

2.1 True

measurable and definite loss - when a loss occurs we must be able to attach a particular value (page 22)

2.2 True (see calculation below)

$$\begin{aligned}\text{Payment} &= \frac{\text{Sum insured}}{\text{value at risk}} \times \text{Loss} \\ &= \frac{80000}{120000} \times 50000 \\ &= 33333.33\end{aligned}$$

2.3 False

Indemnity principle states that the insured ~~to be~~ ^{should not be} placed in a better position than if the loss has not occurred, if the loss has not occurred, if he has to claim from both he/she will claim from both but the total should equal the sum insured and no profit page 62.

2.4 True

Because it demotivates the insured from triggering the benefit.

2.5 False (page 139)

A high claims reserve means the company is reserving money that could have been used for the expansion of the business so investors and shareholders prefer a rather low reserve

2.6 false (page 204)

the extension means that the vehicle is now covered, but there is still no liability cover for injury to the passenger

2.7 True (see calculation)

$$\frac{[100000 - 10000] \times 1.04}{93600}$$

$$\begin{aligned} \text{Deductible} &= 100000 - 93600 \\ &= 6400 \end{aligned}$$

2.8 Net line = 5000 000 False (see calculation)

$$\text{New netline} = 5000000 + 50\% = 7500000$$

$$8 \text{ treaty} = 7500000 \times 8 = 60000000$$

$$\text{Gross Retention} = 60000000 + 7500000 = 67500000$$

$$\text{Sum insured} = 40000000 + 20000000 = 60000000$$

$$\begin{aligned} \text{Facultative requirement} &= \text{Gross retention} - \text{Sum insured} \\ &= 67500000 - 60000000 \\ &= 7500000 \end{aligned}$$

2.9 False page 183

Goods in Transit is not designed for ^{Warements} ~~Goods in Transit~~ tools.

2.10 False (page 89)

Premiums paid to an accredited intermediary are deemed to have been received by the insurer, the insured, is covered by the policy even if the broker then fails to pay the insurer.

Section B Long Questions Question 3

(i) Notification page (130)

Short term policies require prompt notification of any occurrence likely to give rise to a claim, sometimes within set period and other policies, say as soon as reasonably possible.

(ii) Final submission of policy claim

There is a limited period for the final submission of the claim, in the standard policy wording, it is 2 years but some policies have shorter periods.

(iii) Legal proceedings

If the claim is repudiated, by insurers, the insured has a limited period in which to institute legal proceedings against them.

(iv) Recovery from third parties

They are statutory prescription periods that apply particularly to reserves from third parties, the normal prescription period is 3 years.

(v) Government claims

Claims involving government organizations requires prompt notification.

Expert legal advice should be obtained as prescription periods vary.

Question 4

Role & functions of Brokers

- These are intermediaries who provide advisory services; on behalf of insurance companies
- They normally have an agency agreement with the insurer
- They are considered to be professional insurance practitioners and are legally liable for the advice they give to clients. If they give incorrect advice the client may institute a legal action against them.
- They may be responsible for collection of premiums from the insured, the broker must therefore have financial guarantees to cover any premiums
- The broker also introduces new businesses or existing business to the market and earns commission for any business sold

Question 5 (page 278)

Collective Policy features

- Each insurer has a share of the risk
- The lead insurer issues the policy
- The policy reflects each insurer's share
- The claims are handled by the lead insurer
- The other insurers normally follow the lead
- A collective insurer cannot quote against the lead
- The lead insurer receives a handling fee from other insurers who share the risk.

Question 6

Agree

- Captives concentrates on parent's risks.
 - The parent would almost always have good risk control programmes and procedures 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 affected by losses
 - Captives have free access to reinsurance market giving them some spread of risk (the capacity to handle large exposures)
 - By setting up a captive the organization can directly control overhead expenses.

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Question 7

Straight deductible

Straight deductible = 1250

Loss = 5000

Sum payable by insurer = $(5000 - 1250) = 3750$

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

Franchise deductible

The policy might state that no loss would be payable unless it \geq to 3%
However if the loss reaches 3% the insurer is responsible for 100% of the claim.

Section A Multiple choice

1. A higher level of loss assumption based on working capital guidelines is possible [2]
2. Be able to claim the full benefits of both life insurance policies [1]
3. Uninsurable [1]
4. Consideration in terms of insurance policies is not essential for concluding a contract [2]
5. The damages will be covered in full by the insurer less the deductible [4]
6. Principle of subrogation enforces the principle of indemnity [4]
7. Cover for property, also covered in terms of marine policy, is a standard exception to the multiperil policy [2]
8. option 2
9. Insurable interest must exist when a life policy is issued [1]
10. Stamp duties are paid on short term insurance policies in Saudi Arabia [1]
11. Hull insurance only covers completed vessels [1]
12. Fixed glass against accidental breakage [4]
13. $70\% \times 20,000,000$
 $14,000,000$
Less $18,000,000$
Stop loss = $90\% \times 40,000,000$
 $= 36,000,000$

14. Quota Share Treaty [1]

15 An expensive cricket bat stolen from a locker at school [2]

16 Turnover plus closing stock minus opening stock and uninsured costs [3]

17 Fidelity guarantee insurance provides cover against theft of money and stock by employees [1]

18 Negotiation is the most common way of handling disputed claims [3]

19 Option 2:

20 Transferred to and from the bank [1]

End of second paper

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MAY/JUNE RSK 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 in monthly instalments.

2.6 False pg 127

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

2.7 Deductible calculation False (see calculation)

$$\begin{aligned}\text{Payment} &= (\text{Loss} - \text{deductible}) \times 1 + r \\ &= [50000 - 10000] \times 1.05 \\ &= 42000\end{aligned}$$

$$\begin{aligned}\text{Deductible} &= 50000 - 42000 \\ &= 8000\end{aligned}$$