

Name:

Enrolment No:



UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

End Semester Examination, December 2018

Course: B Com(Hons), B. Com (Hons- Taxation), B. Com (Hons- Banking Management and Insurance

Semester: I

CC: FINC1005

Programme: Insurance & Risk Management

Time: 03 hrs.

Max. Marks: 100

Instructions:

Section A: Multiple choice questions. Attempt all the questions (20x1=20 Marks)

Section B: Short answer type questions. Attempt any 4 Questions (out of 5) [4x5 = 20 Marks]

Section C: Long answer type questions. Attempt any 2 Questions [out of 3] [2x15 = 30 Marks]

Section D: Analytical / Situational / Case based: Attempt all the questions [2x15 = 30 Marks]

SECTION A

S. No.		Marks	CO
Q 1	The goal of risk management is to: (a) Maximize insurance expenditures (b) Make certain that uninsured losses do not occur (c) Minimize the adverse consequences of losses and uncertainty connected with pure risks (d) Get the best buys in the field of insurance	1	1
Q2	Insurance or risk transfer is best used in risk management when the frequency of loss is _____ and the severity of loss is _____. (a) low, high (b) high, low (c) low, low (d) high, high	1	1
Q3	Risk avoidance is the best risk management tool when the chance of loss is _____ and the loss severity is _____. (a) high, high (b) low, low (c) low, high (d) high, low	1	1
Q4	A pure risk is defined as: (a) anything that increases either the severity or frequency of loss (b) a risk that produces a loss where the outcome is either a loss or no loss (c) the possibility that a loss will occur (d) the proximate cause of loss	1	3
Q5	Leaving your key in the ignition in your unlocked car in the UNI Dome parking lot is an	1	4

	<p>example of a:</p> <p>(a) named peril</p> <p>(b) moral hazard</p> <p>(c) morale hazard</p> <p>(d) homogeneous risk</p>		
Q6	<p>Which of the following is NOT an example of a pure risk?</p> <p>(a) a potential liability claim on the financial advice you gave a client</p> <p>(b) potential theft of a motorcycle</p> <p>(c) potential loss on your investment in 10 shares of Berkshire Hathaway stock</p> <p>(d) potential loss of your wallet containing a stock certificate worth \$5,000</p>	1	4
Q7	<p>Which of the following is a suitable definition of "insurance?"</p> <p>(a) a credit card available to protect you in the event of a rainy day</p> <p>(b) a financial contract whereby an individual pays a small certain payment known as the premium, in exchange for being indemnified against large uncertain losses, known as the contingency insured against</p> <p>(c) a financial arrangement that redistributes the costs of expected losses amongst the owners of an insurance company</p> <p>(d) an investment contract designed to allow the insured to earn a fair rate of return on investment commensurate with risk</p>	1	3
Q8	<p>The principle of utmost good faith:</p> <p>(a) holds only the insurer to a higher standard of honesty in the execution of the insurance contract</p> <p>(b) generally does not apply in employee life insurance since these covers are administered under group underwriting</p> <p>(c) requires that the insurer fulfill on the promises made in the insurance contract, and that the insured provide accurate information on the insurance application and not withhold information considered material to the contract</p> <p>(d) means that there will be an inequality between the actual value of payments amongst the policy participants</p>	1	3
Q9	<p>The principle of indemnity in insurance means:</p> <p>(a) a person has the right to sue an insurer for loss when they are not satisfied with the payment of a claim</p> <p>(b) that a person may not collect more than his/her actual financial loss in the event of damage caused by an insured peril</p> <p>(c) that a person will not be reimbursed for a loss unless he can show proof of loss</p> <p>(d) an employer is always responsible for the careless acts on an employee</p>	1	2
Q10	<p>Which of the following situations are moral hazard problems that the insurance industry is prone to?</p> <p>(a) Take out fire insurance, and then deliberately burn down your house in order to collect on the house.</p> <p>(b) Take out life insurance, and then yo met with an accident on the very same day of purchasing the policy.</p> <p>(c) People, who know they have a terminal disease and are about to die, will sign up for a life insurance contract.</p> <p>(d) Considering n independent trials, where the probability that a specific event occurs</p>	1	1

	during one trial equals p , the standard deviation of the fraction of events for which the event occurs decreases with the square root of n .		
Q11	When a jewelry store locks its merchandise in a vault at the end of the day, it is practicing a. risk reduction. b. risk avoidance. c. risk assumption. d. risk shifting	1	4
Q12	Risks that insurance firms will not assume are called a. uninsurable risks b. insurable risks. c. endorsements. d. pure risks	1	5
Q13	Choosing not to ride in a car is an example of a. shifting risks. b. risk reduction. c. risk avoidance. d. risk assumption.	1	3
Q14	Most firms shift their risks by a. buying an insurance policy. b. establishing a self-insurance fund. c. establishing a safety program. d. installing smoke alarms.	1	2
Q15	Purchasing insurance is a technique used to a. assume risk. b. shift risk. c. reduce risk. d. avoid risk.	1	3
Q16	Upon the death of the insured, who receives the proceeds of the life insurance policy? a. beneficiaries b. actuaries c. policyholders d. recipients	1	4
Q17	Dr. Rohan chose to stop practicing when malpractice insurance premiums became too high for him to afford. He is managing risk by _____ risk. a. assuming b. reducing c. avoiding d. transferring	1	3
Q18	A type of insurance that has been around since the ancient Greeks and Romans is _____ insurance. a. fire b. marine c. business liability d. medical	1	3
Q19	What type of life insurance policy would you recommend for a young couple, with no	1	4

	children, that would provide the most protection for the smallest premium? a. Term b. Single-payment life c. Whole life d. Endowment		
Q20	Which type of insurance protects the policyholder against loss or damage to a ship or its cargo on the high seas? a. hazards b. inland c. transportation d. marine	1	4
Section B: Attempt any 4 Questions (out of 5) [4x5 = 20 Marks]			
Q21	Risk is incidental to life. Explain the various ways in which people may react to risk.	5	1,2
Q22	List out the element of a valid contract.	5	1,2
Q23	Explain about pooling and diversification of risk.	5	1,2
Q24	Write any two objectives of insurance contract.	5	1,2
Q25	What is mass merchandising? Discuss its relevance in Insurance Sector.	5	1,2
Section C: Attempt any 2 Questions [out of 3] [2x15 = 30 Marks]			
Q26	The “environment” changes so rapidly that it is difficult to identify all the changes that could affect a business in terms of risk management. Evaluate the company for which you work, or a company with which you are familiar. What is happening today in the environment (the economic and legal, technological, competitive, social, global business environments)? How do the changes you have identified increase the necessity for risk management for this firm? What actions can the firm take to minimize the risk of loss from these changes?	15	4
Q27	Eric owns a company that makes self-darkening windshields for vehicles, Sun-2-Shade. He is aware of the risks of owning a business, and is considering various insurance plans. Eric would like to make sure that he won't incur any losses, and so is thinking about buying policies from two different companies just to make sure that not only will he be covered, but could make money while the company was down. Eric figures that he will be able to make claims on both policies if something happens, and even make money when both companies pay on the claim. As Eric's advisor, what would you tell him about this plan?	15	4
Q28	You are a small business owner, currently working out of your home and you are concerned about the kinds of insurance that you should carry for your business. Currently, your business consists of yourself, and 3 employees. You have turned to a small business consultant to advise you. What do you think the consultant will say about the need for insurance?	15	4

Section D: Analytical / Situational / Case based:

Attempt all the questions [2x15 = 30 Marks]

<p>Case Study: Household Insurance – deliberate non-disclosure</p> <p>Mr M’s home was broken into in October 2002. The burglars had kicked in a panel in his back door and stolen many of his possessions. After accepting his claim for the stolen contents, the firm arranged for one of its approved contractors to replace the back door, even though the council owned the property and was responsible for repairing the damage. Early the following year, shortly before Mr M’s policy was due to expire, the firm sent him a renewal questionnaire. This asked for details of his current security arrangements. Mr M completed the form, confirming that his external doors had "a mortise deadlock and security bolts or a key-operated locking system". The firm renewed the policy, but within a month Mr M’s property was broken into a second time. Again, the thieves had kicked in the rear door panel .When the firm discovered that the back door did not, in fact, have security bolts or a key-operated locking system, it refused to meet Mr M’s claim.</p> <p>Complaint upheld: It was careless of him not to have double-checked this. There were two further factors into account. First, even if Mr M had realised that he needed to fit bolts, we did not believe they would have impeded the burglary. This was because the burglars had entered the house by kicking in the door panel. Second, even if Mr M had answered the question correctly, the firm would still have allowed him a reasonable period of time in which to change the locks. The burglary occurred within this timescale.</p> <p>Claim was thus upheld. Might be Mr M’s failure to comply with the security condition was connected with the loss and we pointed out to the firm that it was good insurance practice to meet claims in such circumstances.</p>			<p>5</p>
<p>Q29</p>	<p>Do you think company’s stand for rejecting the claim was right? Justify your answer.</p>	<p>15</p>	<p>4</p>
<p>Q30</p>	<p>Why did company not verify the details in advance before issuing the policy to Mr M? Which principle of insurance was followed in this case?</p>	<p>15</p>	<p>5</p>