

Roll No.

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 8

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. Mr. Pawan, aged 40 Years purchased an Insurance Policy for the Sum Assured of ₹ 1 Crore from XYZ Company Limited. The proposal date was 22.02.2024 and has paid one year premium of ₹ 30,733/-. In the proposal form, he nominated his second wife Ms. Aparna and minor son Mr. Abhiroop who was born to his first wife as beneficiaries of 50% share of each for policy benefits. As his son is minor, his second wife Ms. Aparna is considered as legal trustee/guardian for the minor son.

His first wife Ms. Karuna passed away on 1-2-2021 with post-partum problems leaving behind a son. Since his first wife passed away in 2021, he has been using anti-depressant medicines to come out from his bereavement and also married Ms. Aparna on 20-12-2023 to take care of his two-year-old son Mr. Abhiroop. The usage of depressant medicines is not mentioned in the proposal form as he thought that was not a material fact. His business also got affected with his mental depression and to raise money for his business continuation he assigned this ₹ 1 Crore insurance policy to his creditor on 25.06.2024 against the loan of ₹ 30 lakhs.

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Within 7 months of the proposal date, he died on 28.08.2024. The cause of death was reported in the discharge form of deceased life assured as sudden cardiac arrest in the sleep due to atherosclerosis (hardening of the arteries).

As Ms. Aparna is not biological mother to Abhiroop and father passed away, parents of Ms. Karuna the biological mother of Mr. Abhiroop approached the insurance company for the policy benefits in the name of minor son Mr. Abhiroop under the trustee of biological grandparents.

As it is an early claim, the investigation on death of the insured is initiated and the insurance company could not prove that it is a suicide though they come across the rumors of suicide from neighborhood due to his depressive mentality. But on investigation, it is identified that life assured had suppressed or concealed the material fact of using anti-depressant medicines. Research showing that antidepressants might contribute to atherosclerosis by affecting factors like blood pressure, platelet aggregation, inflammation and endothelial function within the blood vessels which may lead to heart failure.

Insurer put on hold the claim based on the following issues :

- (i) Suppression of material facts or breach of the condition of 'utmost good faith' from the life assured.
- (ii) Early claim with a suspicion of suicide.
- (iii) Litigation on Trustee/Guardian for the minor son.
- (iv) Part of Insurance policy benefits is assigned to creditor.

On the basis of the points mentioned above, answer the following questions by quoting sections 38, Section 39, Sections 39(4), (7) & (8), Section 45 and Section 47 of the Insurance Act, 1938.

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- (a) Mr. Pawan did not mention his usage of anti-depressant medicines in the application form. Usage of anti-depressants may lead to the failure of heart due to atherosclerosis (hardening of the arteries) and he died with heart failure. As per the insurance company, the policyholder concealed or suppressed the material fact that he is using anti-depressants. On this ground in this case, can an Insurance Company repudiate the Claim ? Justify your answer by quoting the relevant section of Insurance Act, 1938.
- (b) What is an early Claim ? What can be the exclusions to repudiate the early claim and what are the possible frauds in early death claims ? Justify your answer for the requirement of investigation in early claims.
- (c) One of the reasons mentioned by Insurance Company to put on hold the claim was that the Litigation on Trustee/Guardian for the minor son in the nomination form. What is nomination and why it is important to specify the beneficiaries in the nomination form ? Explain your answer by quoting the relevant sections of Insurance Act, 1938.
- (d) As per this case, life assured has assigned his insurance policy to his creditor. What is an Assignment ? What are the provisions as per the Insurance Laws (Amendment) Act, 2015 regarding assignment of insurance policies ? Can the creditor in this case is eligible for entire death benefit of Mr. Pawan ? Explain your answer with the support of Laws of Insurance.
- (e) As this case is an early claim and due to complications in discharging the policy benefits, Insurance Company put on hold the benefits. What are the procedural compliance requirements under the IRDAI (Protection of Policy holder's interests) Regulations, 2017 to solve this case ?

(5×8 marks each = 40 marks)

- 2. (a) XYZ Life Insurance Ltd. is preparing its annual financial statements as per Indian Accounting Standards (Ind AS) and IFRS-17. During the audit process, the company identified challenges related to :

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- Valuation of investments as of the balance sheet date, given market fluctuations.
- Recognition of premium income and policyholder disbursements under Statutory Accounting Principles (SAP).
- Compliance with Anti-Money Laundering (AML) guidelines, particularly in high-value policy transactions.
- Taxation aspects, including GST on insurance services and tax implications of bonus declarations to policyholders.

Given the complexity of these financial reporting and regulatory compliance challenges, the company's finance team must ensure accurate financial statements while adhering to regulatory frameworks and industry best practices.

Analyze the application of Ind AS and IFRS-17 in life insurance financial reporting. Discuss how valuation of investments, premium recognition, taxation, and AML compliance impact the financial statements of a life insurance company like XYZ Life Insurance Ltd.

(6 marks)

- (b) Ramesh, a small-scale farmer in Maharashtra, cultivates wheat and soybeans on his 10-acre land. In 2023, he enrolled under the Pradhan Mantri Fasal Bima Yojana (PMFBY) to protect against yield losses due to natural calamities. However, due to unexpected drought conditions, his crops suffered severe damage, leading to over 50% yield loss.

When Ramesh filed a claim, he faced multiple challenges :

- The insurer stated that weather data from nearby stations did not indicate severe drought, affecting claim approval.
- Ramesh's claim was partially approved, citing average yield calculations across the district rather than individual farm losses.

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- The survey process took longer time than expected, delaying compensation, which affected his ability to repay loans.

Questions :

Using your knowledge of PMFBY and agricultural insurance principles, analyze :

- (i) Whether Ramesh's claim rejection was justified based on standard assessment methods ?

(2 marks)

- (ii) What legal and procedural remedies he has under PMFBY to challenge the decision ?

(2 marks)

- (iii) How the government can improve agricultural insurance schemes to ensure timely claim settlements and fair farmer compensation ?

(2 marks)

3. (a) Marine insurance plays an important role in domestic trade as well as international trade. Most contracts of sale require that the goods must be covered, either by the seller or the buyer against the loss or damage. Identify who is responsible for coverage of insurance in the following types of contracts.

(i) Free-on-Board Contract.

(ii) Free on Rail Contract.

(iii) Cost and Freight Contract.

(iv) Cost, Insurance and Freight Contract

(4×2 marks each=8 marks)

- (b) Third party insurance is compulsory for all vehicle-owners as per the Indian Motor Vehicles Act. It covers only the legal liability for the damage cause to a third party. But there are so many risk factors involved while using motor vehicles like personal injuries, damages to the vehicle with floods, fire, theft etc. Discuss the policies which cover the aforesaid risks.

(4 marks)

4. (a) Discuss the applications of life insurance in financial planning, focusing on its role in risk management, investment planning, retirement planning, and tax efficiency. Explain how life insurance policies, including pension plans and annuities, contribute to long-term financial security while addressing key risks associated with income stability and estate planning. Additionally, highlight the tax implications of life insurance policies under Indian tax laws and their impact on overall financial well-being.

(6 marks)

- (b) ABC Industries Ltd., a leading manufacturing company, recently suffered a cyberattack that disrupted its supply chain operations and led to a significant data breach, exposing sensitive customer and financial information. The company faced operational downtime, regulatory penalties, and reputational damage, leading to financial losses and lawsuits from affected clients.

Despite having a comprehensive risk management framework, the company had not fully integrated cyber risk insurance into its Enterprise Risk Management (ERM) strategy. The insurer is now evaluating the claim, citing concerns that :

- The company failed to implement adequate internal controls, increasing vulnerability.

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- The losses exceed policy limits, raising questions about reinsurance support.
- Certain losses related to reputational damage and business interruption were not explicitly covered under the policy.

Analyze the role of risk management and insurance in mitigating financial and operational risks in this scenario. Discuss how internal controls, reinsurance, and reserving strategies can enhance a company's ability to recover the losses from large-scale cyber risks.

(6 marks)

5. (a) Manufacturers, doctors, engineers, architects, employers and Directors are all liable to the public. What are the insurance policies which cover the risks of their liability ?
- (b) Explain the benefits of Aviation Insurance and list the documents required for submission of claim under Aviation Insurance.

(2×6 marks each = 12 marks)

6. Sharma Textiles Ltd., a large garment manufacturing company, has a Standard Fire Insurance Policy with a sum insured of ₹ 5 crore and an additional Consequential Loss Insurance cover for business interruption losses.

In March 2023, a fire broke out in the factory due to a short electrical circuit, destroying machinery, raw materials, and finished goods. The total estimated material damage was ₹ 6 crore, while the company's operations remained halted for three months, leading to a loss of ₹ 2 crore in net profits.

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Upon claim assessment, the insurer noted :

- The factory was underinsured by 20%, based on actual property values.
- The claim documents for consequential loss were incomplete, delaying approval.
- The company did not implement recommended fire prevention measures, raising concerns about policy compliance.

Based on the information, answer the following questions :

- (a) Given that Sharma Textiles Ltd. was underinsured by 20%, calculate the final claim amount approved by the insurer under the fire insurance policy.
- (b) If Sharma Textiles' policy covered loss of net profit due to business interruption, and the insurer applied a deductible of 10%, calculate the final consequential loss payout.
- (c) If Sharma Textiles Ltd. had implemented fire safety recommendations, how could this have influenced the underwriting process and claim approval ? Provide two strategic risk management steps they should adopt.
- (d) Considering the delays due to incomplete documentation, what key steps should Sharma Textiles Ltd. take in future to ensure smooth fire insurance and consequential loss claim process ?

(4×3 marks each = 12 marks)

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