

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

B. COMM (HONOURS) INSURANCE AND RISK MANAGEMENT

PROPERTY AND LIABILITY INSURANCE I : CIN 2105

NOVEMBER\DECEMBER 2004 FIRST SEMESTER EXAMINATION

DURATION : 3 HOURS

Instructions To Candidates

1. Answer **five** (5) questions in all.
2. Answer at least **two** (2) questions from each section.
3. All questions carry equal marks.
4. Each question carries 20 marks.

Section A

Question 1

Compare and contrast the characteristics of property and liability risks. In what way do these characteristics influence the provision of insurance and re-insurance cover?

[20 marks]

Question 2

There are several bases of cover that can be used in property insurance. Discuss this statement highlighting the types of property risks suitable for each basis of cover that you identify.

[20 marks]

Question 3

Company XYZ has three manufacturing factories in Harare, Bulawayo and Gweru. The asset values for these three factories are as follows:

	<u>Asset value</u>	<u>Quoted premium</u>
Harare	\$1bn	\$100m
Bulawayo	\$600m	\$50m
Gweru	\$500m	\$30m
Total	\$2.1bn	\$180m

The company approaches Titanic Insurance Company for fire insurance on the three factories. Titanic has a retention of \$250m on each and every risk that they decide to accept. The company has a further treaty facility of \$750m on each and every risk that they cede.

Using the above information, illustrate the insurance and re-insurance position if Titanic decide to:

- (a) Insure the risk on a total amount at risk basis. **[3 marks]**
- (b) Insure the risk on a target location basis. **[3 marks]**
- (c) Insure the risk on a 50% estimated maximum loss (EML) basis. **[4 marks]**

- (d) If a loss of \$200m occurs and assuming the risk is insured on target location basis, show how the loss will be shared between Titanic and its re-insurers. State two advantages and disadvantages of insuring property on EML basis. **[10 marks]**
[Total : 20 marks]

Question 4

Discuss the scope of insurance cover provided under a theft insurance policy.

[20 marks]

Section B

Question 5

Pachedu Contractors (Pvt) Limited have been contracted by the Posts and Telecommunications Corporation (PTC) to dig a trench in the eastern suburbs of Harare for the laying of underground cables as part of the PTC's digitalization project. One day as employees of Pachedu Contractors are digging the trench, they negligently cut the underground cables supplying electricity to that part of town. As a result two residential suburbs are affected and it takes eighteen hours for power to be restored in the area.

Pachedu Contractors have a public liability policy for \$350m with a leading insurer in Harare. You are asked to express an opinion on the following claims including how Pachedu Contractors' public liability policy will respond to the claims:

- a) The electricity company want compensation from Pachedu for damage to the underground cables **[5 marks]**
- b) Three hundred residents of the affected suburbs want compensation for damage to their electrical gadgets and condemned food resulting from the loss of power. More residents are expected to lodge similar claims. **[5 marks]**
- c) John a resident of one of the affected suburbs steps on a live electric cable left exposed by employees of Pachedu. John is electrocuted and dies. His wife claims damages for loss of support. **[5 marks]**
- d) A musical show that was scheduled for the area is cancelled and the organizers want compensation for the revenue they would have made had the show taken place as planned. **[5 marks]**

[Total : 20 marks]

Question 6

Discuss the general principles governing workmen's compensation insurance highlighting the main areas where workmen's compensation differs from employer's liability insurance. **[20 marks]**

Question 7

With the aid of specific examples, discuss the linkages that exist between liability insurance and the law.

[20 marks]

Question 8

The Zimbabwean Government is in the process of reviewing the current motor third party liability system in the country. You are part of a commission that has been set up to look into this issue and make appropriate recommendations to Government. As part of the information gathering process, you are sent to neighboring South Africa to study their motor third party liability system.

Compare and contrast the South African and the Zimbabwean approaches to motor third party liability risks highlighting the strengths and weaknesses of each. Which approach would you recommend and why?

[20 marks]

END OF EXAMINATION PAPER!!!