

**INSURANCE & RISK MANAGEMENT
(I.R.M.) EXAMINATION.**

P-1-Principles and Practice of Insurance

MAY 2010

Roll No.....

Total No. of Questions—7]

[Total No. of Printed Pages—8

Time Allowed—3 Hours

Maximum Marks—100

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Answer **all** questions.

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1. From the answers of the following questions, indicate the one that is accurate or nearing accuracy. 15
- (i) Which of the following is an outcome of adverse selection ?
- (a) Fall in premiums and partial collapse of an insurance market.
 - (b) Escalation of premiums and complete fall down of insurance market through the withdrawal of individuals.
 - (c) Fall in premiums and increased number of insurance purchases.
 - (d) Escalation of premiums and increased number of insurance purchases.
- (ii) Life Insurance is a contract of :
- (a) Indemnity
 - (b) Valued Policy
 - (c) Subrogation
 - (d) All of the above.
- (iii) The amount of human life value is calculated by properly discounting the
- (a) Current earnings of the insured
 - (b) Saving potential of the insured
 - (c) Fraction of the income of the insured that is used for the dependents
 - (d) Social status of the insured.

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- (iv) Till when under the whole life insurance policy is the policy coverage available?
- (a) Up to a certain age of the policyholder
 - (b) For a tenure of twenty years
 - (c) Till the death of the insured
 - (d) Till the retirement of the insured.
- (v) provides that the validity of an insurance contract may not be contested after it has been in effect for a certain period of time.
- (a) Grace period provision
 - (b) Non-forfeiture provision
 - (c) Reinstatement clause
 - (d) Incontestable clause
 - (e) All of the above.
- (vi) Selection and classification of risks are the part of in the Insurance company operations.
- (a) Underwriting
 - (b) Investment management
 - (c) Claims management
 - (d) All of the above.
- (vii) The acceptance of substandard exposure in return for other more profitable business is generally described as
- (a) Underwriting audit
 - (b) Underwriting guide
 - (c) Policy statement
 - (d) Accommodation.

- (viii) Policies cover only the outstanding risk amount.
- (a) Whole life
 - (b) Endowment
 - (c) Unit linked
 - (d) Mortgage Redemption Insurance.
- (ix) Economic concept of endowment Insurance is basically a combination of
- (a) Decreasing term insurance and increasing savings
 - (b) Increasing term insurance and increasing savings
 - (c) Decreasing term insurance and decreasing savings
 - (d) Increasing term insurance and decreasing savings.
- (x) Professional indemnity insurance does not cover
- (a) Acts of Commission and Omission
 - (b) Acts of Negligence
 - (c) Liability arising out of failure of doctors' treatment
 - (d) Criminal act.
- (xi) What is the exemption under the condition of automatic renewal available to the insured ?
- (a) The insured need not have to pay the premium
 - (b) The insured need not have to put his consent again
 - (c) The insured need not have to undergo any medical test
 - (d) The insured need not have to pay any extra premium for the higher attained age.

(xii). Which of the following statement(s) is/are true regarding the amount of annuity instalment payable by the insurer ?

- (a) It is not related to the entry age of the insured
- (b) It increases with the entry age of the insured
- (c) It decreases with the entry age of the insured
- (d) It cannot be predicted so easily.

(xiii) Investment outflows generally result due to

- (a) initial investments
- (b) trading losses
- (c) transaction costs
- (d) All the above.

(xiv) The regulations restricting the investment quantum of an insurer in a particular company/group/industry is expressed in

- (a) Solvency norms
- (b) Exposure/prudential norms
- (c) Liquidation norms
- (d) Capital norms.

(xv) Collateral assignment implies

- (a) Temporary/conditional transfer
- (b) Absolute transfer
- (c) Transfer of only obligations
- (d) Transfer of all rights.

2. Fill up the blanks :

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- (i) makes the proposal in an insurance contract.
- (ii) risks may have happy or favourable outcomes in addition to loss or break even situations.
- (iii) means the insured is restored to his or her approximate financial position prior to the occurrence of the loss.
- (iv) In the discussion about cost of doing insurance business, is referred to as the amount needed to pay all expenses, including commissions, general administrative expenses and an allowance for contingencies and profit.
- (v) A representation need only be substantially correct while a must strictly and literally be complied with.
- (vi) Except the proponent and his own life, as well as husband and wife, no other emotional relationship leads to any
- (vii) Substitution of the insurer in place of the insured for the purpose of claiming indemnity from a third person for a loss covered by insurance is called as
- (viii) A contract of means the insured must accept the entire contract, with all its terms and conditions which are fixed by the insurer.
- (ix) Excluded perils, excluded losses and excluded form three types of exclusions in insurance contracts.
- (x) When a reinsurance company shares its loss exposures with other reinsurer(s), it is referred to as
- (xi) Direct losses, indirect losses and losses are three categories of losses that arise due to natural disasters.
- (xii) The basic objective of is to develop a rate structure that will enable the insurer to compete effectively for business while earning a reasonable profit.

- (xiii) During determination of cumulative bonus in a health insurance cover, the sum insured under the policy shall be progressively increased by percent in respect of each claim free year of insurance, subject to a maximum accumulation of ten claim free years of insurance.
- (xiv) Liability insurance is also known as insurance.
- (xv) Insurance company's assets are classified according to the nature of the for which the assets are held and invested.

3. Select True or False from the following :

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- (i) An individual's indifference to the risk because of the existence of insurance cover constitutes morale hazard. (T/F)
- (ii) Transfer of property in a life insurance policy cannot be done simply by an endorsement on the back of the policy document. (T/F)
- (iii) One can buy a life insurance policy for any unlimited amount at any point of time. (T/F)
- (iv) Mr. James has taken life insurance policy in 2005 and is regularly paying premiums, in 2010 he has committed suicide. Sum assured is payable to the nominees in this case. (T/F)
- (v) Loss prevention measures are intended to lower frequency of losses. (T/F)
- (vi) Liability insurance policies are generally expressed as providing indemnity against liability in law. (T/F)
- (vii) Subject-matter of contract of insurance is the physical object or property of the assured. (T/F)
- (viii) Traditional term premiums are based on aggregate mortality experience. (T/F)
- (ix) Investment management is a process involving asset liability management, integration of investment management and product design management. (T/F)
- (x) One of the functions of Ombudsmen is to settle disputes between insurers and intermediaries or insurance intermediaries. (T/F)

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| 4. | (i) Discuss the Pricing objectives in life and health insurance. | 5 |
| | (ii) Briefly discuss about Settlement options in Life insurance. | 5 |
| 5. | (i) Define Fidelity Guarantee Insurance. Briefly discuss about any two policies available under it. | 4 |
| | (ii) Define Maritime Perils and discuss about Insured perils or Uninsured perils in detail. | 6 |

Case Studies (Questions 6 & 7)

6. Dr. Das Biswas of 45 years age is practising as a physician, he had worked earlier with various hospitals for the last twenty odd years. Since past four years he is on his own and runs a clinic almost round the clock. He maintains his health and fitness very well and wants to practice till his last day. Dr. Biswas was quite successful as a self employed person as he is making out not less than Rupees two lakhs per month, in that rural area. He has under him three nurses, two compounders and two substaff, who were drawing salaries in the range of Rs. 6,000 to Rs. 18,000 per month. One Mr. Pranav, an insurance agent, has approached Dr. Biswas and tried to impress upon the importance of insurance to everyone over there. Subsequently, Mr. Pranav had the following information from the interaction with members in the clinic.
- Dr. Biswas says that he himself is a doctor and maintains very good health, hence there is no need for insurance, as long as he is alive.
 - Even though Dr. Biswas was confident about his income/savings when he is alive, however, he was slightly skeptical about the future of his family after his demise.
 - Employees with relatively higher salary are keen to take insurance which offers flexibility in premium payments, sought to explore the opportunities in the stock market, simultaneously having insurance protection.

- Employees in lesser salary range, shown keen interest in providing financial security to their respective families in their absence, however said that they cannot afford a bigger premium.

Questions :

- (a) Suggest suitable insurance products to the prospective customers in the above case.
- (b) Discuss the unique characteristics of these products.

7. Hyderabad Air Show turns tragic :

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“In March, 2010, an Air show was undertaken at Begumpet in Hyderabad which turned out to be very tragic for some people. Two pilots of naval aircraft and a civilian were killed after an aircraft crashed on a nearby residential building. Seven others were also injured in the mishap.”

Questions :

- (a) What are the risks involved in the above event ?
- (b) Identify and discuss, how such risks can be managed by insurance and who should be taking insurance.