

2017

MAY/JUNE RSB EXAM PACK (First paper)

Section A True/False questions

2.1 False page 58

Insurance contracts are contracts of uberrimae fidei.

2.2 True

The insured is considered his own insurer for that part of the risk that is underinsured.

2.3 False

Theft by shoplifting or unexplained losses are not covered.

2.4 True page 225

2.5 False

It is the annual policy that is quoted annually but paid monthly instalments.

2.6 False pg 127

Sometimes it is better for the insurer to replace the lost or damaged article, with jewellery and electrical goods insurers can often get discounts of up to 30%.

2.7 Deductible calculation False (see calculation)

$$\text{Payment} = (\text{Loss} - \text{deductible}) \times 1 + r$$

$$= [50000 - 10000] \times 1.05$$

$$= 42000$$

$$\text{Deductible} = 50000 - 42000$$

$$= 8000$$

→

2.8 ~~False~~ True page 182

Business all risk covers tools and equipment also

2.9 False p.g 178

Difference basis = Turnover plus closing stock minus opening stock and uninsured costs

2.10 false p.g 184

Money held in the custody of directors on business of the insured is a minor limit

Section B

Question I

Categories of losses, page 240

Type I Losses

- Losses emanating from those risks which produce aggregate costs that over time are viewed as stable.
- There is little variation between the aggregate value of predicted losses and the aggregate of actual losses
- They are relatively small losses which have no particularly direct effect on the company's finances beyond their direct costs (see)

Type II losses

- emanates from risks that produce annual aggregate losses in excess of those associated with the first loss type
- However a company can absorb these losses within one year and remain a going concern
- Maximum cost consequence of risk in this class varies according to the company's ability to absorb loss and risk aversion of its management.
- The cost range in terms of which the loss affects can be reasonably established by adding the direct cost of the loss to the cost of having to borrow the additional funds in the money market

Type III Losses

- Covers losses which produces aggregate annual costs in excess of those in the first two loss types
- The cost of extensive losses has a more serious effect on the ability of the company to finance the loss from regular cashflow and normal credit lines
- it is advisable to transfer this cost to an insurer.

Question 5

Straight deductible

Straight deductible = 1250

Loss = 5000

Sum payable by insurer = $[5000 - 1250] = 3750$

if the loss is less than 1250 the insured with cover the loss

Aggregate deductible

Straight deductible = 5000

Aggregate deductible = 100000

With the above combination, the insurer will not pay more than 5000 on any one loss and would not absorb more than 100000 in total losses during the year.

Question 6. pg 40

Loss Adjusters

- analyze and determine the extent of the insurance's liability concerning the loss
- Collect evidence to support contested claims in court
- Examine claim forms and other records to determine the insurance coverage
- Interview or correspond with agents or claimants to correct errors or omissions and to investigate questionable claims
- Investigate and assess damage to property
- Negotiate claim settlements and recommend litigation when settlement cannot be negotiated.
- Obtain credit record from banks and other credit sources
- Prepare report of findings of investigations

Question 7

Fidelity Insurance.

- designed to deal with fraud and theft by employees
- it also covers stock and goods.

Three basis are as follows

Named persons basis

- * Where the name of the individual/s who may steal from this does not mean the named person is dishonest but is in a position of trust where he/she has an opportunity to steal.

- * Positions basis such as stock handlers

- * Blanket basis

→ This covers all employees of the insured.

Question 8.

Agree.

- Captives concentrates on a parent's risks
- The parent would almost always have good risk control programmes in place long before it considered a captive

Advantages of a Captive

- premiums are tax deductible
- A captive is a separate entity so the whole group is not hit by losses
- Captives have free access to reinsurance market giving them scope of risk.
- By setting up a captive the organisation can directly control overhead expenses

Section A Multiple choice

1.1 Asset All Risk policies are policies of exclusions. page 164 [4]

1.2 option 2 page 93

1.3 In terms of an insurance policy an insurer may repudiate a claim if a warranty contained in the policy has been breached. [1]

1.4 option 2 page 278.

1.5 70% x 20000 000

14000 000

Loss = 18 000 000

Excess = 18m - 14m

= 4m.

Stop loss = 4000 000 x 90%

= 3600 000

[4]

1.6 option 4.

1.7 option 3

1.8 Proportional reinsurance is arranged on a treaty or facultative basis [3]

page 104

1.9 Insurable interest must exist when a life is issued [4] pg 70

1.10 Net line = 6000 000

New net line = 6000 000 + 50% = 9000 000

9 treaty = 9 x 9000 000 = 81 000 000

Gross Retention = 90 000 000

Sum Insured = 120 000 000

Therefore no facultative is required since the sum insured exceeds

the gross retention [4]

1.11 Option 4 pg = III.

$$1.12 \text{ Payment} = \frac{\text{Sum insured}}{\text{Value at Risk}} \times \text{Loss} \quad [4]$$

$$= \frac{100000}{120000} \times 50000$$

$$= 41666,67$$

1.13 Arbitration can only be used to resolve problems of quantum [1]
page 129

1.14 A drop in the share price of the insurance company [2] page 139.

1.15 Shareholders usually prefer lower solvency margin [2] page 141

1.16 A squash racket broken during a match will not be covered under All Risk section of a Personal Lines policy [2] page 164.

1.17 Death cover under Personal Accident policies are sold in units of 10000 [4] page 166

1.18 Be able to claim the full benefits of both life insurance policies [3]
pg

1.19 Damage to the insured's recovered stolen vehicle will be covered under a Third party, fire and Theft policy [2] page 201

1.20 Are rated on the wage figure of the business.

End of Third paper