

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF INSURANCE AND ACTUARIAL SCIENCE

B'COM (HONS) RISK MANAGEMENT AND INSURANCE

REINSURANCE PRINCIPLES AND APPLICATIONS [CIN 2102]

FIRST SEMESTER FINAL EXAMINATION – APRIL/MAY 2009

Duration **3 hours**

Instructions to Candidates

1. Question one is compulsory. Answer any other three questions.
2. Write neatly and legibly
3. Indicate questions answered on the answer booklet. Begin the answer to each full question on a fresh page of the answer sheet.

Information for candidates

This examination paper contains six questions

Question 1

On a particular risk a direct insurer has a retention of \$20 000. The insurer has a 4 line surplus treaty. A proposer wants cover on a factory worth \$200 000.

- i) How much of the risk can the direct insurer accept? [5 marks]
- ii) If there are five reinsurers in the treaty and they all agree to share the amount ceded to them equally, how much will each carry in monetary terms. [7 marks]
- iii) The direct office does provide cover and reinsurers are consequently on cover also. A claim of \$50 000 occurs. How much of this claim will the direct office pay and how much will each of the reinsurers pay. [5 marks]
- iv) What could the direct office do if it had wanted to accept the entire \$200 000 on offer. [8 marks]

Total [25 marks]

Question 2

The non proportional treaty wording is presented in the form of various but very ambiguous clauses to clearly reflect the intentions of the contracting parties in the reinsurance contract. Define and briefly explain the following operative clauses as found in the non proportional treaty contract.

- i) Geographical scope clause [5 marks]

- ii) Sudden death clause [5 marks]
- iii) Currency clause [5 marks]
- iv) Follow the fortunes clause [5 marks]
- v) Cash call clause [5 marks]

Total [25 marks]

Question 3

- a) Clearly explain the scope of cover provided by the following policy wordings:
- i) Private Motor policy wording [4 marks]
 - ii) Asset All Risks [3 marks]
 - iii) Home combined policy wording [3 marks]

- b) Distinguish the difference between the cover offered by the following policies:
- i) Group Personal Accident and Personal Accident Policy [8 marks]
 - ii) Open Marine policy and Goods in Transit policy [7 marks]

Total [25 marks]

Question 4

Clearly state and explain any five functions of reinsurance.

Total [25 marks]

Question 5

Facultative Reinsurance and Treaty Reinsurance are two methods of reinsurance with differing but complementing roles. Differentiate between the two and also highlight their complementary roles.

Total [25 marks]

Question 6

- a) State and explain functions met by :-
- i) Surplus treaty [6 marks]
 - ii) Quota share treaty [6 marks]
- b) What are the advantages and disadvantages of a quota share treaty [5 marks]
- c) In a bid to fix retention levels for a cedant various factors come into play. Clearly state and explain the factors that affect retention levels. [8 marks]

Total [25 marks]

***** **END OF PAPER** *****