

**INSURANCE & RISK MANAGEMENT
(IRM) EXAMINATION.**

MAY 2010

Roll No.....

P-2-Technical Aspects of Insurance.

Total No. of Questions—9]

[Total No. of Printed Pages—7

Time Allowed—3 Hours

Maximum Marks—100

COK

Answer **all** questions.

Marks

1. State whether the following statements are True/False : 10
1. The basis of insurance is sharing of losses of many amongst few.
 2. There is no agency commission or brokerage payable in respect of motor third party insurance business in India.
 3. The Principle of Utmost good faith imposes duty of disclosure on the insurance agent, insured and the company authorities.
 4. In liability insurance, it is not possible to predetermine the extent of insurable interest.
 5. Under the No-fault liability provision of the Motor Vehicle Act, the negligence of the owner or user of the vehicle is not relevant to decide the question of liability.
 6. Adverse selection refers to a situation where the insurance applicant presents a possibility of loss that is lower than the average expected from a random sample of all applicants.
 7. A 'slip' like 'cover note' serves as an acceptance to the proposal by the Insurance underwriter.
 8. Deductibles are application in life insurance contracts too, as death of an insured is always a total loss.
 9. Endowment plans promise protection from risk in the event of death of the insured only during the policy term.
 10. While determining proximate cause, the sequence of events according to their time of occurrence is irrelevant.

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2. Choose the accurate or near accurate answer in the following statements : 10

1. Transfer of the rights available to the insured under a contract of insurance to another person with the consent of the insurer is known as

- (a) Assignment
- (b) Nomination
- (c) Appraisal
- (d) None of the above.

2. Permanent Life Insurance policies acquire paid-up value, if the premiums under the policy are paid for at least

- (a) Two years
- (b) Three years
- (c) One year
- (d) None of the above.

3. Annuity whose payments are not contingent on the annuitant being alive is known as

- (a) Pure life annuity
- (b) Pensions
- (c) Annuity certain
- (d) None of the above.

4. The process of selection and classification of policyholders after thorough evaluation of hazards is known as

- (a) Rate marking
- (b) Loss adjusting
- (c) Underwriting
- (d) None of the above.

5. Any ambiguity in the contract language that is construed strictly in favour of the insured is known as the 'doctrine' of
- (a) Contra proferentum
 - (b) Lapse
 - (c) Experience judgement
 - (d) None of the above.
6. Causes of loss or perils that are listed in the insurance policies are called as
- (a) Pure risks
 - (b) Named perils
 - (c) Open perils
 - (d) None of the above.
7. Owner's funds in mutual insurance entities are termed as
- (a) Reserve Fund
 - (b) Policyholders surplus
 - (c) Shareholders surplus
 - (d) Solatium fund.
8. A legal instrument in which a surety ensures the performance of a contract by the principal or the obligator is called as
- (a) Certificate
 - (b) Notice
 - (c) Bond
 - (d) All the above.
9. 'Forceful entry' is a prerequisite for a
- (a) Burglary
 - (b) Theft insurance
 - (c) Fire insurance
 - (d) All the above.

10. Amount payable to persons for recovering property from sea under a marine insurance policy is called as

- (a) Sue and Labour charges
- (b) Particular charges
- (c) Commission
- (d) Salvage charges.

- 3. Group insurance generally costs less than individual insurance. Why ? 5
- 4. Discuss the implications of post settlement actions and recoveries with respect to settlement of general insurance claims. 6
- 5. Discuss the rationale for solvency surveillance in Insurance industry. 6
- 6. How do the Insurance contracts satisfy the provisions of Indian Contract Act of 1872 ? 8
- 7. Decide the admissibility of claims in the following cases :

(i) Mr. Harsha insured his car, with his son as a 'named driver'. Unfortunately, his car was stolen from a supermarket car park. During the investigation proceedings of Mr. Harsha's theft claim, the insurers discovered that the car was, in fact, registered in the name of the son, and the son was also responsible for the financing arrangement. The insurer refused to meet the claim and cancelled the policy from its start date. Mr. Harsha further admitted that he had taken out the policy in order to reduce the premium by using his 'no claims discount', but he argued that his son was the main user of the car.

Are the insurers right in denying the claims ? 6

(ii) In December, 2002 Mrs. Debjani Mukerjee had applied to Good Health Insurance Company Ltd. for a life assurance cover of Rs. 5,00,000 and for Rs. 2,00,000 critical illness cover. Two years later she was diagnosed with breast cancer. The Company refused to meet her claim. It said this was because she had not disclosed that for most of the early 1990s she had been suffering from, and received treatment for, back pain following childbirth. Insurance company considered this fact as she had not revealed this information to be *reckless* non-disclosure.

Mrs. Debjani told the Insurance Company that she had not thought she needed to disclose this information. She had thought the question on the firm's application form referred only to illnesses that had resulted in her taking time off work during the previous five years. It was more than five years since she had suffered from the back pain and she had never needed to take time off work because of it. In response, the company pointed out that it had asked whether she had '*ever suffered*' from '*back or spinal trouble*'. Mrs. Debjani said she did not believe that back pain due to childbirth was '*back or spinal trouble*'.

Was the denial by the Insurance Company justified ?

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- (iii) A ship was carrying a shipment of lumber carried from Canada to Saudi Arabia, some of which was loaded on deck and some of which under deck. During the voyage the vessel suffered engine failure and had to be towed to Piraeus, Greece for repairs. The shipment was insured under an open cargo policy. Some of the cargo was damaged before the engine problems were repaired. Initially, believing the cause of the damage was the failure to properly ventilate the holds, a covered peril, underwriters agreed to advance the assured approximately US\$3,50,000. But later on the underwriters advanced only approximately US\$2,60,000. After the cargo arrived in Saudi Arabia, it was surveyed by a surveyor appointed by underwriters. The essence of that surveyor's opinion was found to be that the damage to the cargo was caused by delay although other factors contributed. Later, the Underwriters denied the claim on the basis of exclusion for 'delay' in the Timber Trade Federation Clauses. The underwriters argued that this clause excluded all damages caused by delay even if, delay was only a contributing cause.

Discuss the admissibility of the claim.

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8. (i) In January, 2009, there was a serious fire at Mrs. Kapoor's bakery shop, which was insured with ABC General Insurance Company under a commercial policy. The fire brigade thought the fire might have been caused by an electrical fault. Initially, the firm made an interim payment to Mrs. Kapoor

of Rs. 1,00,000 and appointed loss adjusters. During the course of their investigations the loss adjusters discovered that Mr. Kapoor's business owned its suppliers Rs. 70,000. Mrs. Kapoor had borrowed almost Rs. 1,00,000 from her bank over the previous two years and had made incorrect statements when applying for the bank loans. The loss adjusters also discovered that, in her original insurance application, Mrs. Kapoor had failed to disclose that the ground floor of her shop unit was unoccupied and was not properly secured. The firm told Mrs. Kapoor that it was treating her policy as *void*.

Is the company right in treating the policy as 'void' ?

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- (ii) Mr. Mahender Singh's home was broken into in October, 2009. The burglars had kicked in a panel in his back door and stolen many of his possessions. After accepting his claim for the stolen contents, his insurance company arranged for one of its approved contractors to replace the back door, even though the municipality owned the property and was responsible for repairing the damage. Early the following year, shortly before Mr. Singh's policy was due to expire, the insurance company sent him a renewal questionnaire. This asked for details of his current security arrangements. Mr. Singh completed the form, confirming that his external doors had '*a mortise deadlock and security bolts or a key-operated locking system*'. The firm renewed the policy, but within a month Mr. Singh's property was broken into a second time. Again, the thieves had kicked in the rear door panel. When the firm discovered that the back door did not, in fact, have security bolts or a key-operated locking system, it refused to meet Mr. Singh's claim.

(a) Is Mr. Singh's claim reasonable ?

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(b) In case of a dispute for repudiated claims, what provisions are made by IRDA ?

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9. Fill in the blanks with appropriate word :

10×1 $\frac{1}{2}$

1. Non-disclosure of a material fact renders a contract at the option of the insurer. =15

2. Brokers are of the proposer.
3. Payment of compensation to victims of 'Hit and Run' accidents is made from the
4. Insurance act as arbitrator to facilitate redressal of customer disputes relating to insurance.
5. refers to the contractual relationship by virtue of which risks of insurers are shared with another insurer.
6. results are an indication of the effectiveness of the Company's underwriting policy.
7. The payment made in the event of loss under a value policy is the cost of reinstating the same kind of property by a new one.
8. Compensation awarded through judiciary procedures in liability claims is called as
9. Average refers to the loss incurred by the sacrifice made during extreme circumstances for the safety of the vessel and the cargo in a marine transit.
10. A life insurance policy that is discontinued within the financial year of issue is called a duration lapse.