

Trimester – I, End – Term Examination: September 2016

Time allowed : 2 Hrs 30 Min

Max Marks : 50
Roll No : -----

Instruction : Students are required to write the Roll No 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.

SECTION A

Answer any 3 out of 5 questions below:

1. (a) What's your understanding of the "Principal –Agent problem" in insurance? [3]
(b) Give instances of such problems arising in life and general insurance. [2]
2. (a) What is meant by "cost of benefits" for an insurance product? [3]
(b) What's "mortality"? [1]
(c) What's a "mortality rate"? [1]
3. (a) Define the meaning of underwriting. [2]
(b) Briefly explain the basic principles of underwriting. [3]
4. Explain how a coinsurance clause in property insurance works.
- 5.(a) What is the meaning of "named insured." [2]
(b) Can other parties be insured under a policy even though they are not specifically named?
Explain your answer. [3]

SECTION . B

Answer any 2 out of 3 questions below:

- 1(a) "Life Insurance rate making can be compared to a three-legged stool".
Elucidate with examples. [7]
(b) How does the " level premium pricing system" operate in life insurance? [3]
2. Jake borrowed \$800,000 from the Gateway Bank to purchase a fishing boat. He keeps the boat at a dock owned by the Harbor Company. He uses the boat to earn income by finishing. Jake also has a contract with the White Shark Fishing Company to transport tuna from one port to another

Do any of the following parties have an insurable interest in Jake or his property? If an insurable interest exists, explain the extent of the interest.
 - a. Gateway Bank
 - b. Harbor Company
 - c. White shark fishing Company

Q.3. Building in flood zones are difficult to insure by private insurers because the ideal requirements of an insurable risk are difficult to meet. Explain Why ?

SECTION . C (CASE STUDY)

Case 1 :Several types of risks are present in the U.S. economy. For each of the following, identify the type of risk that is present. Explain your answer. [6]

- a) The Department of Homeland Security alerts the nation of a possible attack by terrorists.
- b) A house may be severely damaged in a fire.
- c) A family head may be totally disabled in a plant explosion.
- d) An investor purchases 100 shares of Microsoft stock.
- e) A river that periodically overflows may cause substantial property damage to thousands of homes in the floodplain.
- f) Home buyers may be faced with higher mortgage payments if the Federal Reserve raises interest rates at its next meeting.
- g) A worker on vacation plays the slot machines in a casino.

Case 2 : Stephanie owns a small warehouse that is insured for \$200,000 under a commercial property insurance policy. The policy contains an 80 percent coinsurance clause. The warehouse sustained a \$500,000 loss because of a fire in a storage area. The replacement cost of the warehouse at the time of loss is \$500,000. (6)

- a. What is the insurer's liability, if any, for this loss? Write out your calculations.
- b. Assume that Stephanie carried \$500,000 of property insurance on the warehouse at the time of loss. If the amount of loss is \$10,000, how much will she collect?
- c. Explain briefly the theory or rationale of coinsurance in a property insurance contract.

Case 3 : An employee considered terminating employment. When he asked his employer about health insurance coverage if he quit his job, he was told that his group health insurance plan (which included major medical insurance) could be converted to identical individual Coverage. The coverage would also apply to his wife and children. The employee converted the coverage and quit his job. Shortly thereafter, his wife gave birth to a child who was born with a serious medical condition. When the former employee sought Reimbursement of the child's medical expenses, he learned that the conversion policy did not include major medical insurance. He brought suit against the former employer. Will his suit be successful? (3)