

Roll No.

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 6

NOTE : 1. Answer **ALL** Questions.

2. Suitable assumptions, if considered necessary, may be made while answering a question. However, such assumptions must be stated clearly.

1. Many proponents feel that filling up of the proposal form is a boring and tiresome job and the agent of the insurance company should take care of that. But actually, that should not be the case. The proposer himself is supposed to fill up the same on his own. Despite that, many prefer the agent to do the job and most of the times the agents do it without asking for any details of the health status of the proponent. This innocent act may run into a nightmare, if the policyholder dies within two years from the date of commencement of the policy. In such a situation, mandatory investigations are carried out before passing such claims and the insurer may reject the claim, if the probe reveals that the policyholder had withheld some information which was material information for the purpose of underwriting by the insurer. It is the responsibility of the proponent to fill up the proposal form while the agent may only help him. Regulations too do not allow an agent to go beyond this.” Thus, an insurance policy is a contract, and it must, therefore, conform to the rules of general contract law. Through a contract of insurance, the insurer agrees to make good any loss on the insured property or loss of life that may occur in course of time in consideration for a small premium to be paid by the insured. The business of insurance aims to protect the economic value of assets or economic value of life of a person.

On the basis of the above facts, answer the following questions :

- (a) Despite a contract, how can the insurer repudiate its liability ?
- (b) How can you apply the concept of warranty in this context ?
- (c) How can you differentiate between a warranty and a representation ?
- (d) Discuss the legal authority of the insurer to repudiate its liabilities.
- (e) “It is therefore the duty of the proposer to disclose, clearly and accurately, all material facts relating to the proposed insurance.” Discuss the facts that are to be disclosed by the proponent as well as the facts that are not need not be.

(8 marks each)

2. (a) A top equestrian, Sundar Raj, insured his prize show horse, Karishma, for ₹ 2.5 lakh. After a series of lack lustre performances, Karishma died suddenly from what appeared to be colic, a common killer disease of horses. However, the underwriters settled the claim of ₹ 2.5 lakh although many observers felt that the settlement was more than the horse was worth alive due to its poor performance just prior to its death.

During the same time, the Fraud Investigation Department of the Insurance Company was involved in an investigation regarding horse killings and related insurance fraud. They arrested one Salim, who said that he was paid to kill horses so that their owners could collect any insurance proceeds. Further, Salim also revealed the names of his clients wherein Sundar Raj was also mentioned. During the trial, the owner testified that Karishma had not died of a natural cause, but instead died of electrocution which can be easily disguised as colic.

: 3 :

From the information provided, answer briefly, the following questions :

- (i) How as a responsible underwriter, you would evaluate the risk factors while issuing such a policy ?
(2 marks)
- (ii) Is moral hazard present in the case ?
(2 marks)
- (iii) Can the company call back the insurance settlement of ₹ 2.5 lakh ?
(2 marks)
- (iv) Identify the damage compensation liability of the owner.
(2 marks)
- (b) Gopal quit smoking about 18 months ago. How much time should have lapsed before insurers would consider him a non-smoker for a term life insurance policy ?
(4 marks)
3. (a) What steps would you suggest for minimization of losses in Health Sector ?
- (b) In an Agriculture Cultivating Land, the loss occurrence yearly, in Rupees and the Probability of loss occurrence also are given below.

Find the mean amount of loss and Expected Value of Loss for 5 years :

Year	Loss in Rupees (₹) lakh	Probability of Loss
1	6	0.05
2	28	0.18
3	30	0.28
4	15	0.35
5	58	0.14
Total	137 Lakh	1.00

(6 marks each)

4. (a) What is the difference between subject-matter of insurance and the subject-matter of a contract of insurance ?

(3 marks)

(b) What are the underwriting factors to be considered for a fire insurance cover ?

(3 marks)

(c) Three friends, Ashok, Lalit and Hari-teamed up to start a lobster export business. Ashok owned a ship which was used in the business for fishing as well as for transporting the processed lobsters to foreign shores. They insured their ship, the cargo, freight, profits and commission, for a total of ₹ 80 lakh. Expecting to obtain enormous profits on their cargo, it was overvalued by the insured. A few months later, the ship sank in mid-ocean as it had a hole. Consequently, the cargo was also lost. The insured approached the insurance company to file a claim for compensation for the lost cargo. However, the insurance company refused payment of the entire claim amount. It only made partial payment of the claim stating that the cargo was insured for an amount more than its actual market value. Moreover, investigation by the insurance company surveyor revealed that the insured had intentions to sink the ship. The vessel was retrieved by the insurance company and was offered for sale as salvage. The insured approached the court to prevent the sale of the ship.

Based on the above facts :

(i) Was the insurance company violating the insurance contract by refusing payment to the insured ? Justify your answer.

(4 marks)

(ii) Discuss the duty of an insurer pertaining to salvage.

(2 marks)

: 5 :

5. (a) Sumit gifted a brand new car to his wife Devi on her birthday. The car was insured against damage or loss with Wheels Insurance Company for an amount of ₹ 5 lakh with a deductible of ₹ 75,000 from her coverage.

One day, Devi, who was an experienced, driver, took the car out to visit her friend. On the way to her friend's place, she had to stop at a traffic signal. Although she stopped her car to avoid jumping the signal, a speeding driver from behind rammed into her car. The impact of the collision was such that Devi suffered severe injuries and she had to be hospitalized. Her car was reduced to a wreck. Investigations revealed that the car that hit Devi's car was being driven by Amit Garg.

Devi filed a claim for loss with her insurance company and received ₹ 4,25,000 as damage claim. The insurance company, in turn, sued Amit on behalf of its policy holder, Devi for the same amount that it had paid her. Amit Garg approached the court challenging the validity of the Insurance Company's suit.

- (i) What is the principle on the basis of which the Insurance Company accepted Devi's claim and later filed a suit against Amit Garg ?

(4 marks)

- (ii) What is a deductible ? How does an insured benefit by having a deductible clause in his insurance coverage ?

(4 marks)

- (b) Gopal Singh had engaged a driver for his car, who had negligently driven the vehicle and caused damage to a third party. Is Gopal responsible in the above situation ?

(4 marks)

6. (a) How is the professional liability cover different from other liability covers ?
- (b) Is a doctor also equally liable for the negligence of his Assistant and Nurse ?
- (c) What is the protection assured under a Crime Insurance Policy ?
- (d) Differentiate between a Fidelity Bond and Crime Insurance ?

(3 marks each)

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