

# Question Paper

## General Insurance: Personal & Commercial (MB3G2INS) : October 2008

### Section A : Basic Concepts (30 Marks)

- This section consists of questions with serial number 1 - 30.
- Answer all questions.
- Each question carries one mark.
- Maximum time for answering Section A is 30 Minutes.

1. Which of the following are **not** man made calamities?

[<Answer>](#)

- I. Traffic accidents in which passengers or pedestrians are injured or dead, in addition to damage to vehicle involved and other properties.
  - II. Industrial accidents in factories, petrochemical plants, thermal power stations, etc.
  - III. Natural calamities which are termed as pure risks are also of contingent nature. Floods and cyclone have caused extensive damage and adversely affected the financial condition of those parts of the country.
  - IV. Earthquakes also have had similar effects.
  - V. Terrorist attack (on WTC) is the most recent example of contingent risk that produced losses of different descriptions affecting the financial system of that part.
- (a) Both (I) and (II) above
  - (b) Both (III) and (IV) above
  - (c) (II), (III) and (IV) above
  - (d) (III), (IV) and (V) above
  - (e) (I), (II), (III) and (IV) above.

2. Financial system is defined as

[<Answer>](#)

- I. Set of institutions.
  - II. Set of instruments.
  - III. Set of markets.
  - IV. Fostering savings.
  - V. Allocating the savings among competing users.
- (a) (I), (II) and (III) above
  - (b) (I), (II), (III) and (IV) above
  - (c) (I), (II), (III) and (V) above
  - (d) (I), (III), (IV) and (V) above
  - (e) All (I), (II), (III), (IV) and (V) above.

3. Which of the following is **not** common to risks that are classified as pure, static, fundamental and particular?

[<Answer>](#)

- (a) Their capacity to produce loss and suffering to persons and possibility of some gain
- (b) Their uncontrollability once they occur
- (c) Another feature is their un-predictability
- (d) Their impact on a large section of people or geographical area
- (e) They all have financial consequences.

4. Which of the following is **false** regarding group Personal Accident policy?

[<Answer>](#)

- (a) The number of persons and the sum insured in each class should be specified when the cover is taken
- (b) Only members of an Institution/Association/Club/Society etc., wherever the group is well defined and a register of membership is maintained and it is possible to find out the number of members at any given time, can be covered
- (c) The employees working in Institution/Association/Club/Society etc. can also be covered
- (d) Issue of group policies for public places like hostel, cinema, or for specified short duration for covering visitors at exhibition, conference etc. is not permissible
- (e) A declaration policy can be issued whether by addition/alteration could be effected by charging additional premium or allowing as refund, a prorata premium for the unexpired period of insurance. However the refund will be allowed only if there is no claim in respect of the particular insured person. But no alteration is permitted in the group discount.

5. Which of the following is **not** an advantage under Griha Raksha Policy?

[<Answer>](#)

- (a) Choice of selecting from twelve alternative packages  
 (b) Fixed liability limit provides cover on first loss basis  
 (c) No under insurance  
 (d) Convenient lump sum premium ranges from Rs.200 to 2500 depending on the sum insured and type of policy  
 (e) No compulsion of opting for minimum number of sections to avail discounts.
6. Both risk management and insurance help society and individual? [<Answer>](#)
- (a) By managing risks in a most economic and efficient manner in the society  
 (b) By encouraging people to lead a carefree and at times even a careless life enjoying all modern technological advancements  
 (c) By helping them to satisfy all their desires that require money  
 (d) By removing difficulties faced by them in solving social problems  
 (e) By establishing a socialistic pattern of society or capitalist society as per their wishes.
7. Which of the following classes of business is/are covered by market agreements? [<Answer>](#)
- I. Tea crop insurance.  
 II. Cattle insurance.  
 III. Agricultural pump set insurance.
- (a) Only (I) above  
 (b) Only (II) above  
 (c) Both (I) and (II) above  
 (d) Both (II) and (III) above  
 (e) All (I), (II) and (III) above.
8. Which of the following is **not** a measure to improve the risk? [<Answer>](#)
- (a) Installation of sprinklers and fire extinguishers reduces the risk of fire damage  
 (b) Segregation of hazardous processes and construction of perfect party walls to provide effective fire brakes  
 (c) Improvements are effected by the fitting of additional locks and bolts and installation of alarm system reduces the risk in burglary insurance  
 (d) Warranties are incorporated to improve risk by the insurer  
 (e) Suggest better method of supervision of accounts or a system of audit which would render defalcations most difficult in fidelity guarantee insurance.
9. Which of the following is **not true** with regard to Tariff rules under Workmen's Compensation Cover? [<Answer>](#)
- (a) Any risk, for which no rate has been provided in the Tariff is to be submitted to the Tariff Advisory Committee for fixing a rate for such a risk  
 (b) No minimum premiums are stipulated in the Tariff  
 (c) Policies cannot be issued to cover liabilities in excess of that provided by the tariff forms of policies and endorsements  
 (d) All policies are to be issued for 12 months. However short period policies may be issued in cases of specific contracts which will be completed in less than 12 months provided the policies are written for the full period of the contract  
 (e) A special rate may be fixed by the Tariff Advisory Committee for any risk the wages of which are estimated to exceed Rs. 50,000 per annum.
10. In case of death, the liability of the insurer is restricted to sum insured under which of the following policy(ies)? [<Answer>](#)
- I. Liability policy.  
 II. Personal accident policy.  
 III. Life insurance policy.
- (a) Only (I) above  
 (b) Only (II) above  
 (c) Only (III) above  
 (d) Both (II) and (III) above  
 (e) All (I), (II) and (III) above.
11. Which of the following statements is **false**? [<Answer>](#)

- (a) Marine insurance is the oldest form of insurance. All other branches of insurance have gradually developed out of practices followed by marine insurers and policyholders to solve their problems under Judiciary guidance
- (b) Fire insurance was developed out of great fire of London city, the same principles were applied successfully to the issues arising in fire insurance
- (c) Accident or miscellaneous insurance is the outcome of industrialization and rapid advancement of trade and commerce
- (d) Life insurance has been developed subsequently with suitable modifications
- (e) Core of the common law principles on insurance have no relevance to the principles laid down by the law of contract.

12. Which of the following is **not** a risk management technique?

[<Answer>](#)

- (a) Risk avoidance
- (b) Risk protection
- (c) Risk spreading
- (d) Risk prevention and minimization
- (e) Risk transfer.

13. There is a lot of difference between selling and marketing and the insurance industry is quite often concentrated on selling at the expense of marketing. Which of the following is/are **true** regarding marketing?

[<Answer>](#)

- I. Marketing is more focused on the customer.
- II. It satisfies the customer needs at an economic cost and providing service in that process.
- III. The insurer divides the market into various segments to identify the opportunities and to provide services.
- IV. It carries out research to find out from the types of policies and at the price and characteristics required.
- V. It creates an organization to make the product or service available to the customer at a proper time, place and price.

- (a) (I), (II) and (III) above
- (b) (I), (II) and (IV) above
- (c) (I), (III) and (IV) above
- (d) (I), (II), (III) and (IV) above
- (e) All (I), (II), (III), (IV) and (V) above.

14. Which of the following is **false** with regard to insurance brokers?

[<Answer>](#)

- (a) Whenever standard products are not adequate, they prepare a manuscript policy and negotiate with the insurer to optimize satisfaction of their clients
- (b) As the brokers negotiate with many insurance companies, they do not act as catalysts of competition in the insurance market
- (c) Brokers provide link between the insured and the insurer
- (d) Unlike agents who are retained on behalf of insurers, the primary responsibility of brokers is towards the insured
- (e) The insured, especially corporate clients do need the services of a broker to buy their insurance requirements.

15. Proper settlement of claims requires

[<Answer>](#)

- I. A sound knowledge of the law, principles and practice of which govern insurance contracts.
- II. A thorough knowledge of the terms and conditions of the standard policies, various extensions and modifications there under.
- III. It is equally important that in claims, negotiations should be on the basis of the insured's patience, fact and understanding of the situation.

- (a) Only (I) above
- (b) Only (II) above
- (c) Only (III) above
- (d) Both (I) and (II) above
- (e) All (I), (II) and (III) above.

16. Which of the following are advantages of standardization of fire policy?

[<Answer>](#)

- I. Guards against misuse or fraud by either the issuing company or the agents.
- II. Avoids competition between the companies.
- III. Simplifies the training of agents and thus results in better public awareness.
- IV. With the rapidly changing field like insurance, more frequent revisions are necessary, which is not feasible in case of standardized fire policy.

- (a) Both (I) and (II) above
- (b) Both (II) and (III) above
- (c) Both (III) and (IV) above
- (d) (I), (II) and (III) above
- (e) All (I), (II), (III) and (IV) above.

17. Which of the following is **not true** about leading underwriter in aviation insurance?

[<Answer>](#)

- (a) He should have sufficient experience and expertise in the aviation industry
- (b) He has no role to play in claims settlement
- (c) It is his duty to set the insurance coverage terms and agree upon a policy wording on behalf of the market
- (d) Earlier, leading underwriters were responsible for setting the terms and other underwriters would follow the same terms. But now with larger placements, leading underwriters set premiums which they require for their personal participation, and other underwriters will then participate in a variety of premium terms at a considerable discount to the leader's terms
- (e) The leading underwriters receive a fee from other underwriters because of the various additional work and responsibilities taken by them.

18. Which of the following points should be taken note by the insurers with regard to claims settlement?

[<Answer>](#)

- I. The aircraft was the one which was insured under the policy.
  - II. The policy was in force when the accident occurred.
  - III. The pilot was the permitted pilot under the policy.
  - IV. The accident occurred within the geographical limits of the policy.
  - V. The purpose for which the aircraft was used at the time of the accident was the purpose of use covered by the policy.
- (a) Both (I) and (II) above
  - (b) Both (I) and (III) above
  - (c) (I), (II) and (III) above
  - (d) (II), (III), (IV) and (V) above
  - (e) All (I), (II), (III), (IV) and (V) above.

19. In Erection All Risks Policy, what is minimum value of insurance which ranks for a discount in premium?

[<Answer>](#)

- (a) Rs.100 cr.
- (b) Rs.150 cr.
- (c) Rs.200 cr.
- (d) Rs.250 cr.
- (e) Rs.300 cr.

20. Which of the following is/are **excluded** risk(s) under poultry insurance policy?

[<Answer>](#)

- I. Accidents or diseases.
  - II. Unknown diseases or natural mortality.
  - III. Theft and clandestine sale of birds.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Both (I) and (II) above
  - (d) Both (I) and (III) above
  - (e) Both (II) and (III) above.

21. Which of the following statements is **false**?

[<Answer>](#)

	Season	Crops	Premium Rate
(a)	Kharif	Bajra and oil seeds	2.5% of sum insured or actuarial rate whichever is less
(b)	Kharif	Other crops	Same as above
(c)	Rabi	Wheat	1.5% of S.I, or actuarial rate whichever is less
(d)	Rabi	Other crops like pulses	2.0% of S.I, or actuarial rate, whichever is less
(e)	Kharif/Rabi	Annual commercial & horticultural crops	Actuarial rated

22. Which of the following is **not** an objective of Pilot Scheme on Seed Crop Insurance?

[<Answer>](#)

- (a) To provide cover against the risks which are beyond the control of the insured, like failure of seed crop field either in full or in part due to perils
- (b) To provide financial security and income stability to the Seed Growers in the event of failure of seed crop
- (c) To build confidence in the existing seed growers and stimulate participation of new growers to undertake seed production program of newly released hybrid/improved varieties
- (d) To provide stability to the infrastructure established by the State owned Seed Corporations/State Farms
- (e) To give a boost to the modern seed industry to bring it under scientific principles. [<Answer>](#)
23. All of the following are the limiting features of warranties in a marine insurance policy **except**
- (a) Change of port of departure
- (b) Change of destination
- (c) Deviation from voyage
- (d) Change of weather
- (e) Delay in voyage. [<Answer>](#)
24. Which among the following are the classifications of marine insurance depending upon the nature of interest covered?
- I. Policies covering damages or loss to mode of conveyance.
- II. Policies offering protection against liabilities to third parties.
- III. Policies covering loss or damage to Cargo shipments.
- IV. Policies covering credit related risks.
- V. Policies covering various freight interests.
- (a) Both (I) and (II) above
- (b) Both (II) and (III) above
- (c) (I), (II) and (III) above
- (d) (I), (II), (III) and (IV) above
- (e) (I), (II), (III) and (V) above. [<Answer>](#)
25. Which of the following salient features of workmen's compensation policy is **not true**? [<Answer>](#)
- (a) This policy covers statutory liability of an employer for the death of or body injuries or diseases exposed due to occupation by the workmen arising out of and in the course of employment
- (b) The Act provides very wide meaning for the term "arising out of and in the course of employment" Death of or injuries arising out of an employee's own negligence are also treated as arising out of employment
- (c) This being a legal liability, the claim amount payable is the amount of compensation awarded by a court of law. A workman engaged for casual duties by his employer are also covered along with those workman engaged in the insured's business, profession or occupation
- (d) This class of insurance is controlled by the Tariff which provides the rate of premium for various categories of trades and occupations as also rules and regulations governing the business practices
- (e) The rate of premium depends upon the nature of works of the insured. Separate rates for each trade or occupation of the insured are provided by the Tariff. Each division of trade or occupation may contain different sub-divisions with different rates, if there are significant variations in the hazards. [<Answer>](#)
26. In product liability and professional indemnity policies, claim is paid subject to excess. Who bears this amount?
- (a) Insured
- (b) Insurer
- (c) Beneficiary
- (d) Insured and Beneficiary on agreed proportion
- (e) Insured and Insurer on equal basis. [<Answer>](#)
27. Which of the following insurance policies protect the banks from losses if the borrower defaults on repayment? [<Answer>](#)
- (a) Municipal bond insurance
- (b) Mutual fund insurance
- (c) Export credit insurance
- (d) Mortgage guarantee insurance
- (e) Deposit guarantee insurance. [<Answer>](#)
28. Which of the following features of contract surety bonds is **false**? [<Answer>](#)

- (a) Facilitates the use of competitive bids resulting in lower construction costs
- (b) Reduces the possibility of a contractor diverting funds from the project
- (c) Contract surety bond does not give guarantee that the project will be completed as per the terms and at the determined contract price
- (d) Relieves the owner from the risk of financial loss arising from liens filed by unpaid laborers, suppliers and sub-contractors
- (e) Smoothens the transition from construction to permanent financing by eliminating liens.

29. Which of the following is **not** covered under money insurance policy?

[<Answer>](#)

- (a) Loss occurring at the premises after business hours unless money is locked in a safe or strong room
- (b) Loss of cash withdrawn for the payment of wages, salaries, other payments or petty cash in direct transit from the bank to the premises of the insured
- (c) Loss of cash in personal custody of the insured or his authorized employees in direct transit between the bank and the premises of the insured
- (d) Loss of cash collected by and in the custody of the insured or his authorized employees in transit between the bank and the premises of the insured within a period not exceeding 48 hours from the time of collection
- (e) Loss of cash on the premises during business hours.

30. Which of the following statements is **not true**?

[<Answer>](#)

- (a) Risk management assumes significance in insurance business as it can diminish the effect of loss
- (b) The major steps involved in risk management are risk identification, risk analysis and risk control
- (c) Rate making involves the selection of classes of exposure units on which to collect statistics regarding the probability of loss
- (d) Gross premiums calculated equals historical premium and expenses experience
- (e) The basic components of insurance premium are claim payments and cost, general operating expenses of the insurance company and underwriting profit or loss.

<b>END OF SECTION A</b>
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### Section B : Problems (50 Marks)

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| <ul style="list-style-type: none"> <li>• This section consists of questions with serial number 1 – 4.</li> <li>• Answer all questions.</li> <li>• Marks are indicated against each question.</li> <li>• Detailed workings should form part of your answer.</li> <li>• Do not spend more than 110 - 120 minutes on Section B.</li> </ul> |
|---|

### Family Risk Management:

[<Answer](#)  
[≥](#)

From time immemorial human beings have been concerned with the search for security against future uncertainty which may result in financial loss. The future uncertainty may take the form of untimely *death*, loss of possessions due to accidental events like fire, theft, etc., and body injury due to accident, illness, etc. Throughout the known history, human beings have been developing techniques and strategies for managing the risk element. Till recently, the joint family system was considered a bulwark against such contingencies. In addition, most religious minded people turned to Lord Almighty and pray for protection against calamities, disasters, misfortunes, accidents and other types of difficulties. The concept of paying for protection through the mechanism of insurance is only a recent phenomenon which has caught the imagination of the people only during the later part of the 20th Century.

In spite of the insurance mechanism being available, people believed or still believe in self-insurance and risk management through other methods and techniques. For example, appointment of security staff for preventing theft, losses, undergoing periodical medical check-ups to control sickness. Risk management developed as a separate discipline in relation to corporate management in business, industry and commerce. But, as far as the individual is concerned, he relies more on self-insurance, risk avoidance, loss prevention and minimization. The process and techniques of risk management can also be applied to family risk management with suitable modifications.

You are **required**:

- a. Identify areas of potential Losses. ( 5 marks)
- b. How do you measure the loss potential? ( 5 marks)
- c. What strategies need to be adopted to control the risk element? (10marks)

[<Answer](#)  
[≥](#)

2. Insurance business manages risks through risk transfer. Spreading the risks that are accepted geographically, functionally and chronologically is one of the main methods it employs. The insurance device or mechanism has various facets- legal, financial, marketing and personnel. But all these aspects should culminate in the technical foundation of the whole enterprise. As ably expressed by Walter Karten, "The basic product of an insurance company is protection". The insurer binds himself by the contract to make a conditional payment which would serve as a compensation for certain economic disadvantages suffered by the insured resulting from an accidental occurrence. The insured event and the contractual obligations are well defined in the insurance contract to determine clearly the nature and extent of insurance protection. Protection for the insured is provided against fluctuations in the amount of possible loss and the frequency of the underlying random events triggering such losses (the insured events). The insured event (and the way of evaluating its consequences) should be closely defined in the insurance contract in terms of cause, consequences, actual relation, region and time.

In the light of the above passage, you are **required** to discuss the need for Risk Assessment. (10marks)

3. A warranty is defined as an "undertakings by the insured that a certain state of affairs will, or will not, continue, or that something shall, or shall not be done, throughout the duration of the contract". For example, in fire insurance there will be a warranty on a policy to the effect that no liquids with flash point below a specific level are stored. This ensures that extremely hazardous inflammable liquids are not kept and so this warranty obviously maintains a reduced fire risk.

[<Answer](#)  
[≥](#)

You are **required**:

- a. In what way the warranties in fire insurance differ from the concept applicable in the law of contract? ( 5 marks)
- b. Explain the features of warranties in fire insurance. ( 5 marks)



4. Following a serious fire in a flat on 4<sup>th</sup> floor on account of explosion of a gas cylinder used for cooking purposes, the insured lodges a claim with the insurance company for the following items. He has insured his flat, furniture, personal effects, wearing apparel and other contents under Standard Fire and Special Perils Policy with extension of Earthquake (Fire and Shock). There is no under insurance.

Cost of repairs to a printer brought from office for use with his home computer, to do certain pending work at the weekend. Rs 1000.

Cost of repairing the two-in-one set damaged due to being dropped down from the stairs, out of anxiety while shifting the things from this flat to a safe place Rs.2500.

Cost of repairing the doors, windows, electrical fittings damaged Rs.5000.

An oil painting by a famous artist hung on the wall Rs. 12000.

Loss of woolen garments, and sarees Rs.20000.

Fire spread to the opposite flat and damaged their contents and he filed a case and the cost of defending the case Rs.3000.

Insured's pet dog suffered burn injuries and medical bill of Veterinary Doctor and the medicines Rs.500.

Cash kept in the table drawer which was charred Rs.1000.

You are **required** to:

- Explain with reasons the losses payable and adjust the ultimate liability. ( 6 marks)
- Explain features of floater policy? ( 4 marks)

**END OF SECTION B**

### Section C : Applied Theory (20 Marks)

- This section consists of questions with serial number 5 - 6 .
- Answer all questions.
- Marks are indicated against each question.
- Do not spend more than 25 - 30 minutes on Section C.

Insurance is a tariff business and with effect from 1<sup>st</sup> May, 2001 the revised All India Fire Tariff came into existence.

Briefly describe the changes brought about by the revised new tariff as far as an individual is concerned.

( 10 marks)

Service can be defined as "any act or performance that one party can offer to another that is essentially intangible and does not result in ownership of any thing. Its production may or may not be tied to a physical product". Since there is no transfer of ownership of any physical product in insurance it is classified as a service. It is a financial service because it indemnifies the customer against the financial losses and thus offers financial assistance to the customer.

Name the four commonly distinguished characteristics of any service that makes it different from goods.

( 2 marks)

Briefly discuss these characteristics in relation to the insurance sector.

( 8 marks)

**END OF SECTION C**

**END OF QUESTION PAPER**



# Suggested Answers

## General Insurance: Personal & Commercial (MB3G2INS) : October 2008

### Section A : Basic Concepts

Answer	Reason
1. B	Whether intentional or unintentional, the situation stated in (I), (II) and (V) are man made where as floods, cyclone or earthquake are natural disasters or calamities which have financial effect on those parts. <a href="#">&lt; TOP &gt;</a>
2. A	Financial system is defined as a set of institutions, instruments and markets. Fostering savings and allocating savings among competing users, is the economic activity of the financial system. <a href="#">&lt; TOP &gt;</a>
3. A	Their capacity to produce loss or suffering to person and there is no possibility of any gain. If we analyze risks, other than dynamic and speculative risks, other risks which are classified as pure, static, fundamental and particular, all the above features listed will make them insurable. <a href="#">&lt; TOP &gt;</a>
4. C	The employees working in such Institution/Association/Club/Society are to be covered separately at appropriate rates. All other conditions are applicable to group P A Policy <a href="#">&lt; TOP &gt;</a>
5. D	Convenient lump sum premium ranging from Rs.300 to Rs.2000 depending on sum insured and type of policy chosen. All others are advantages available to Griha Raksha Policy holders. <a href="#">&lt; TOP &gt;</a>
6. A	Risk management and insurance are means to manage risks in the society. They are not means to make money or solve social problems or encourage people to lead a careless life. They also do not help a person in solving his social problems nor do they establish a platform for the creation of a particular type of society. <a href="#">&lt; TOP &gt;</a>
7. E	All the three are covered by market agreements. A market agreement is considered more appropriate when dealing with a class of risk about which limited knowledge or experience is available. <a href="#">&lt; TOP &gt;</a>
8. D	Insurers incorporate appropriate warranties to reduce the physical hazard., where as all the others are measures recommended by the insurers to improve the risk, (i.e.) to reduce the possibility of loss or damage occurring or liability arising from the physical hazard. <a href="#">&lt; TOP &gt;</a>
9. B	Minimum premiums are stipulated in the Tariff. All others are true. <a href="#">&lt; TOP &gt;</a>
10D	The liability of the insurer is restricted to sum insured, in case of death of the insured, in respect of personal accident and life insurance policies. In case of liability policies, with unlimited liability for injury and death of third parties, there is no sum insured. <a href="#">&lt; TOP &gt;</a>
11.E	A body of important concepts, conventions and clarifications and interpretations has developed, which were pronounced by the well known judges like Lord Mansfield to become the core of the common law principles on insurance. These principles supplemented the principles laid down by the law of contract. All others are true. <a href="#">&lt; TOP &gt;</a>
12B	Risk protection is not a risk management technique; instead self-insurance is one of the techniques of risk management. All others are risk management techniques. <a href="#">&lt; TOP &gt;</a>
13E	Marketing is more focused on satisfying the customer's needs at an economic cost and providing service in that process. The insurer divides the market into various segments to identify the opportunities and to provide services, carryout research to find out further types of policies and at the price and characteristics required, create an organization to make the product or service available to the customer at a proper time, place and time. <a href="#">&lt; TOP &gt;</a>
14B	As the brokers negotiate with many insurance companies, they also act as catalysts of competition in the insurance market. All others are true. <a href="#">&lt; TOP &gt;</a>
15E	All the three are essential elements for proper settlement of claims. <a href="#">&lt; TOP &gt;</a>
16D	The first three points in the question are advantages of standardization of fire policy, where as the fourth point is in fact a disadvantage.

- 17B** He will be responsible for claim settlement. All others are true. [< TOP >](#)
- 18E** Once the surveyors submit their final report, it is the duty of the claim settler to [< TOP >](#) assimilate all the information and consider carefully all the terms and conditions and then decide whether or not the claims are covered by the policy. The insurer must carefully note all the points referred in the question with regard to claim settlement.
- 19A** Under the Erection All Risks policy, the rates are stipulated by the TAC and where the [< TOP >](#) projects are of value more than Rs.100 cr., a discount in premium is allowed.
- 20E** Under poultry insurance, in order to avoid moral hazard unknown diseases or natural [< TOP >](#) mortality; theft and clandestine sale of birds etc. are excluded whereas the policy covers the risk of accident or diseases
- 21A** Premium rate applicable to Bajra and Oilseeds during Kharif season is 3.5% of sum [< TOP >](#) insured or actuarial rate, whichever is less.
- 22A** It is the risk cover under the scheme “Pilot Scheme on Seed Crop Insurance” and it [< TOP >](#) itself is not an objective. The objectives of the scheme are listed in the question from (b) to (e).
- 23D** In marine insurance there are some limiting features of warranties, which frees insurer [< TOP >](#) from the risk to which the insured is exposed. However change in weather is a covered peril in marine insurance policy, as insured has no control on the weather conditions. Hence option (d) is the relevant answer, other options are indeed the limiting features of warranties.
- 24E** Marine Insurance policies can be broadly divided into four major types depending [< TOP >](#) upon the nature of interest covered viz., Policies covering damages or loss to mode of conveyance, Policies offering protection against liabilities to third parties, Policies covering loss or damage to cargo shipments and Policies covering various freight interests.
- However marine insurance policy does not cover the credit risk exposed to the parties and they are covered by the separate credit insurance policies available in the market. Hence option (e) is the relevant answer.
- 25C** A workman who is engaged for casual duties by his employer (casual not by time) is [< TOP >](#) not a workman within the meaning W.C. Act, 1923. Hence they are not covered under the policy. All others are true.
- 26A** The excess either compulsory or voluntary is to be borne by the insured. It is meant to [< TOP >](#) make him coinsurer so that he will be careful. Excess cannot be imposed in case of compulsory liability insurances like W.C. or Motor TP or PLI policy.
- 27D** Mortgage guarantee insurance policies are meant for protecting the bankers from losses [< TOP >](#) if the borrower defaults on repayment. Other policies mentioned are not relevant in this regard.
- 28C** Contract surety bonds guarantee that the bonded project will be completed according to [< TOP >](#) the terms of the contract and at the determined contract price. All others are correct about contract surety bonds.
- 29A** Loss occurring at the premises after business hours is not covered unless money is [< TOP >](#) locked in a safe or strong room. Loss of cash on the premises during business hours, secured in a locked safe or strong room on the premises of the insured and after business hours against the risks of burglary, housebreaking, robbery and holdup—are covered under the policy.
- 30D** Gross premium calculated equals the sum of pure premium and loading. [< TOP >](#)

## Section B: Problems

1. a. The first step in the process of family risk management is the identification of the areas of potential loss exposures, for example fire, explosion of domestic gas, theft, etc. Family assets comprise residential property (cottages, bungalows, apartments etc.), contents in residence (household goods, furniture, cash, jewelry, television/VCR etc.), vehicles (two wheelers, three wheelers or four wheelers) or any other property owned, hired, or leased. Direct property losses may result in indirect or consequential losses. For instance, the owner of a building may suffer loss of rent following damage to the building by an insured peril. Tenants and owner occupants may have to incur additional expense of rent for an alternative accommodation. Another area of loss exposure is human life. Accidental body injury resulting in death or disablement may have serious adverse financial consequences on the family. As a matter of fact, disablement is more serious not only for the family but also for the individual himself. [< TOP >](#)

- b. The second step is the measurement of the loss potential in terms of money to decide the amount of insurance to buy. 'Assets' have to be insured at their 'market value' which, for insurance purposes, means the current replacement cost or current purchase price, less an amount deducted for depreciation. For example, a residential building has to be insured for its current building costs less an amount for depreciation calculated in relation to the age of the building, its wear and tear due to lack of maintenance and exposure to natural elements like rain, wind etc.

Potential legal liabilities present some problems. The amount of compensation payable to third party damages and workmen's compensation to chauffeurs and domestic servants is prescribed by law. In the case of personal and professional legal liability the amount of legal damages payable would be determined by courts of law based on individual circumstances. The amounts to be insured would depend upon the insured person's attitude towards 'risk' and premium paying capacity. A risk conscious person would insure for higher amounts.

- c. The third and final step in the process is to decide on the strategies to be adopted to control the risk element. These strategies are: risk retention; loss prevention; and purchase of insurance.

- Risk Retention or Self-Insurance

If the potential losses are small or the probability of their occurrence is low the family can afford to pay for the losses from the current income or by withdrawals from savings accounts. For example, if jewellery is placed in a bank safe deposit vault throughout the year and never withdrawn to be worn, then there is no need to be covered by 'All Risks' insurance against loss by theft, etc. Similarly, personal legal liability need not be insured, in view of the remote probability of law suits for personal negligence in this country. No hard and fast rules can be offered as regards no-insurance and risk retention. To what extent a family could do without insurance and absorb its own losses depends upon its economic status, its attitude towards 'risk', the size of the potential losses, the probability of their occurrence, etc.

- Loss Prevention

Whether or not there is an insurance, effort to reduce the chances of loss are absolutely necessary in the interest of family welfare. Regular maintenance of electrical wiring, strict compliance with instructions for operation of cooking gas, etc., will reduce the risk of fire. Employment of reliable domestic servants and security staff may prevent theft losses; periodical medical check-ups may help in early detection of an illness which could otherwise have serious consequences. Even when insurance is obtained, sufficient steps should be taken to prevent losses.

- Purchase of Insurance

In spite of all the efforts to control 'risk' through measures taken for loss prevention and reduction, losses do occur in the most unexpected situations and hence, the purchase of insurance cannot be dispensed with.

Insurance may be described as a system of sharing of losses through the administration of a fund, comprising premium contributions of the 'many' who are exposed to a loss, from which compensation is paid to the 'few' who actually suffer losses.

From the legal point of view, insurance may be defined as a contract whereby in consideration of receipt of premium, the underwriter promises to compensate the losses suffered by the insured person, subject to the terms and conditions of the contract. Through the system of insurance, future uncertainty of a large loss is replaced by present certainty of a small loss viz., premium.

## **2. Need for risk assessment:**

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To evaluate the compensation to be paid following a certain insured event, the insurer has to determine the insured value, assess the extent of loss and assign compensation. The quality of the insurance product is determined not only by the security of the promised payment but also by the different kinds of services integrated into the product. The price of the insurance product is the total amount the policyholder has to pay depending upon several factors like taxes and premium for reinsurance protection.

The objective of this transfer is to provide protection against the risk of financial loss due to the occurrence of an unexpected event. This is achieved through the insurance device which works as explained in the above paragraph.

So, the first step is to define the risk both in terms of what it includes and excludes. The insured is the owner of the risk and he offers them to the insurer for transfer. But quite often the problem here is that the insured is not very clear or he does not have a comprehensive picture of the risk and how it manifests in the future affecting the insured subject matter.

The insurance company plays an active and positive role in defining the risk and the policy which is the product it sells bereft of its legal position according to which the insurer is supposed to accept the offer of risk made by the insured. Since the insurer is responsible for the products, it has to play a proactive and dominant role in the whole transaction. The insured remains a passive customer hoping to receive the insurance protection, which is a contractual obligation for which he is entitled to, when he buys a policy and pays the premium.

The insurance company has several responsibilities, which are technical in nature when the “offer” of risk is received from the prospective insured. The risk has to be assessed and evaluated before acceptance. Both the assessment and evaluation are purely technical functions.

The assessment and evaluation of risk is done on the basis of the analysis of the hazards related to the subject matter which the insured owns or with which he has a legal relationship. The hazards are of three types—physical hazard, moral hazard and morale hazard. To identify them the insurance company relies upon the insured and the data and information given by him apart from its own resources. Generally, the details of risk are collected through a proposal form and other supplementary forms and questionnaires from the insured.

Underwriting in insurance is a technical function and a multi-disciplinary approach and expertise are required. When proposals are received for insurance:

- a. The proposed risk has to be assessed to estimate its frequency and probable amount of loss.
- b. Having done this, decision regarding its acceptance and terms, conditions and scope of cover have to be taken.
- c. The final stage is calculating appropriate premium, which is the contribution to common pool.
- d. It should be fair and related to the degree of hazard and naturally it differs from group to group.

The rating exercise is done by Tariff Advisory Committee where the business is covered by it. In case of non-tariff business the insurance companies are responsible for this exercise, IRDA as the regulator has got the responsibility to monitor the pricing and methodology adopted:

- a. To ensure consumer interests are protected,
- b. To maintain stability in the insurance markets and
- c. To interface where pricing is detrimental to the market.

IRDA achieves these objectives by issuing guidelines from time to time and enforce them strictly.

3. a. The concept of warranty in a fire insurance policy differs from the concept applicable in a law of contract. In a law of contract, a warranty is a minor contractual term, a breaching of which gives the innocent party the right to claim damages for breach, but not to refuse further performance under the contract. In a fire insurance policy, warranty is a promise [< TOP >](#)

made by the assured, which if broken, allows the insurer to deny liability as from the date of breach. The seriousness of the situation can be revealed from a small instance. If a person who subscribed to fire insurance policy brought a can of petrol on the premises for one day, the insurance company can negate the policy for that day.

- b. A warranty in fire insurance has the following features:
- It is an unconditional promise by the assured
  - It need not relate to the material fact
  - It must be adhered to exactly
  - The assured cannot remedy a breach of warranty, as the fact of breach determines the insurer's liability.

An assured may be required to warrant one of the three things:

- That a particular fact is true or that an intention is held by the assured, at the date of the policy.
- That the assured generally holds a particular opinion at the date of the policy
- That the assured will act, or will refrain from acting, in a stated fashion during the period of the policy.

The following points with respect to warranties are worth noting:

- A warranty is a condition which forms a part of the contract. "A warranty is a condition or contingency and unless it is performed there is no contract. It is perfectly immaterial for what purposes a warranty is introduced, but being introduced, the contract does not exist unless it is literally complied with".
- A breach of warranty permits the insurer to avoid the claim under the policy, whether the breach has any connection with the loss or increases the risk.
- Warranties apply during the entire period of the policy. All warranty forms attached to the policy incorporate a condition to this effect.
- Some warranties can be deleted by paying extra premium. Certain warranties are a permanent part of the contract and cannot be deleted. Example: daily removal of waste.
- If the warranty that all fire proof doors would be closed at night is broken, its effect on the contract would depend on the following circumstances:

If the doors were left open one night only and a fire occurs on that night, then the insurers would not be liable for the loss.

If the doors were closed in the night for 6 months and were regularly left open after that, then the policy would be avoided from the date when the regular closing of the doors ceased, until that date the contract enjoys full validity.

If the doors were left open for one night only and no fire occurred, but the fact came to light 2 months later following a fire when the doors were closed, then the insurer, according to strict legal position will not be liable for the loss, although the breach of warranty had no connection with the loss.

4. a. As per Standard Fire and Special Perils policy the following losses are adjusted.

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a.	Uninsured item	Not payable
b.	Loss minimization effort-payable	Rs.2,500
c.	Damages by insured peril	5,000
d.	Unless declared, indemnification limited to	10,000
e.	Insured item	20,000
f.	Consequential loss/uninsurable	Not payable
g.	Uninsurable	Not payable
h.	Uninsured item	Not payable
	TOTAL	Rs.37,500
	Exclusion: Excess deductible	10,000
	Amount payable	27,500

b. **Floater Policies** can be issued for stocks at various locations under one sum insured. This is not allowed for goods in locations, which are not specified by the Tariff Advisory Committee. The rate shall be the highest applicable to insured stocks at any location with a loading of 10 percent.

In case stocks in a process block are covered under the floater policy and the rate for the process block is higher than the storage rate, the process rate plus 10% loading shall

apply. The presence of “Kutchha” construction is ignored for the issue of a floater policy. If stocks situated within godowns or process blocks in the same compound are covered under floater policy, no extra amount is charged

### Section C: Applied Theory

5. [<TOP](#)
- There is only one single policy for covering all types of properties, which is called as standard fire and special perils policy. Previously there used to be three policies called A, B and C. [>](#)
  - For dwellings, a new tariff has been introduced as a long-term policy which can be taken for 10 years at a time. Provisions for covering dwellings, offices, hotels and shops, etc. located outside the compound of industrial manufacturing risks apply for residences also.
  - All buildings are treated as same for the purposes of rating except buildings which come under "kutchha" constructions. "Kutchha" construction can be defined as building(s) having walls and roofs of wooden planks/thatched leaves and/or grass/hay of any kind/bamboo/plastic cloth/asphalt cloth/ canvas/tarpaulin and the like. Additional rate of Rs.4.00 per thousand shall be charged for such building(s). The rate is common for building as well as contents. The implication of this change in the tariff is that the individual householders can now insure their houses even if they are constructed with any other material except as described above. Most of the houses are with single storied RCC roof and/or flats. These houses can be insured at ordinary rates. Even tiled houses which are very common in semi-urban and rural areas can be insured by paying the extra rate of Rs.4.00 per thousand .

The standard fire and special perils policy covers STFI (Storm, Tempest, Flood and Inundation) and RSMTD (Riot, Strike, Malicious and Terrorist Damage) perils from the inception of the policy. However, they can be deleted from the inception of the policy and a refund of Rs.0.15 per thousand and Rs.0.10 per thousand can be obtained respectively.

- The rates shown under tariff are minimum rates, and insurance companies may charge higher rates than the rates mentioned in the tariff.

In case of properties whose market value cannot be ascertained i.e., curious, works of art, obsolete machinery are covered under valued policies, subject to valuation certificate found acceptable by insurance company.

6. [<TOP](#)
- a. The four commonly distinguished characteristics of any service that makes it different from goods are: [>](#)
    - i. Intangibility
    - ii. Inseparability
    - iii. Variability
    - iv. Perishability
  - b. **Intangibility:** Services are intangible as they can be experienced only when delivered. This aspect makes the marketing of services very difficult when compared to the marketing of goods. Service marketing is difficult because services cannot be produced or supplied ahead of time. The issue of intangibility in insurance is of particular importance because it is the most intangible of all services. Indeed the customer would not know the ultimate result of what he or she has purchased. This aspect of intangibility is covered by the insurance companies by way of strong visual symbols and pictures, like The Prudential Co's "Gibraltar" and LIC's "Protective Hands". The intangibility of services makes the patent protection of insurance services impossible and it is very difficult to compute the actual cost of production.
- Inseparability:** Unlike goods, services cannot be delivered without the presence of the customer. Services require active participation of the customer. Another important interpretation of the inseparability of customer is the strong link between the individual service provider and the customer. Because services are produced at each location by different individuals, the uniformity in the quality of service cannot be assured. That is the reason why successful commercial general insurance service providers spend a considerable time, money and effort on human resources. Insurance is such a service that the delivery of service is inextricably tied to one particular service provider for which they are paid. That is why it is important for the insurer to maintain a long-term and pleasant relationship with the customer by providing good



service.

**Variability:** The quality of service is difficult to control. Customers are not sure whether they would receive the same successful services as their pleased neighbour. Services are unlikely to be the same every time because they involve the cooperation of several skillful individuals. This variability in quality of service has a great impact on the customer. To overcome this, it is required to design the services as uniformly as possible. Another way is to give the guarantee or assurance to the customer that he will be supplied with good service. Advertising and promotional campaigns can do a lot in this direction.

**Perishability:** Since the services are delivered in real time they cannot be stored for peak demand periods. It is not possible to meet the demand because they cannot be produced and stored in advance. A survey on the service firms revealed that the greatest operational challenge faced by service firms was of the perishability of services.

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