Section 2: True/False Questions

2.1 True
Houseowners policy covers the private dwelling, not the contents thereof.

2.2 True, page 165
Items specified separately will have an individual rate applied to them, to reach a fair rate the type of article insured must be looked at.

2.3 True, page 173
Loss or damage arising from war, riot and labour disturbances are standard exceptions.

2.4 True, page 168
If the final amount (claim) is more than the policy cover, the insured is responsible for the rest.

2.5 False, page 178
When cover is purchased, the insured must decide on an indemnity period.

2.6 False
Goods in Transit Insurance covers local deliveries or neighbouring countries, overseas deliveries must be covered by Marine Insurance.

2.7 False (see calculation)
\[
\text{[50,000 - 10,000]} \times 1.05 = 42,000
\]

2.8 True (page 205)
Because the larger the engine capacity, the more powerful the machine.
2.9 False page 244.

The effect of funding losses on the company's earnings per share is normally the most tightly constrained measure of its loss assumption ability.

2-10 True pg 184.

Care for money whilst at the premises overnight in a lockable safe.

Section B

Short Questions

Question 3:
Negotiation

- is the most common way of handling disputed claims. The process will normally involve the broker, insured and insurer.
- Discussions are held until an amicable agreement is reached.

Litigation

- Involves legal proceedings and is costly, it should be viewed as a last resort.
- If the insurer repudiates liability, however, it may be the only option open to the insured.

Arbitration

- is a process whereby an independent party is appointed to hear both sides of the argument.
- Arbitration can only be used to resolve problems of quantum which is the amount of the settlement.

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<table>
<thead>
<tr>
<th>Finite Insurance</th>
<th>Conventional Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Multi-year contracts</td>
<td>Normally one year only</td>
</tr>
<tr>
<td>2. Aggregate limit of cover such that the insurer's exposure is limited</td>
<td>- The exposure of the insurer is usually unlimited.</td>
</tr>
<tr>
<td>3. Premiums are higher</td>
<td>- Lower premiums</td>
</tr>
</tbody>
</table>

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Question 5 page 262
Question 6  Pg 32

1. Of insurance Brokers.
   - 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 guarantee to cover any premiums.

2. The broker also introduces new businesses or existing businesses to the market and earns commission for any business sold.

Question 7  page 207
Motor Traders External Cover

Vehicle Cover Circumstances

- Covers vehicles whilst:
  - On the road
  - Temporarily garaged in the course of a journey

Vehicles Covered
- Insured's own vehicles and vehicles in his custody and control

Possible exclusions
- There is no cover while vehicles are at the insured’s premises, only when outside the boundaries of any premises owned or occupied by him for the purpose of the business.
Question 8

Provided condition of average.

Suppose a house owner takes R200,000 worth of fire insurance on his home. The home is actually valued at R300,000. A fire subsequently breaks out in the home causing $60,000 worth of damage.

Since the insurance covers $2/3$ of the value of the property, the insured will only recover two thirds of the cost of damage:

$$\text{Cost of damage} = \frac{2}{3} \times 60,000$$

$$= 40,000$$

Special condition of average.

In some cases, it is very difficult to assess an exact sum insured as values may fluctuate. To avoid average being unfairly applied in these cases, some insurers also offer an amended average condition whereby if the sum insured is $75\%$ or more than the value at the time of loss, no deduction is made for underinsurance.
Section A

1.1 A stable liquidity position throughout the sales cycle

1.2 Consideration in terms of insurance policies is not essential for concluding a contract

1.3 All Risks

1.4 option

1.5 70% x 20,000 = 14,000
     Excess = 18,000 - 14,000 = 4,000
     Losses = 18,000
     Treaty = 4,000 x 90% = 3,600

1.6 option 4 - page 96.

1.7 option 2 - page 69

1.8 A set of golf clubs stolen from a locker at school.

1.9 Insurable interest must exist when a life policy is issued

1.10 Net line = 5,000
               Net net line = 5,000 + 30% = 7,500
               Treaty = 7,500 x 9 = 67,500
               Coinsurance = 67,500 x 500 = 75,000
               Sum Insured = 110,000
               Facultative = 110,000 - 75,000 = 35,000

1.11 option 4 - page 105.
1.13 An excessive claim reserve may result in a higher solvency margin [pg 140] [4]

1.14 Policyholders usually prefer higher solvency ratios [pg 139] [4]

1.15 Be able to claim the full benefits of both policies [pg 165] [3]

1.16 Under Third party only cover, no cover is provided for the insured's vehicle [pg 199] [1]

1.17 Are normally rated on the wage figure of the business [3] page 207

1.18 Damages caused by a nuclear attack is a typical example of a uninsurable risk [1] page 71

1.19 Hull insurance covers the vessel and associated machinery [2] page 225

1.20 Fidelity guarantee insurance provides cover against theft of money and Stock by employees [1]

End of 4th paper