

PGDM (Insurance Business), 2013-15
Re-Insurance
INS-502
Trimester –V, End-Term Examination, December- 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.

Section-A

There are 5 questions in this section. Attempt any 3 questions. Each question carries 5 marks and the Word limit is 200 words. **[3x5=15]**

Write short notes on any three of the following:

- A1. What are the issues involved in distribution/placement of Reinsurance?
- A2. Objectives of Reinsurance Programme design
- A3. Facultative Reinsurance method
- A4. Securitization and Derivatives
- A5. Cut through endorsement, and follow the fortune clause

Section-B

[Note: Answer 2 out of the 3 Questions below. Each Question carries 10 marks and word limit is 500.] **[2x10=20]**

- B1.
 - a) Explain the concepts of proportional method of reinsurance and non-proportional method of reinsurance.
 - b) Explain three advantages and three disadvantages of using a proportional method compared to a non-proportional method.
- B2. Is the Aggregate Excess of Loss and Excess of Loss Ratio reinsurance same? Explain with an examples, how they work.
- B3. 'Management of an Insurance organization is fully involved in the decision process of fixing retention level because of its significance to insurance business'. What are the various factors which influence the retention? Please explain.

P.T.O.

Section-C

Case Study

Marks: 15

Compulsory questions-

- a) From the information related to P & L account of a treaty given below for the year 2012-13, calculate the profit/loss. (6)

<u>Treaty Result (US \$)</u>	<u>Debit</u>	<u>Credit</u>
Premiums.....		14,550
Commission to be paid @ 22.5% ?		
Paid claims	2500.00	
Loss reserves for 100%	750.00	
Management Expenses 5%	?	
Profit/Loss.....	<u>?</u>	<u> </u>
	14,550	14,550

Also calculate the profit commission as under:

30% profit commission: up to 10% of the premium; 40% profit commission: for further 10% premium, and 50% profit commission: for the balance remaining

- b) WXL Treaty covering \$500,000 Xs \$ 100,000, is shared by following reinsurers for their respective retentions. Please calculate the loss payable by reinsured and reinsurers. (5)

Reinsurer -A	20%
Reinsurer-B	35%
Reinsurer-C	45%

1. Loss paid – \$ 200,000 and Legal cost paid – \$ 10,000
2. Loss paid - \$ 900,000 and Legal cost paid – \$ 20,000

Reinsured is not allowed to collect whole loss from one Reinsurer but in proportion.

- c) An insurance company has a 12 lines surplus treaty (proportional) with maximum retention up-to £400,000. The company underwrites a risk with sum insured of £8

(4)

million, and buys additional proportional facultative reinsurance for the proportion of the risk that cannot be ceded to the treaty.

If a loss of £4 million occurs, what amount and in what proportion the loss shall be allocated among them? (4)
