

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF INSURANCE AND ACTUARIAL SCIENCE

**B.COMM HONOURS DEGREE IN RISK MANAGEMENT AND
INSURANCE**

RISK AND INSURANCE CIN 1202

SECOND SEMESTER FINAL EXAMINATION-MAY 2011

DURATION 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer all questions in SECTION A
2. Choose any 3 **three** questions from section B
3. Begin each question on a fresh sheet of paper
4. Write neatly and legibly

SECTION A (COMPULSORY) [40 MARKS]

QUESTION 1

- (a) **Choose the** most accurate out of the following:**[5 marks]**
- i. Which of the following is not part of a policy document:-
 - A. The heading.
 - B. The preamble.
 - C. The objective clause.
 - D. The operative clause.
 - ii. Law of large numbers plays an important role for the:-
 - A. Determination of the future trends of mortality.
 - B. Calculation of the present mortality rate.
 - C. Assessment of the accuracy of mortality estimation.
 - D. Estimation of the past mortality rate.

- iii. Which of the following life insurance policies attracts the highest premium?
- A. Endowment assurance.
 - B. Term insurance.
 - C. Pure endowment.
 - D. Term endowment.
- iv. Tax concessions by local governments are a major attraction to:-
- A. In-house insurance.
 - B. Self-insurance.
 - C. Captives.
 - D. Private agencies.
- v. The basis of Modern Insurance theory is:-
- A. Law of Large numbers.
 - B. Theory of Probability.
 - C. Utility theory.
 - D. All of the above.
- vi. Excess of loss treaties can be classified as:-
- A. Per occurrence.
 - B. Per risk.
 - C. Aggregate excess.
 - D. All of the above.
- vii. The broker in an insurance business is the representative of a/an:-
- A. Insured.
 - B. Insurer.
 - C. Agent.
 - D. Principal.
- viii. Personal accident policies are:-
- A. Valued policies.
 - B. Indemnity policies.
 - C. Unvalued policies.
 - D. Open policies.

- ix. Sources of information for calculation of underwriting risk come from:-
 - A. Industrial records.
 - B. Financial records.
 - C. Proposal form.
 - D. Newspaper.
- x. For the introduction of a group scheme we need :-
 - A. A homogeneous group.
 - B. An insured group.
 - C. A small group of persons.
 - D. A large group.

(b) State whether the following statements are true or false: [5 marks]

- i. Escalation benefit is not allowed under a Boiler and Pressure plant policy.
- ii. Under knock for knock agreements subrogation rights are not exercisable.
- iii. Adverse selection occurs when insured's have a better idea about their insurability than the insurance company.
- iv. Underwriting results are an indication of the effectiveness of the company's marketing policy.
- v. The cause of fire is immaterial in a fire insurance contract.
- vi. A reinstatement value policy entitles the policyholder to recover cost of replacing the cost of damaged property.
- vii. When an insurance policy is cancelled at the request of the insured, a pro-rata refund of premium is allowed for the unexpired term on demand.
- viii. Condition of 'average' is not applicable when policy is issued under First loss basis.
- ix. Capital adequacy norms of an insurer specify the minimum paid up equity capital.
- x. Mortality table is used for pricing the group insurance policies.

(c) Fill in the blanks [10 marks]

- i. A personal accident policy does not cover.....death.
- ii. Term assurance policies provide the benefits if the person.....
- iii. Solvency is insurance company's.....to pay the claim of policyholders.
- iv. Representation is a statement made by an applicant for insurance before a contract is made which affects the.....of the insurer to accept the risk.
- v. Reinsurance isof insurance.

- vi. In machinery insurance, premium is charged on the.....
- vii. Underwriting results of a general insurance company are influenced by..... volumes andcreated.
- viii. Stringent underwriting standards are a safeguard for.....
- ix. ZARO stands for.....

(d) Define the term hazard. Distinguish between moral and morale hazards, giving relevant examples. **[5 marks]**

(e) Identify the benefits of using a flow chart, providing an example of when a flow chart may be used. **[4 marks]**

(f) Outline the six steps in the risk management process. **[3 marks]**

(g) Distinguish between hedging and insurance. **[2 marks]**

(h) Sandra received a brand new Mazda BT-50 from her husband, on her birthday. The car was insured against damage or loss with Siyaso Insurance Company, for an amount of \$40 000 with a deductible of \$3,000. One day, Valentine, who was an experienced driver, took the car out to visit her friend. On the way to her friend's place, she had to stop at a traffic signal. Although she stopped her car to avoid jumping the signal, a speeding driver from behind rammed into the car. The impact of the collision was such that Valentine suffered severe injuries and she had to be hospitalized. The car was reduced to a wreck. Investigations revealed that the car that hit Sandra's car was being driven by Thomas. Sandra filed a claim for loss with her insurance company and received \$10,000 as damage claim. The insurance company, in turn, sued Thomas on behalf of its policyholder, Sandra for the same amount that it had paid her. Thomas approached the court challenging the validity of the insurance company's suit.

Discuss the principle on the basis of which the insurance company accepted Sandra's claim and later filed a suit against Thomas. **[6 marks]**

SECTION B (Choose any 3 (three) from this section) [60 marks]

Question 2

You as regional risk surveyor for Mupengo Insurance Company, have been advised that the company is looking to reduce costs by replacing physical inspections of some smaller risks with a questionnaire, which will be completed by the insured.

Prepare a report outlining the advantages and disadvantages of:

- (a) Questionnaires; [8 marks]
(b) Physical inspections. [12 marks]

Question 3

As risk manager of Zinyoro International plc you have been asked to prepare a report for the board addressing the implications of managing financial loss through: the creation of an internal fund. [20 marks]

Question 4

With reference to relevant cases, discuss the principle of insurable interest. [20 marks]

Question 5

- a) "Underwriting is the heart of all insurance operations." Discuss the validity of this statement. [8 marks]
b) Evaluate the benefits of self-insurance [12 marks]

Question 6

Justify the government's involvement in the insurance industry [20 marks]

Question 7

Distinguish between the following terms. Give examples where possible.

- a) Fundamental and particular risks [4 marks]
b) Static and dynamic risks [4 marks]
c) Planned and unplanned retention [4 marks]
d) Treaty and facultative reinsurance [4 marks]
e) Pre-loss and post-loss control [4 marks]

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