OPEN BOOK EXAMINATION **343**

Roll No.....

Time allowed : 3 hours ***Maximum marks : 100***

Total number of questions : 6 ***Total number of printed pages : 6***

NOTE : *Answer* ***ALL*** *Questions.*

1. Sandeep had availed Housing Loan from SBI through whom he had been enrolled as a member of a Group Insurance Scheme on 12.09.2016, specifically designed for Housing Loan Borrowers of SBI group by SBI Life Ins. Co. In the good health declaration signed by him he had mentioned that he was never hospitalized for any critical illness or a condition requiring medical treatment for a critical illness as on date. This being a group insurance, no medical examination was carried out at the time of granting insurance cover. It is to be noted that unlike in individual proposal, where specific answer Yes or No are sought, for the questions on health, are not asked in the application for Group Insurance. Proposal form contains a Good Health Declaration clause where Sandeep had declared that he was in sound health. But unfortunately, Sandeep died on 18.01.2017 within 4 months 11 days of enrolling himself as a member of the Group scheme.

The insurer denied the claim and alleged that Sandeep has suppressed material facts of his suffering from chronic liver disease. To establish pre proposal illness the insurer has submitted two discharge summaries in respect of hospitalization of the disceased life assured. As per the discharge summary of GEM hospital Sandeep was admitted on 13.07.2016 and discharged on 14.07.2016. X- Ray and Scanning reports of Abdomen revealed shrunken liver with coarse Cho pattern splenomegaly, cirrhosis of liver with portal hypertension. The patient was diagnosed for colitis and treated. The above hospitalization is prior to the date of proposal i.e. 12.09.2016. Subsequent to the date of proposal Sandeep was admitted at KMC Hospital Coimbatore on 23.11.2016 and discharged on 2.12.2016. He was diagnosed for Alcoholic cirrhosis of liver with portal HT, c/o abdominal distension, swelling of both legs.

One of the Critical illness is defined in the policy as irreversible kidney/or irreversible liver failure. On a perusal of various documents it has been clearly established that Sandeep had concealed preexisting illness of Alcoholic Cirrhosis of liver disease, portal hypertension. It was also established that Sandep was an alcoholic and smoker. Hence the insurer has denied the claim with the established material facts of his suffering from chronic liver disease.

Sandeep's wife dissatisfied with the denial of the claim, filed a complaint against the insurance company and asks for a remedial action. Ombudsman in resolving this dispute analyzed the case on the following lines :

- Since on the date of proposal Sandeep had felt that he was in good health and declared that he was in sound health cannot be faulted. Further there was no evidence to say that he was ill on the date he signed the application.
- As per the insurer, the critical illness not disclosed in the present case is chronic liver disease. The terminology used in while defining critical illness is Irreversible Liver Failure. One cannot come to conclusion that Sandeep was suffering from irreversible Liver failure since as per records he was suffering from cirrhosis of liver.
- Further Sandeep may not be aware that he was suffering from Irreversible Liver Failure. Hence, Sandeep cannot be faulted for not disclosing his liver problem.
- In the present case Sandeep died on 18.01.2017 and, the policy was affected from 12.09.2016. There is a likelihood of his liver having got severely affected during the period of 4 months, in which case he has failed to make a true declaration to that effect before the insurer.

Considering all facts and in order to render justice to both the parties an ex gratia amount of ₹ 1,00,000 is awarded by the Ombudsman in full and final settlement of the claim. The complaint is partially allowed.

Based on the case given above, deal with the following issues :

(*a*) Is it Speculative risk or pure risk which prompted Sandeep to join Housing Loan Borrowers of SBI group insurance ? Justify your answer by differentiating both the risks. (*5 marks*)

(*b*) What is a material fact ? How the concept of material fact is related to the principle of utmost good faith in the given case. What is representation ? What are the facts which must be disclosed ? What are the facts which need not be disclosed ? What is the impact of non-disclosure of material facts in an insurance policy ? (*10 marks*)

(*c*) Will the above case come under misrepresentation, concealment or fraud ? Explain each with suitable example in relation with the above case. (*5 marks*)

(*d*) What are the rights available, to the insurer when such misstatement or concealments are noticed ? Quotes relevant sections. What actions can the insurers take ? (*10 marks*)

(*e*) (*i*) What are the remedies available to Sandeep's wife ?

(*ii*) Can she approach the Grievance Redressal Mechanism ? State the Guidelines as laid by IRDAI ? (*10 marks*)

(*f*) What is the procedure for making a complaint ? Who is an Ombudsman and what are the eligibility conditions to become an Ombudsman ? What is the role of an Ombudsman in suggesting Recommendations and awards ? Is the award announced by the Ombudsman justified in this case ? (*10 marks*)

2. (*i*) Kishore insured his machinery and stock of goods stored in the factory premises against damage by fire and a 'protection note' was given, subject to the usual conditions of the company's policy, one warranty clause being "smoking and cooking be strictly prohibited in or about the premises". The stocks were damaged by fire, said to be of accidental nature. There was no eye-witness to the origin of the fire. But the insurance company claimed that smoking a cigarette or bidi carelessly by some employee occasioned the fire and hence denied the claim.

(*a*) Is the denial of claim justified ? Do you observe any breach of warranty by Kishore. Explain. (*5 marks*)

(*b*) Anand Kumar Dwivedi owns a restaurant, which he had bought three years ago for ₹ 20 lakhs. He had bought a fire insurance Policy worth ₹ 16 lakhs (which is the written down value of his insured property). His restaurant caught fire and the amount of loss suffered was worth ₹ 5 lakhs. What is the liability of the insurance company to settle the claim ? On what principle of insurance contract, the settlement of claim happens in the fire insurance products ?

(*5 marks*)

(*ii*) Sundaram who is an agent of XYZ insurance company persuaded Alok to purchase a Unit linked insurance policy from XYZ insurance company. During persuasion, he advised Alok to buy this Unit linked insurance policy with the reason, that it is the best policy compared to traditional Term insurance policy, which does not give any benefits if the person survives. In contrast, this Unit linked insurance policy gives guaranteed return on survival and sum assured on death. He also suggested the amount he receives after 5 years will be useful to perform marriage to his daughter. Convinced with the reasons Alok was happy to purchase the policy with an equity option. After 5 years when he approached the company with the hope of getting accumulated fund with guaranteed return, he found that the amount what he gets is not even the amount he paid as premium. It was a shock to him. When he tried to contact the agent, he realized that Sundaram left the XYZ Company and joined as a clerk in CBZ Company.

With the information in the above case, discuss the following issues :

(*a*) What does 'Treating customers fairly' (TCF) mean ? Was Sundaram fair in his dealings with Alok. Justify. (*4 marks*)

(*b*) Describe the desired outcomes expected upon adoption of TCF for the following : (*answer* any *three*)

- Right information
- Right advise
- Right guidance
- Right after sales service. (*6 marks*)

(*iii*) (*a*) Sumitra's, husband 'Subba Rao' took a policy on the life of 'Surekha', who is the wife of an employee 'Suresh' working for 'Subba Rao'. He later on assigned this policy to 'Sumitra'. On the death of 'Surekha', 'Sumitra' claimed the money from insurance company.

(*b*) Sikhar' is a school teacher drawing a salary of ₹ 20,000 per month. He took a policy for ₹ 10,00,000 and assigned the same in favour of 'Buddhadev', who paid the premium for 6 months. At this time 'Sikhar' died and 'Buddhadev' claimed the amount from insurance company.

Based on above information briefly discuss the liability of the insurance companies under the above two policies and indicate whether the claims are allowable. Give reasons for your answers, highlighting the underlying principles of insurance.

(*2+3=5 marks*)

(*iv*) Abhiram had engaged a driver for his car, who had negligently driven the vehicle and caused damage to a Third party. Is Abhiram responsible in the above situation ? Is insurer obliged to pay to the Third party. Quote relevant sections. (*5 marks*)

3. As a compliance officer, elucidate on the need, relevance and coverage of some ICPs applicable to Indian Insurance Industry. (*5 marks*)

4. Discuss the procedure for claim settlement for general insurance policies. State the fundamental insurance principle governing all general insurance policy claims. (*5 marks*)

5. Briefly describe the following :

(*a*) 'Deductible' and Why is it not used in life insurance ?

(*b*) 'Coinsurance' and 'coinsurance clause'.

(*c*) Reinstatement value with examples.

(*d*) Principle of Contribution and its application *Vs.* Double insurance.

(*e*) Doctrine of Average. (*5 marks*)

6. "Claims Management in Life Insurance is a complex exercise". Explain how does life insurance claim in nature differ from general insurance claim.

Sudhakar purchased a Unit Linked Insurance Policy from XYZ Company limited. The proposal date was 22.02.2016 and has paid one year premium of ₹ 20,000 towards the policy taken for a Sum Insured of ₹ 5,00,000. Within three months of the proposal date he died on 28.04.2016. The fund value as on that date was ₹ 18,559. Is the insurer liable ?

(*5 marks*)