

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**B.COMM INSURANCE AND RISK MANAGEMENT**

**PROPERTY AND LIABILITY INSURANCE I – CIN 2105**

**DECEMBER 2005 FIRST SEMESTER EXAMINATION**

*DURATION: 3 HOURS*

**Instructions**

1. This paper has two sections.
  2. Answer five (5) questions in all
  3. At least two questions must be answered from each Part.
  4. All questions carry equal marks
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**PART I**

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**Question 1**

Discuss the scope of cover provided under a Contractor's All Risks (CAR) policy.  
**[20 marks]**

**Question 2**

Company Y with assets amounting to US\$5m is co-insured with insurers A and B. Insurer A has 60% of the risk and insurer B accepted 40%. Insurer A has a net retention of US\$1m and reinsures the balance with Re-insurer X. The premium for the entire risk (i.e. US\$5m) is US\$125 000.

- a) Calculate the premium rate that the insurers charged for this risk. **[2 marks]**
- b) Calculate the premium that insurer A; B and re-insurer X are entitled to under this arrangement. **[4 marks]**
- c) If a US\$750 000 claim is reported, calculate the proportion that insurer A; B and re-insurer X will pay towards this claim. **[6 marks]**
- d) Before the claim is settled insurer A discovers that re-insurer X has gone into liquidation and is therefore unable to settle its share of the claim. Explain with full reasons how this development will affect insurer A; B and Company Y. **[8 marks]**

### **Question 3**

Company ABC has US\$15m worth of assets distributed around its various locations across Zimbabwe. Company XYZ has similar assets also valued at US\$15m but these are concentrated mainly on its Harare plant. Both companies approach you as an insurance consultant for advice on fire insurance and risk management. The companies also inform you that they are in a position to carry significantly large deductibles if it is in their best interests to do so.

- a) Between the two companies which one would you advise **[4 marks]**
- b) With illustrative examples, explain the advantages of insuring assets on estimated maximum loss (EML) basis. **[8 marks]**
- c) Assuming you advise the two companies to buy fire insurance, outline the key information that you think insurers would want to know before insuring the risks. **[8 marks]**

### **Question 4**

Discuss the factors that influence motor insurance claims. **[20 marks]**

## **PART II**

### **Question 5**

The Zimbabwean Government is in the process of formulating a new policy on how to deal with accidents, deaths and occupational diseases contracted at the workplace. There are two choices available namely making private employer's liability insurance compulsory for certain types of industries or implementing a worker's compensation scheme. A Commission of Inquiry has been set up to look into this issue and make recommendations to Government. The Commission requests your input on the fundamental differences between employer's liability insurance and worker's compensation. You are also required to highlight the key advantages and disadvantages of each of these two methods of handling work-related accidents.

Outline the main issues that you would focus on in your address to the Commission. **[20 marks]**

### **Question 6**

Linda approaches a broker and instructs him to arrange insurance cover for her brand new BMW car valued at Z\$500m. The broker asks Linda to provide certain information including her previous claims experience and previous insurers among other details. Linda supplies all the information as requested. While arranging insurance with Good-Faith Insurance Company Limited, the broker omits to disclose that his client Linda had a

policy cancelled by another insurance company two years back. Good-Faith Insurance Company issue a policy to Linda.

Some five months later Linda is involved in an accident and her BMW is a write-off. She lodges a claim but the insurer repudiates the claim on the basis of non-disclosure of material information about the cancellation of Linda's policy two years back. Linda sues the broker in delict alleging that the broker was negligent by omitting to disclose material information to the insurer. She claims Z\$500m which is the amount she says she would have received had the claim not been repudiated by the insurer.

Applying the five elements of delict, advise whether the broker is liable to Linda.

**[20 marks]**

**Question 7**

a) Discuss the sources of liability risks faced by individuals and companies.

**[15 marks]**

b) Explain why insurers are generally reluctant to insure liabilities assumed in contract.

**[5 marks]**

**Question 8**

Discuss the scope of cover provided under a public liability policy and briefly outline the various methods that can be used to rate public liability risks.

**[20 marks]**

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**END OF EXAMINATION PAPER**