

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
DEPARTMENT OF INSURANCE AND ACTUARIAL SCIENCE
B.COM (HON) RISK MANAGEMENT AND INSURANCE
PROPERTY AND LIABILITY INSURANCE II – CIN 2205

APRIL/MAY 2006 SECOND SEMESTER EXAMINATION

DURATION: 3 HOURS

Instructions to candidates

This paper contains a total of seven questions in all.

1. Answer any **five** questions.
2. All questions carry equal marks

QUESTION 1

- a) Discuss the purpose for which claims data can be used within an insurance company. **[10 marks]**
- b) Employees of the municipality are trimming tree branches on the yard of one of the residents of the city. Due to the failure of the employees to follow safety procedure, a branch falls on the wall to an adjoining property owned by John causing extensive damage to the wall. The falling branch misses John's wife who was seated on the veranda by a few centimeters. John, who was reading a newspaper at the time was not so lucky. His right leg took the full impact of the falling branch such that it literally broke into two. John is hospitalized for a month and the leg takes a total of two months to heal. John is employed as a heavy truck driver by a local haulage company and thus cannot work for a full two months. His wife was so shocked to see the injury he suffered given that it happened right before her eyes and as result she suffered a nervous breakdown and had to be hospitalized for a week. She also had to undergo psychiatric counseling. John is an keen soccer lover and plays for a local amateur club which has ambitions of playing in the premier league. John is one of the club's star players. However doctors advise John that following his horrific injury, he will not be able to play his favorite sport again. Naturally John is devastated by the news as he also relied on soccer to supplement his income.

John and his wife approach you for advice on the types of damages they can claim from the municipality. Advise John and his wife on the specific types of damages they can claim and the basis on which those damages can be claimed.

[15 marks]

QUESTION 2

Critically discuss the fault-based approach of determining liability for defective products. **[25 marks]**

QUESTION 3

- a) On average an insurance company notices that one in ten insured buildings catches fire in a year. The company also notices that on average the claim for a fire is \$100m. Based on these facts what is the size of the expected loss that the company faces? **[2 marks]**
- b) Explain how the concept of discounting of premiums can be used for rating purposes indicating the classes of business where it would be possible to use premium discounting and the dangers if any that are associated with the practice. **[8 marks]**
- c) Using appropriate examples, distinguish between realized and unrealized capital losses. **[5 marks]**
- d) X a shareholder in Pachedu (Pvt.) Limited Company gets a copy of the company's management accounts from Y, his cousin who works for the company. The accounts were prepared for use by directors and senior management of the company but Y just got a copy as he thought his uncle X, "may want to be ahead of the other shareholders in terms of information". The accounts in question paint a very positive picture of the company's short to medium term prospects. On the basis of this information X increases his stake in the company from five to ten percent. A week later it emerges that the set of accounts that X got from Y contained inaccurate information and cannot be relied upon. The errors in the accounts are blamed on the chief accountant of Pachedu (Pvt.) Limited.

X sues the directors of the company alleging that he was misled by the information contained in the management accounts and that had he known the true facts he would not have increased his stake from five to ten percent. Meanwhile after the errors in the accounts were revealed, the share price of the company has fallen by more than 50%.

Advise the directors if they are liable to X. **[10 marks]**

QUESTION 4

Critically discuss insurance as a method of dealing with pollution and environmental impairment liability risks (EIL). **[25 marks]**

QUESTION 5

Critically evaluate the prospects for implementing a viable crop insurance scheme in Zimbabwe. **[25 marks]**

QUESTION 6

Mr. X is insured in terms of an *All Risks* policy. One of the insured assets is a gold chain worth \$80m. One day he goes to the beach which is deserted and instead of risking the loss of the chain in the sea when he goes swimming, he buries the chain in the sand next to his other things. When he returns from swimming he discovers that the chain had been stolen. He submits a claim to his insurer and you are the claims manager of the insurance company.

The operative clause of the all risks policy reads:

“The company will indemnify the insured against loss or damage to the whole or part of the property described in the schedule while anywhere in the world by any accidental or misfortune not otherwise excluded.”

The policy also contains the condition that the insured should take reasonable precautions to safeguard the insured property. The condition reads as follows:

“The policyholder must take all reasonable precautions for the maintenance and safety of the property insured under this policy and the company will not be liable for any loss, damage, injury or liability arising from a deliberate or fraudulent act by the policyholder.”

Give reasons why you would either pay the claim or reject the claim. In formulating your reasons give attention to:

- a) The operative clause of the policy
- b) The application of the reasonable precautions condition in the policy
- c) The onus of proof with respect to the operative clause and the reasonable precautions condition in the policy.
- d) The intention of the parties
- e) The rule of interpretation in favor of upholding the policy rather than declaring it null and void.

[25 marks]

QUESTION 7

Discuss the relevance of legal and financial considerations in the underwriting of construction bonds and guarantees.

[25 marks]

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