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Answer ALL questions

Your insurance company has obtained a new client. You will need to assess the risks involved and set premiums for insurance policies taken out by this client. The profile of this client is given below:

Business name	XYZ Ltd
Business established	2005
Location	Rural, near river
Production	Farm producing wheat
Number of employees	4
Site size	200 acres
Company vehicles	1 new lorry, 3 new tractors
Annual Mileage	25 000 miles (lorry)
Company turnover	£800 000

Sources of Information

At the end of this question paper, there are various sources of information on insurance. You should study them and use the information, together with your own knowledge and understanding of commerce, to answer the questions that follow. You should use commercial concepts and terms you have learnt during the course, not just information in the sources you have studied.

1. My task as an insurer is to

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(Total 2 marks)

Q1



2. (a) What is an insurable risk?

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(2)

(b) Using an example of a non-insurable risk, explain why an insurance company would **not** insure that risk.

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(3)

(c) Apart from 'utmost good faith', explain **one** other principle of insurance.

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(3)

(Total 8 marks)

Q2



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3. Analyse the factors which an insurer will consider when setting a premium for each of the following policies:

(a) a business requesting third party motor insurance for lorry driving

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(6)

(b) employer’s liability for employees

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(6)



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(c) business premises for fire and theft.

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(6)

Q3

(Total 18 marks)



ABC Partners (Source E) and XYZ Ltd have requested quotations from your insurance company for the three policies listed below.

4. Discuss, for each policy, which business will pay the lowest premium for:

(a) third party motor insurance

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(4)

(b) employer's liability

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(4)



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(c) fire and theft.

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(4)

Q4

(Total 12 marks)

TOTAL FOR PAPER: 40 MARKS

END



Sources of Information

Source A – Reform of old insurance law would make claims easier.

The Law Commission has proposed updating the 1906 Marine Insurance Act. Under this law, at present, consumers can lose out when innocent errors on proposal forms are deemed “non-disclosure” of something that affects the insurer’s risk assessment.

Many policyholders do not realise they have a duty to disclose information they are not asked for but that could influence the underwriter’s judgement of risk. Insurers can refuse to pay out even if the policyholder acted honestly and reasonably, and their errors or omissions had no effect on the policy premium.

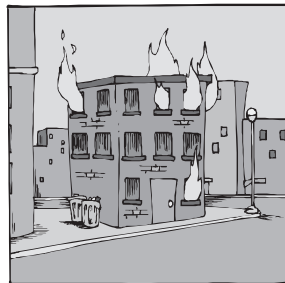
Every year insurers reject about 20% of life and critical illness claims because policyholders leave medical information off their proposal forms, making the policy invalid.

Source B – Insurable and Non-Insurable Risks

Although almost any risk can be insured against (provided a high enough premium is paid and a special policy arranged individually by the insurance company), in practice only certain areas are normally covered. These are called Insurable Risks.

Other causes of loss or disaster which insurance companies will not generally deal with are called Non-Insurable Risks.

Source C – Examples of Insurable Risks



Source D – The Principles of Insurance

One of the main principles of insurance is ‘utmost good faith’. This means that the policy holder should disclose all relevant information and not tell lies when completing the proposal form. Also when a policy has been agreed and taken out, any significant changes must be reported to the insurance company. For example, a company taking out fire insurance must tell the insurer if it later decides to store petrol on the premises.

The other important principles of insurance are insurable interest, indemnity, contribution and subrogation.

Source E – A Client Profile

Business name	ABC Partners
Business established	1946
Location	Urban
Production	Factory making fertiliser
Number of employees	50
Site size	½ acre
Company vehicles	1 second-hand lorry
Annual mileage	10 000 miles
Company turnover	£5 million (mainly cash sales)



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