NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF INSURANCE AND ACTUARIAL SCIENCE

B.COM (HON) DEGREE IN RISK MANAGEMENT AND INSURANCE

REINSURANCE PRINCIPLES AND APPLICATION CIN 2102

JULY/AUGUST 2006 SUPPLIMENTARY EXAMINATION

DURATION: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer all questions in Section A.
2. Answer any three questions from section B.
3. Refer to legal material where appropriate.

SECTION A (28 MARKS)

1. State two advantages and two disadvantages of using a per risk excess of loss treaty. **[4 marks]**

2. Differentiate between the claims made basis and losses occurring basis used in treaty covers. **[6 marks]**

3. Outline five items treated as the “outgo” in the calculation of profit commission. **[5 marks]**

4. Why is it that reinsurers offer the highest commissions on quota share treaties as opposed to surplus share treaties? **[4 marks]**

5. State three objectives of reciprocity in reinsurance business. **[3 marks]**

6. What is a “stability index clause” and what purpose does it serve? **[2 marks]**

7. In what way is a stop loss treaty different from other types of excess of loss treaties. **[2 marks]**

8. What do you understand by the term “reinstatement”. **[2 marks]**

SECTION B (72 MARKS) ANSWER ANY THREE QUESTIONS

9. Two insurance companies, A and B have a quota share treaty and a surplus share treaty respectively. Company A has a 50% quota share with a limit of 15 million USD while company B has a ten line surplus treaty with one line being the equivalent of 2 million USD.

   (i) Assuming the companies co-insure a USD 50 million on a 50-50 basis and the following losses were to occur, how would each company be affected?

      a. USD 3,6 million
      b. USD 14 million
      c. USD 40 million
      d. USD 50 million

   (Show how all facilities of each company will be affected) **[10 marks]**

   (ii) What is a cash loss limit? Give reasons why insurers should immediately inform reinsurers of a claim exceeding the cash loss limit. **[8 marks]**

   (iii) Explain the difference between soft and hard market conditions. **[6 marks]**

10. (i) Brandon insurance company has a maximum fire retention of 500 000 USD SI per risk and has in place 12 line surplus treaty.

The retention is further protected by a per risk excess of loss treaty for 400 000 xs 100 000

Brandon underwrites a risk with a sum insured of 8 million USD, retains 400 000 and buys additional facultative reinsurance for part of the risk that cannot be ceded to the treaty.

Allocate the risk among the reinsurance arrangements the cedant has put in place **[4 marks]**

Assume there is a loss of 400 000 USD, how is it apportioned among the reinsurance facilities [**6 marks]**

(ii) Discuss the underwriting year basis and the clean cut basis of accounting in reinsurance **[4 marks]**

11. An insurance company is considering reinsuring its non-life accounts on a proportional basis. Describe for the benefit of the directors of your company the two main types of proportional treaties available in the market and how they operate. Explain the purpose for which each type is arranged. **[24 marks]**

12. What is the significance of the following clauses in a reinsurance contract:

a. Follow the fortunes clause
b. Equity clause
c. Acts in force clause

d. Co-insurance clause in non proportional treaties

e. A deficit clause

f. Net retained lines clause **[24 marks]**

************************************** THE END*********************************