

PGDM (Insurance Business) 2014-16
Principles of Insurance
INS-103

Trimester – I, End-Term Examination, September, 2014

Time allowed: 2½ Hours

Max Marks: 50

Roll No: _____

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**. In case of rough work please use answer sheet.

Note : - *Please be relevant and brief in your answers.*

- *Section C is compulsory.*

- *Do not write anything on this question paper except your roll no.*

Section-A

There are 5 questions in this section. Attempt any 3 questions. Each question carries 5 marks.

- A-1. (a) Contrast physical hazard with moral hazard. Provide an example of each. (3)
- (b) What is the difference between peril and hazard. (2)
- A-2. (a) Ram has recently retired from service. He does not want to take risk with his VRS funds. He wants to have safe, guaranteed and fixed returns from his VRS fund investment. Suggest a suitable Policy which Ram should take from life Insurance Company. (3)
- (b) Certain requirements ideally should be fulfilled before a pure risk can be privately insured. Explain six requirement of an insurable interest. (2)
- A-3. (a) How does the principle of subrogation supplement the doctrine of indemnity? (3)
- (b) What is the fundamental purpose of coinsurance clause? (2)
- A-4. (a) Define the term "Conditions". (2)
- (b) Explain the following legal characteristic of insurance contracts (3)
- a. Aleatory contract
- b. Contract of adhesion
- A-5. (a) Explain the capital retention approach for determining the amount of life insurance to own. (5)

Cont./2-

Section-B

[Note: Answer 2 out of the 3 Questions below. Each Question carries 10 marks.]

B-1. (a) Jim, age, 32 purchased a Rs 3000000 five year renewable and convertible term insurance policy. In answering the health questions, Jim told the agent that he had not visited the doctor within last five years. However, he had visited the doctor two months earlier. The doctor told Jim that he had a severe heart problems. Jim did not reveal this information to the agent when he applied for life insurance. Jim died three years after the policy was purchased at that time life insurer discovered the heart ailments. Explain the extent of the insurer's obligation, if any, with respect to payment of the death claims. (5)

(b). Jake borrowed Rs 800000 from the Gateway Bank to purchase a fishing boat. He keeps the boat at a dock owned by the Harbour Company. He use the boat to earn income by fishing. Jake also has a contract with the white shark Fishing company to transport tuna from one port to another. (5)

a. Do any of the following have insurable interest in Jake or his property? If an insurable interest exists, explain the extent of interest.

1. Gateway Bank
2. Harbour Company
3. white shark fishing company

b. If Jake did not own the boat but operated it on behalf of the white shark fishing company, would he have insurable interest? Explain

B-2. (a) Additional riders and benefits often can be added to a life insurance policy to provide greater protection to the insured. Describe each of the following riders and options: (5)

- a. Waiver- of premium provision
- b. Guaranteed purchase option
- c. Double indemnity rider
- d. Cost of living rider
- e. Accelerated death benefit rider

(b) A drunk driver ran a red light and smashed into Kristen's car. The cost to repair car is Rs 800000. She has collision insurance on her car with a Rs. 50000 deductible.

Can Kristen Collect from both the negligent driver's insurer and her own insurers? Explain your answer. (5)

Cont./3-

B-3. The property account within your insurance company has recently suffered a significant increase in claims, including thefts from retail premises in central city locations and floods in residential properties. To address this issue, you are proposing a review of the system for classifying and categorising risks so that, where appropriate, a suitable premium can be established. (10)

Question

Discuss the stages for classifying and categorising risks within the property account and analyse what other internal and external data should be considered when pricing a risk and establishing an appropriate premium.

Section-C

Case Study

15 Marks

A broker submits an application for homeowners insurance to an insurance company on behalf of a client. The broker is unaware that although his client is the registered owner of the property to be insured, the insured has neglected to report that the home is being used to house a catering business. This means that the client has failed to disclose information on the insurance application.

- (a) If you are the underwriter on this risk and it comes to your attention that the insured is operating a catering business from the home, what issues should you consider when you discover the actual facts about the use of the insured home?
- (b) A kitchen fire occurs, before the insurer discovers the commercial use of the home. The damage is significant. You are the adjuster assigned to this claim. When you become aware that the insured had not disclosed the information to the insurer about the use of the home, what should you do to protect the insurer's interest? What are the consequences of not taking the proper steps to protect the insurer's interest? Explain fully