

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
B. COMM (HONOURS) DEGREE IN INSURANCE AND RISK
MANAGEMENT

LIABILITY INSURANCE – CIN 4006

APRIL/MAY 2003 EXAMINATION

DURATION : 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer **Four** Questions in all.
 2. All questions carry equal marks.
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Question 1

John is very keen to start his own business. He has therefore initiated a wide ranging study of various factors which affect the operation of businesses in general. In the course of this study John learns that any business can incur liability to the public in general as a result of its activities. John is curious to know more on this area and he consults you as a liability insurance expert for further clarification.

Required:

- (a) Briefly discuss the main sources of liability. **[10 marks]**
- (b) Discuss the elements which must be proved for claims based on delict to succeed. **[15 marks]**

Question 2

Compare and contrast the claims made and the losses occurring wordings as used in liability insurance. In what specific ways is the claims made wording generally considered as favourable to insurers? **[25 marks]**

Question 3

Persevere (Pvt) Ltd is a locally incorporated indigenous company whose main business is the manufacturing of protective clothing for use in the agricultural and mining sectors. The company's managing director, a Mr Dube tells you that the company is "export focussed in order to make a meaningful contribution to the country's foreign currency crisis." He tells you further that one of the export markets they are targeting is the US.

Your company is the market leader in the provision of liability insurance in Zimbabwe. Persevere (Pvt) Ltd approaches your company for a quotation for a products liability policy covering exports to the Southern Africa region and the US. Your company quotes for exports to Southern Africa but excludes liability arising from exports to the US. On seeing the quotation Mr Dube is furious and immediately calls for a meeting between your company and Persevere (Pvt) Ltd to discuss the issue. You are selected to lead a delegation from your company to this meeting. In your presentation at the meeting, it becomes necessary to address the following key issues:

- (i) The role and operation of products liability insurance.
- (ii) Using Zimbabwe's current economic situation, justify why local liability insurers exclude liabilities arising from the US.

[25 marks]

Question 4

For environmental impairment and pollution liability emphasis should be on loss prevention as opposed to insurance. Discuss.

[25 marks]

Question 5

With specific reference to liability business briefly discuss the relationship between the following variables:

- (i) Inflation and investment income (interest income) **[9 marks]**
- (ii) Reserves and provisions. **[8 marks]**
- (iii) Discounting and indexing. **[8 marks]**

Question 6

- (a) Fix-it (Pvt) Ltd is a medium sized engineering company operating in the industrial area of Bulawayo. The company has a public liability policy with a leading insurer in Zimbabwe. Over the course of the insurance period the company incurs the following claims:

- (i) Jabu, one of the technicians at the company is injured while ~~operating one of the machines at the company's premises.~~ He subsequently dies from his injuries. The accident is attributed to poor maintenance of the machinery by the company. Jabu's wife sues Fix-it (Pvt) ltd for loss of support.

[5 marks]

- (ii) Fix-it (Pvt) Ltd has a contract to supply rubber boots to the Bulawayo City Council. Due to wrong specifications by Fix-it, the

boots turn out to be defective. The Council claims damages for breach of contract. **[5 marks]**

- (iii) The Managing Director of Fix-it writes a letter to the management of a rival company accusing them of being corrupt and devious in their business dealings and of “stealing” customers from Fix-it. The rival company sues Fix-it for damages alleging that there was an unjustified attack on their reputation. **[5 marks]**

Giving reasons in each to what extent if at all is Fix-it likely to be indemnified by their insurers for the above claims under their Public liability policy?

- (b) Outline the premium rating methods used for public liability risks. **[10 marks]**

Question 7

The board of directors of a leading accounting firm invite you to give them a briefing on Professional Indemnity and the exposures faced by their firm. You establish that the firm’s operations extend to the following areas:

- (i) Provision of tax advice
- (ii) Audit services
- (iii) Provision of business and investment advice
- (iv) Project management and advisory services.

The board is particularly interested to know the following issues:

- (a) The purpose of professional indemnity insurance. **[4 marks]**
- (b) The possible liabilities their firm faces in view of its current operations. **[10 marks]**
- (c) The legal nature of professional indemnity claims **[6 marks]**
- (d) The operations of Professional Indemnity policies **[5 marks]**

Draft your reply to the board addressing each of the issues indicated above.

END OF EXAMINATION PAPER