

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**B.COMM (HONOURS) INSURANCE AND RISK MANAGEMENT**

**REINSURANCE PRINCIPLES AND APPLICATION : CIN 2102**

**JULY/AUGUST 2004 SUPPLIMENTARY EXAMINATION**

**DURATION 3 HOURS**

**INSTRUCTIONS TO CANDIDATES**

1. Answer any four questions
  2. All questions carry equal marks
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Refer to our discussion and find below the two questions replacing Q1 and Q6.

1.
  - (a) What is the significance of the case Dunlop v Selfridge? (10 marks).
  - (b) Define the following  
premium reserve deposit  
premium portfolio deposit  
sliding scale commission (9 marks)
  - (c) Outline the similarities and differences between insurance and reinsurance (6 marks)
  
2. Discuss the following functions of reinsurance.
  - (a) stabilising underwriting results
  - (b) capacity
  - (c) catastrophe protection
  - (d) surplus relief
  - (e) spread of risk
  - (f) underwriting expertise(25 marks)
  
3.
  - (a) What is a 'table of limits'. What is its purpose? (10 marks)
  - (b) Discuss the various ways by which an accumulation of losses on a property account can occur. (10 marks)
  - (c) Discuss five uses of facultative reinsurance (5 marks)[Total 25 marks]
  
4.
  - (i) Discuss the following, citing cases where applicable:
    - (a) Follow the fortunes clause

- (b) Privity of contract
- (c) Cut through clause
- (d) Two risk warranty
- (e) Facultative reinsurance **(15 marks)**

(ii) Discuss the uses of a Quota share treaty **(10 marks)**

**[Total 25 marks]**

5. Renaissance Insurance company has a retention of 5 million on its fire account. It has a 10 line surplus treaty. A proposer requires cover on his fire portfolio worth 54 million.

- (i) How much can Renaissance take?
- (ii) What options are there if Renaissance accepts the whole risk, given its current capacity?
- (iii) How much will the company pay and reinsurers pay if there is a loss of 34 million.
- (iv) Assuming a working excess of loss cover of 3,5 million x 1,5 million on its retention, what is the ultimate loss payable on the 34 million claim.
- (v) Suppose the company had used only half of its retention, what would be the total underwriting capacity available and how would the 34 million loss be handled.

**(25 marks)**

6. (a) Compare and contrast a quota share treaty and a surplus treaty.

**(10 marks)**

(b) Describe three rating methods used on excess of loss reinsurance programmes.

**(10 marks)**

(c) What is the difference between an aggregate excess of loss treaty and a stop loss treaty? (2 marks)

(d) What is the significance of an Acts in Force clause? **(3 marks)**

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**END OF EXAMINATION PAPER!**