

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF INSURANCE AND ACTUARIAL SCIENCE
B.COMM (HONOURS) DEGREE IN ACTUARIAL SCIENCE
GENERAL (CASUALTY) INSURANCE - CIN 2113
APRIL/MAY 2009 FIRST SEMESTER EXAMINATIONS

DURATION: 3 HOURS

Instructions to Candidates

- 1. SECTION A IS COMPULSORY**
- 2. ANSWER ANY 3 (THREE) QUESTIONS FROM SECTION B**
- 3. Show calculations where this is appropriate**

SECTION A –ANSWER ALL QUESTIONS 40 MARKS

Question 1

- (a) On 1 January 1996 Continental Insurance decided to set up reinsurance facilities which would cover departmental stores and warehouses among other risks. Continental's net retention for this class of business is \$500 000. It has a first surplus treaty of 5 lines, a second surplus treaty of 5 lines and a third surplus treaty of 5 lines. Continental are offered a risk valued at \$10 000 000 and wish to accept the whole risk.
- (i) Describe the process of reinsurance [2]
 - (ii) How could the reinsurance be arranged to accommodate this? [3]
 - (iii) How would a loss of \$5 000 000 be apportioned between the insurer and reinsurers? [5]

- (b) Continental's fire insurance account had an average ratio of net claims to net premium of 62% for the last 5 years.

In re-assessing the performance of the account, the Fire Manager decides that he needs to purchase some reinsurance cover. He feels the cover should cater for:

- (A) The loss ratio exceeding 70% but not going higher than 100%;
(B) Continental taking a 10% share of any cover arranged.

- (i) Name the treaty which could cater for this. [1]
- (ii) Why does this arrangement usually insist that the cedant takes a share of the cover arranged? [3]
- (iii) Assume the fire account results are as follows:

Premium	\$20m
Claims	\$20.1m

How would the claims be apportioned between Continental and the reinsurer in the cover you have mentioned in (b) (i) above [6]

Total [20 marks]

Question 2

Using examples of an existing type of cover describe and explain the main processes that a general insurance contract goes through from inception to making a claim.

Total [20 marks]

SECTION B: (ANSWER ANY THREE QUESTIONS) (60 MARKS)

Question 3

- (i) Discuss the three main classes of general insurance business, explaining the needs that each of them meets [10]
- (ii) Giving local examples explain why the insurance industry is important to the Zimbabwean economy? [10]

Total [20 marks]

Question 4

The commissioner of insurance has requested your advice on the future regulation of the short-term insurance industry.

Describe the forms and aims of regulation and justify the move towards a risk-based supervision framework.

Total [20 marks]

Question 5

Explain (giving illustrations) the following general insurance terms.

- The Law of large numbers (4)
- Indemnity and its corollaries (6)
- Moral hazard and adverse selection (6)
- Underwriting profit/loss (4)

Total [20 marks]

Question 6

Insurance is a contract of fiduciary nature but all parties have a duty to disclose all material facts, citing relevant case authority under different classes of short term insurance:

- (a) Which facts should be disclosed? [8]
- (b) Which facts need not be disclosed? [8]
- (c) What is the duration of the duty of disclosure under property insurance. [4]

Total [20 marks]

Question 7

Describe the transacting of insurance at Lloyds of London. [12]

Explain the distinguishing features between captive insurance and self-insurance. [8]

Total [20 marks]

*******END OF EXAMINATION*******