An Introduction to Insurance

The sample questions are related to the AIBP Specialization course "***An Introduction to Insurance***". The students are advised to thoroughly read the exam guidelines and the course syllabus for this course before start studying for the paper. The questions are shared to give an idea to the student about the paper format and types of questions. For further information visit the IBP website www.ibp.org.pk

Multiple Choice Questions

Each MCQ carry one mark.

Q1. Life Insurance provides protection against the financial consequences of 3 D's. From the options, select the one which is NOT one of the 3D's.

A. Death

B. Disability

C. Disease

D. Drought (Answer)

Q2. The scope of protection provided under the contract of insurance is called

A. Condition

B. Contribution

C. Coverage (Answer)

D. Underwriting

Q3. The party that agrees to compensate the other person against possible losses is:

A. Insured

B. Insurer (Answer)

C. Assurer

D. Assured

Constructed Response Question

Each CRQ carry five marks.

Question:

A). List the FOUR Risk Classifications of Insurance. **(2 Marks)**

B). Briefly explain any THREE 'Risk Management' techniques used by insurance companies? **(3 Marks)**

Answer

Part-A

1. Preferred Classes
2. Standard Classes
3. Substandard Classes
4. Declined Classes

Part-B

Any three

Avoiding Risk: One method of managing risk is to avoid it altogether, although Insurance companies are in the business of risk sometimes risk is too risky for Insurance companies to cover so they avoid it by simply not accepting it.

Controlling Risk: Controlling Risk Involves reducing or mitigating the actual losses from a given risk exposure. For example, Insurer can reduce their overall losses on high risk product by making adjustment to those products. Another way that insurer often control risk is through their underwriting guidelines.

Accepting Risk: A third method of managing risk is to accept, or retain risk. To retain risk is to recognize the existence of a risk & accept the financial responsibility for that risk.

Transferring Risk: When Insurer issue insurance & annuity contracts, they can reduce their exposure to risk by transferring some or all of the risk to another insurer

Extended Response Question

Each ERQ carry ten marks.

Question:

Define & Explain the term Insurable Interest, Utmost Good Faith & Proximate Cause in Detail? **(10 Marks)**

Answer:

Insurable Interest
Insurable Interest is defined as "the legal right to insure arising out of a financial relationship recognized under the law between the insured and the subject matter of Insurance". There are four essential components of Insurable Interests.

1. There must be some property, right, interest, life, limb or potential liability capable of being insured.
2. Any of these above i.e. property, right, interest etc. must be the subject matter of Insurance.
3. The insured must stand in a formal or legal relationship with the subject matter of the Insurance. Whereby he benefits from its safety, well-being or freedom from liability and would be adversely affected by its loss, damage existence of liability.
4. The relationship between the insured and the subject matter must be recognized by law.

Utmost Good Faith
In Insurance Contracts Utmost Good Faith means that "each party to the proposed contract is legally obliged to disclose to the other all information which can influence the others decision to enter the contract".
In Insurance contracts the seller is the insurer and he has no knowledge about the property to be insured. The proposer on the other hand knows or is supposed to know everything about the property. The condition is reverse of ordinary commercial contracts and the seller is entirely dependent upon the buyer to provide the information about the property and hence the need for Utmost Good Faith on the part of the proposer.

PROXIMATE CAUSE
The doctrine of proximate cause is based on the principle of cause and effect, which states that having proved the effect and traced the cause it is not necessary to go any further. The immediate cause and not the remote one should be taken into consideration. Therefore, the proximate cause should be the immediate cause. Immediate does not mean the nearest to the loss in point of time but the one most effective or efficient. Thus if there are a number of causes and the proximate cause has to be chosen the choice should be of the most predominant and efficient cause i.e. the cause which effectively caused the result.