PGDM (Insurance Business, 2016-18)

Reinsurance

Code:- INS - 406

Trimester – IV, End-Term Examination, September - 2017

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.

Part-A

Attempt any 3 questions. Each question carries 5 marks. No answer should have more than Two Hundred Fifty words.

A 1 Differentiate between Per Risk and Per Event Reinsurance

A 2 Explain Stop Loss and Aggregate Excess of Loss Reinsurance

A 3 What are the factors which influence retentions

A 4 Explain and differentiate between the terms "FGU" and "UNL" in the context of Loss.

A 5 "Reinsurance protects the Reinsured." In light of the statement, describe the functions of Reinsurance.

Part-B

Attempt any 2 questions. Each question carries 10 marks. No answer should have more than Five Hundred words.

B 1

A

Calculate Excess of Loss Recovery from an EOL Treaty cover which pays 95% of $ 500,000 Xs $ 400,000 from the following data:-

Contd/.-2-

Date of Loss	Loss $	Per Risk / Per Event
08.05.2016	300,000.00	any one risk
06.07.2016	400,000.00	any one risk
12.09.2016	600,000.00	any one risk
09.11.2016	1,000,000.00	any one risk
10.12.2016	1,500,000.00	any one risk

B

The Sum Insured of a Factory Premises is 60,000,000/- and there are two insurer involved in their Insurance Programme with equal shares. The Reinsurance Programme of both the Insurers are as under:-

All the figures are in US $

Insurer A: 9 Line Surplus Treaty with the retention of 3,000,000/-

Insurer B: Excess of Loss Programme 27,000,000 Xs 3,000,000

Policy Period: 01.01.2016 to 31.12.2016

All the losses happened in the Policy Period, the details are as under:-

Loss 1 4,500,000

Loss 2 7,000,000

Loss 3 10,000,000

You need to calculate the liability of each Insurer with their recovery from respective reinsurers.

B 2

A

An Insurance Company has ended its Financial Year as on 31.03.2017. You are the Reinsurance Trainee in the Company and your Manager has assigned you the task to compute the P.C. Calculation. The details are given below:-

Contd/.-3-

Treaty Year 01.04.2016 to 31.03.2017

R/I Premium Ceded	48,000,000
R/I Commission	25%
Claims Paid	19,000,000
Taxes and Charges	28,000
Claims Os	13,800,000
M.E.	12.50%

The other terms of the Treaty are given below:-

Portfolio Entry & Protfolio Withdrawal	%age
Premium	35%
Losses	90%

The details of last Financial Year ended on 31.03.2016 is given below:-

Premium	50,000,000
Losses Os	15,000,000

Last Four Year Profits are given below:-

31.03.2016	11,000,000
31.03.2015	8,000,000
31.03.2014	2,000,000
31.03.2013	(19,500,000)

You need to calculate the Profit Commission @ 22.50% and Profit Commission Clause under Treaty specify that: "Profit Commission is calculated on the Average of 5 Year Profit of the Insurance Company."

B

XYZ Insurance Company has taken the Combination of Quota and Surplus Treaty and the details are given below:-

Contd/.-4-

Line of Business	Fire
Quota Capacity	5,000,000.00
Quota Share Retention	20%
Quota Share Cession	80%
Surplus Treaty	9 Lines

The details of the risk is given below:-

Sum Insured	95,000,000.00
Loss	19,500,000.00

The Company has taken the Facultative support for the S.I. which exceeds to the Treaty Capacity. You are required to apportion the loss into Quota Retention, Quota Cession, Surplus and Facultative.

B3

Explain any four Clauses from the following:-

Operative Clause

Commencement and Termination

Provisional Notice of Cancellation

Access to Records: Inspection by Reinsurer

Set off Clause

Accounting Clause

Contd/.-5-

Part-C

Case Study: Compulsory question. **Carries 15 marks. (12+3)**

An insurance company writes Fire Line of Business up to a maximum any one risk of US $ 1,100,000. It has an annual gross premium income of US $ 28,000,000 with 17.85% expense ratio and 15% commission ratio on gross premiums. It currently has in force 75% Quota share treaty with 28.50% ceding commission. You are the Reinsurance Manager and are considering switching to a risk excess of loss contract of US $ 1,200,000 xs US $ 300,000 with unlimited free reinstatements. During the past year the account has suffered 13,800,000 of losses, of which 56% in total would have been recoverable from the proposed excess of loss cover. Your broker has approached various markets and achieved a quote of 17.75% of gross premium for the risk excess of loss contract. If the loss experience remains the same for the forthcoming year:

Calculate, (a) (i) **showing all your workings**, what the profit/loss for your company would be after the application of reinsurance under both alternative structures; **(ii)** based on the calculations in (a) above, identify which of the reinsurance contracts you would choose.

(b) If the reinsurance market hardened, what effect would that have on both types of reinsurance contracts.

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