (b) you are playing catch, and your ball goes over a fence onto someone else's property. The fence is locked, and a sign says, "Do not enter; ring bell." You ring the bell, and the owner opens the

gate for you, inviting you to his property. You explain you lost your ball. The owner tells you to wait by the gate while he retrieves your ball “because the yard is not safe.” The owner starts going to retrieve the ball, walking in a strange pattern across his yard. You become impatient and decide to follow him. You walk onto the grass and, within seconds, notice that your feet are bleeding because there is glass all around. The owner knew the glass was there and didn’t tell you.

Question : whether the owner’s actions proximately caused your injuries, since he warned you that the yard was dangerous and that you should wait while he got the ball OR not? (5 marks)

A3. (a) What is the effect of an increase in the number of observations in a sampling technique on: a. the underlying probability of the event b. our estimate of the probability c. the standard deviation(5 marks)

(b) You are an underwriter for ABC Insurance. You received a life insurance proposal for medical insurance with premium payment. The prospect disclosed that he had undergone surgery to correct a cataract. As an underwriter, what would be your decision with respect to the case? (5 marks) (CLO 3)

Or

A3. (a) Angelique has a small plane. Its replacement cost is £150,000. She wants to insure it in a local company (Insurer A), as she owns some stocks in this company. However, this insurer covers planes with a maximum limit of £100,000. Her insurance broker advises her to place another £50,000 with a second company (Insurer B). The broker also mentions that she has three options of provisions to use: pro rata liability, contribution by equal shares, and primary and excess insurance. Since she can make some profits on her stocks, she opts for the cheapest solution from Insurer A. How would you advise her, taking into account partial loss of £75,000? Explain your answer(5 marks)

A3. (b1) Assume that an applicant for health insurance tells the agent of a health problem, and the agent assures the applicant that the health problem does not have to be stated in the application. The insurer could be estopped from denying benefits on the grounds that this information was not included in the application. Which provision under the Contract is applicable and why ? (3 marks)

(b2) Joseph applies for life insurance and states in the application that he has not visited a doctor within the last 5 years. However, 6 months earlier, he had surgery for lung cancer. In this case, he has made a statement that is false, material, and relied on by the insurer. Therefore, the policy is voidable at the insurer’s option. If Joseph dies shortly after the policy is issued, say 3 months, the company could contest the death claim on the basis of a material misrepresentation. Justify the stand of the insurance company with relevant provisions. (2 marks)

Section B

Case Study Compulsory

Case 1

Home Owner's Failure To Cooperate Yields Denied Claim Insight

The case is *Joseph v. State Farm Fire & Cas. Co.*, 2013 U.S. Dist. LEXIS 24511 (Feb. 22, 2013). In March 2009, Namon Joseph applied for and was issued a homeowner's policy with State Farm covering a residence in Sunbury, Ohio. In August 2010, a fire destroyed the residence, after which Joseph submitted a claim. Suspecting arson based on evidence that an accelerant was used to start the fire, State Farm investigated. It began inquiring into Joseph's financial condition and requested him to provide a number of financial records including tax returns. Joseph failed to provide the requested financial documentation. State Farm eventually discovered that, at the time of the fire, Joseph owed the IRS \$391,000 in back taxes. The insurer ultimately concluded that the house fire was the result of arson and that Joseph had a financial motive to start the fire. State Farm denied the claim due to Joseph's lack of cooperation in the investigation. State Farm also took a further look at Joseph's insurance policy application and discovered numerous misrepresentations including false statements that Joseph had no prior claim history and that Joseph failed to disclose that a previous insurer had cancelled his policy. Based on these and other misrepresentations, State Farm cancelled the policy. Joseph sued State Farm, alleging breach of contract and bad faith. The court, however, ruled in favour of State Farm, explaining that State Farm was justified in denying the claim based on Joseph's lack of cooperation. An insured is required to cooperate with an insurer in its investigation of a loss as a condition precedent to coverage. Joseph's failure to cooperate was a breach of the policy on his part, thereby precluding coverage for the loss. Likewise, the court agreed that State Farm was justified in voiding the policy based on Joseph's material misrepresentations on his insurance application.

Questions :

Can a federal court in Ohio deny the claim on the basis that the insured failed to cooperate with his insurer's investigation? The court also ruled that misrepresentations on the home owner's insurance application voided the policy. Discuss the misrepresentation done by insured. If it is innocent misrepresentation can claim be paid. (10 Marks)

Case 2 :

Will Your Auto Insurance Cover You When You Drive Another Person's Car?

Sharing cars with people is quite common. Students across the world often drive cars that may belong to their parents, their roommates, or other friends. Many employees make use of cars owned by their employers or the company they work for. We must first understand the functions of third-party liability auto insurance and then examine the definition of "insured" that applies to this kind of coverage. The second issue to be considered is legal rules, which could differ between countries. The primary use of auto liability insurance is to provide financial protection against physical damage and/or bodily injury resulting from traffic collisions and against liability that could

also arise there from. In such cases, both parties—a victim and a party responsible for the damages—are protected. The first one can count on compensation for the damages while the second avoids the problem of paying compensation, which could be a large amount and prove to be beyond their financial capacities. Owing to these elements and their social importance, auto liability insurance is usually compulsory. As it is obligatory, it has to be introduced to legal system by official acts – and finally, the specific terms of vehicle insurance vary with legal regulations in each region. However, we should emphasise that the basic scope of cover, which is the most important, is to protect injured entity. Thus, in most legal systems, the scope of cover is as wide as possible. Depending on legal systems we could find detailed definitions of insured or insured peril. For example, “Insured” could mean “You or any family member for the ownership, maintenance or use of any auto or trailer.” Insured peril could be defined as “the subject of auto third party liability insurance is the legal liability of any person, which is driving a motor vehicle during the policy period and caused damage in connection to the movement of this vehicle.” Due to these solutions, if the car’s owner has auto liability insurance, almost each and every person who drives the car is protected. Thus, usually each driver is “insured” under the vehicle owner policy. It includes, but is not limited to the vehicle owner, family members, friends or roommates, employees, and other persons driving the car with or even without owner’s permission (usually, if somebody drives a car without owner’s permission and makes a damage, insurer after paying a claim has the right of subrogation against this driver). Tim Jones owns a car and was driven by Bob while going to Arizona from New York. In between they met with an accident with a trailer. Both were badly injured including the driver of the trailer.

Questions :

Will your auto insurance provide liability coverage when you drive another person’s car? Are they covered under your policy? What about a situation where somebody drives your car without permission? Who was named Insured. Can Bob be included as other insured? (10 marks)

