

Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 4

NOTE : Answer ALL Questions.

1. A an employee of a government organization purchased a life insurance policy on 28-4-2011. It was a non-medical scheme policy as he was an employee of government organization and no medical examination was conducted. The above policy lapsed due to non-payment of premium which was due from April, 2012 to October, 2012. The life assured got the policy revived on 3-1-2013 by depositing the premium which was due. Unfortunately the life assured died on 13-1-2013. The legal heirs of the assured submitted a claim with the insurance company with respect to the above said policy. As the life assured died within 2 years from the date of obtaining the policy and within ten days of the revival of the policy, the insurance company carried out an investigation for the policy and the life assured.

The investigation revealed that the life assured was not keeping good health at the time of obtaining the policy and as well as at the time of revival of the policy, because his employer organization had supplied the details of earned leave and medical leave availed by the life assured during his service period w.e.f. 4-6-2007 to 18-9-2012. The details given for the leave were as under :

Medical leave

12-5-2008

30-5-2008 to 27-6-2008

27-7-2008 to 10-9-2008

06-8-2010 to 13-8-2010

13-6-2011 to 06-8-2011

05-9-2012 to 18-9-2012

The fact of the medical leave was made known to the insurance company only on investigation and the fact that the life assured was suffering also came to their knowledge. The fact was not disclosed by the life assured in the original proposal form at the time of taking the policy as well as at the time of revival. The life assured was suffering from epigastria C bleeding per rectum due to which he died in the hospital on 13-1-2013 where he was admitted on 4-1-2013. Thus, it was a clear case of concealment on the part of the life assured which was against the terms of the Insurance policy. Accordingly the insurance company repudiated the claim.

The legal heirs of the life assured challenged the repudiation of the claim in District Consumer Forum where the claim was awarded in their favour and against the insurance company.

The insurance company aggrieved by the decision of the District Consumer Forum filed an appeal with the State Commission where the appeal was accepted and the decision of the District Consumer Forum was set aside.

Based on the above case, answer the following questions :

- (i) Was there a violation of 'non-disclosure of material fact' in the case ? If so, state the insurance principle that governs such instances. What is the validity of the contract of insurance ? (10 marks)
 - (ii) Discuss the implications of section 45 of the Insurance Act, 1938 with regards to facts of the present case given. (10 marks)
 - (iii) Having issued a Life Insurance Policy on 'non-medical scheme', do you think the Insurance Company is justified in repudiating the claim ? Was there lapse in "Underwriting" ? Discuss. (10 marks)
 - (iv) Do you think the claim of the legal heirs is justified in the absence of any medical issues of the employee ? (10 marks)
 - (v) Given the facts of the case, what precautions and advises do you suggest to people taking insurance policies to cover their risks ? (10 marks)
2. ABC Co. Ltd. which operates a wholesale warehouse, had a fire on its premises on 30th April, 2016 which destroyed most of the building and stock worth of ₹ 10,160 was salvaged. The company has a Fire Insurance Policy (with suitable average clauses) covering the assets as under :

Assets Insured	Insurance Cover (in ₹)
Stock	6,50,000
Building	9,00,000

Loss of Profits

Including standing charges of ₹ 2,50,000 with a six month period of indemnity.

: 3 :

The Company's last Profit & Loss Account (year ended 31st March, 2016) is given below :

Profit & Loss Account for the year ended 31st March, 2016

Dr. (₹)		Cr. (₹)	
To Opening stock	5,23,500	By Sales	22,50,000
To Purchases	19,66,500	By Closing stock	6,45,000
To Insured standing charges	1,15,500	By Other income	11,000
To Other expenses	65,500		
To Net Profit	2,35,000		
	29,06,000		29,06,000

The company's records show that the sales for April, 2016 had been at ₹ 1,50,000. Payments made to trade creditors in April, 2016 were 1,15,500 and the creditors increased by ₹ 4,500.

The company's business was disrupted until the end of July, 2016 during which period the turnover fell by ₹ 2,20,000 compared with the same period in the previous year. It was agreed that 65% of the value of the building had been lost and at the time of fire it was worth Rs. 10,00,000.

Questions :

- (i) Discuss the validity of ABC Company's claim under a 'Fire Insurance' policy stating the loss coverage as per the policy provision. Can "Loss of Profit" also be insured? (10 marks)
- (ii) What is the legal implication and provision relating to "Average clauses"? How will it affect ABC company claims? Calculate the liability of the Insurance Company for loss of stock, building and profits claims compensation payable to ABC Company. (10 marks)
- (iii) Explain the process of claim settlement followed by General Insurance Companies and the documents required to be submitted by ABC Ltd. for its claims. (10 marks)

3. Rajesh purchased a bus by taking a loan from ABC Limited. The bus was being used as private service vehicle and not as a public transport vehicle. It was insured under a comprehensive insurance policy issued by XYZ Insurance Limited. The bus met with an accident, for which insurance was claimed.

The insurance company appointed its Surveyor, who assessed the loss at ₹ 1,26,500. However the insurance company deducted ₹ 33,125 from the assessed amount on the ground that the driver did not have an endorsement on his licence to drive a transport vehicle. Even this amount was not paid to Rajesh, but was paid directly to the Finance Company.

Advise :

- (i) Was the insurance company right in deducting the amount of ₹ 33,125 from the claim amount ?
- (ii) Is it right on the part of the insurance company to pay the claim amount directly to the Finance Company and not to the insured ?

(5 marks)

4. Write a short note on 'Risk Retention', as a risk management strategy. Should an insurance company opt for reinsurance or retention ?

(5 marks)

5. Explain the role of insurance intermediaries in Insurance business. Explain the relevant provision of the Insurance Act, 1938, which gives protection to Agents who have served the insurance company for at least 5 years.

(5 marks)

6. As a Compliance Officer, how would you ensure that your Company is not penalised for "penalty payments" highlighting the powers of IRDAI under section 44, 102, 105B or 105C in particular.

(5 marks)