

PGDM-IBM, 2019-21  
 Sub.: Principles of Insurance  
 Paper Code: INS-103  
 Trimester-I, End Term Examinations: September-2019

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	3*10	30
	Or Maximum 6 questions with internal choices and CILO covered (as an example)	6*5	
B	Compulsory Case Study with minimum of 2 questions	20	20
			<b>50</b>

**Section-A**

A1. Delta Insurance is a property insurer that enters into a surplus – share reinsurance treaty with Eversafe Re. Delta has a retention limit of \$200,000 on any single building, and up to nine lines of insurance may be ceded to Eversafe. A building valued at \$1,60,000 is insured with Delta. Shortly after the policy was issued, a severe windstorm caused a \$800,000 loss to the building. (CILO1)

**Or**

A1. Consider the risk of unemployment, which generally is not privately insurable at the present time. How well does the risk of unemployment meet the requirement of an insurable risk?

A2. Micheal owns a small plane that he flies on weekends. His agent informs him that aircraft are excluded as personal property under the homeowner policy. As an insured, he feels that his plane should be covered just like any other personal property he owns. (CILO2)

- a. Explain to Michael the rationale for excluding certain types of property, such as aircraft, under the homeowner policy?
- b. Explain some additional reasons what exclusions are present in insurance contracts

**Or**

A2. The human life value is one method for estimating the amount of life insurance to own. Keeping all other factors unchanged, explain the effect, if any of each of the following:

- (i) The discount rate used to calculate the human life value is increased.
- (ii) The amount of average annual income going to the family is increased.
- (iii) The period over which income is paid to the family is increased.

**Contd..2/---**

(b) Explain the limitation of the human life value approach as a method for determine the amount of life insurance to own.

A3. Andrew owns a gun shop in a high crime rate area. The store does not have a camera surveillance system. The high cost of burglary and theft insurance has substantially reduced his profits. A risk management consultant points out that several methods other than insurance can be used to handle the burglary and theft exposure. Identify and explain two noninsurance methods that could be used to deal with the burglary and theft exposure. (CILO3)

OR

A3 Stephanie owns a small warehouse that is insured for \$250,000 under a commercial property insurance policy. The policy contains an 80 percent coinsurance clause. The warehouse sustained a \$50,000 loss because of a fire in a storage area. The replacement cost of the warehouse at the time of loss is \$500,000.

- a. What is the insurer's liability, if any, for this loss? Show 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 the theory or rationale of coinsurance in a property insurance contract.

### Section-B

#### **Case Study Compulsory:-**

B3. **Case-1:** Jeff is a book dealer who purchased a building from Richard. Jeff obtained a loan from the Gateway Bank to purchase the building, which held a mortgage on the building. Jeff planned to store his inventory of books in the building. He also planned to use part of the building for a fast-food restaurant. When Jeff applied for property insurance on the building, he did not tell the agent about the fast-food restaurant because premiums would be substantially higher. Eight months after the policy was issued, a fire occurred in the restaurant that caused substantial damage to the building. (12)

- a. Do any of the following parties have an insurable interest in the building at the time of loss? Explain your answer.
  1. Jeff
  2. Richard
  3. Gateway Bank
- b. Richard told Jeff he could save money by taking over Richard's insurance instead of purchasing a new policy. Can Richard validly assign his existing property insurance policy to Jeff without notifying the insurer? Explain your answer.
- c. Could Jeff's insurer deny coverage for the fire loss based on a material concealment? Explain your answer.
- d. Investigation of the fire revealed that an electrician improperly wired an electrical outlet in the restaurant, which caused the fire. Explain how subrogation might apply in this case.

Contd..3/--

**Case-2:** Mike took his friend, Donna, out to dinner on her birthday. While driving Donna home, Mike became ill and asked Donna to drive. While driving Mike's car, Donna negligently injured another motorist when she failed to stop at red light. Mike has an auto insurance policy with a liability insurance limit of \$250,000 per person for bodily injury liability. Donna has a similar auto insurance policy with liability limit of \$100,000 per person. (3)

- a. If a court awards a liability judgement of \$100,000 against Donna, how much, if any, will each insurer pay?
- b. If the ability judgment is \$300,000, how much, if any, will each insurer pay?
- c. Assume that Mike cannot afford to pay the premium and lets his auto insurance policy lapse. At the time of the accident, he is uninsured. If the liability judgment against Donna is \$100,000, how much, if any, will Donna's insurer pay?

**Case-3:** A drunk driver ran a red light and smashed into Kristen's car. The cost to repair the car is \$8000. She has collision insurance on her car with \$ 5000 deductible. (5)

- a. Can Kristen collect from both the negligent driver's insurer and her own insurer? Explain your answer .
- b. Explain how subrogation supports the principle of indemnity.

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