

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

B. COMM INSURANCE AND RISK MANAGEMENT

PROPERTY-LIABILITY INSURANCE I – CIN 2105

DECEMBER 2002 1ST SEMESTER EXAMINATION

INSTRUCTIONS TO CANDIDATES

1. Answer any Five Questions
 2. All questions carry equal marks
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Question 1

Discuss the key characteristics of liability business. In what way do these characteristics influence reinsurance choice and claims management?

[20 marks]

Question 2

You are approached by a major wholesaler dealing in clothing and foodstuffs. He informs you that he needs insurance cover for his warehouse valued at \$15m, stock and employers' liability. He seeks your advice on the most appropriate methods of arranging insurance for the three exposures above. Advise the wholesaler describing fully how each method you propose works.

[20 marks]

Question 3

A large manufacturer of pharmaceutical products seeks fire insurance for his three plants whose sums insured are as follows:

	<u>Sum Insured</u>
Harare Plant	\$150m
Bulawayo Plant	\$ 90m
Masvingo Plant	\$ 50m

You as the underwriter propose the premiums as follows:

Harare Plant	\$5.25m
Bulawayo Plant	\$3.1m
Masvingo Plant	\$1.75m

Assuming your company has a retention of \$20m

- (i) ~~How would the risk be insured and reinsured assuming your company has a 10 line first Surplus Treaty and a 5 line second Surplus Treaty? Show the distribution of both the liability and the premium on a total sum insured basis.~~

[5 marks]

- (ii) If your company has a 50% co-insurance arrangement with another insurer on each risk they write, how will this affect the insurance and reinsurance of this risk? **[5 marks]**
- (iii) What would be the optimum way of insuring this risk? **[10 marks]**

Question 4

- (a) Discuss the main underwriting criteria for motor insurance. **[10 marks]**
- (b) In what ways does a change in law affect motor insurers? **[10 marks]**

Question 5

- (a) The employees of Hardcore (Pvt) Ltd while digging a trench negligently cut the power cables supplying electricity to Mr Brown's factory nearby. As a result of this incident Mr Brown's factory has to be closed pending the restoration of power. Mr Brown sues Hardcore (Pvt) Ltd for the following losses he claims to have suffered as a result of the power cut:
- (i) Damage to machinery as a result of the sudden power cut.
 - (ii) The cost of the products which were being worked on but could not be finished because of the power loss.
 - (iii) Lost production which led to some orders being cancelled
 - (iv) One of Mr Brown's clients had a monthly order for 12 months which he has since cancelled because on the day of the power cut, no supplies could be sent to him.

If Hardcore (Pvt) Ltd have a public liability policy, which of the above claims are they likely to be indemnified for? Give reasons in support of your answer in each case. **[20 marks]**

Question 6

A leading motor insurer approaches you in your capacity as a consultant for advice on the possible causes of fluctuation in its motor portfolio's results.

Explain to the company the possible causes of this fluctuation.

[20 marks]

Question 7

In connection with Property-Liability insurance briefly explain the meaning of the following terms:

- (i) Long tail **[4 marks]**
- (ii) Index-linking **[4 marks]**
- (iii) Strict Liability **[4 marks]**
- (iv) Violent and forcible entry **[4 marks]**
- (v) Franchise **[4 marks]**

Question 8

The fundamentals of liability risks lie in the law and legal systems. Discuss.

[20 marks]

END OF EXAMINATION