

Question Paper

General Insurance: Personal and Commercial (MB3G2INS) : January 2009

Section A : Basic Concepts (30 Marks)

- This section consists of questions with serial number 1 - 30.
- Answer all questions.
- Each question carries one mark.
- Maximum time for answering Section A is 30 Minutes.

1. Which of the following is **not true** with regard to payment of expenses under Overseas Medical Policy? [<Answer>](#)
- (a) Expenses for physicians' service, hospitalization, physician-ordered medical services and local emergency medical transportation
 - (b) Expenses for physician-ordered emergency, medical evaluation, including medically appropriate transportation and medical care
 - (c) Expenses of treatment in respect of a medical condition that was known by the insured person to exist and/or had been treated in the year immediately preceding the effective date of the policy, which commences on the day and time of boarding the aircraft from India
 - (d) In the event of death of the insured person outside India, expenses for repatriation of the remains to India or up to an equivalent amount for local burial or cremation
 - (e) Expenses of dental services for the immediate relief of dental pain only limited to US \$ 225 per occurrence.
2. Which of the following is/are **false** procedure(s) under Consumer Protection Act, 1986? [<Answer>](#)
- (a) Legal formalities not required
 - (b) Engaging an advocate is compulsory
 - (c) Filing of complaint requires no legal fee
 - (d) The party can appear in person or send the application by post
 - (e) (a), (c) and (d) above.
3. Tariff rates or guideline rates are applicable to the policies mentioned below. Which of the following is **true**? [<Answer>](#)
- (a) Personal Accident policies
 - (b) Janata Personal Accident policies
 - (c) Extension of motor policies to cover P A to third party/passengers
 - (d) Policy issued by the Department of Aviation
 - (e) School children P A Group policies.
4. The waiting period of 30 days provision shall not apply, [<Answer>](#)
- I. If in the opinion of the panel of medical practitioners constituted by the company for the purpose, the insured person could not have known of the existence of the disease or any symptoms or complaints there of at the time of making the proposal for insurance.
 - II. In the event of this policy being renewed after its expiry by means of a fresh document.
 - III. Any sudden illness like heart attack, food poisoning or accident.
- (a) Only (I) above
 - (b) Both (I) and (II) above
 - (c) Both (I) and (III) above
 - (d) Both (II) and (III) above
 - (e) All (I), (II) and (III) above.

5. Which one of the following salient feature of Janata Personal Accident Policy is **not true**? [<Answer>](#)
- (a) Any number of policies can be issued to a person
 - (b) Attractive cost effective premium rates
 - (c) No pre-medical examination
 - (d) No service tax on this policy
 - (e) Group discount is available.
6. Which of the following is **not true** about package policies? [<Answer>](#)
- (a) There is a better spread of business as well as risks in package policies
 - (b) More administrative expenses such as policy preparation expenses including stamp fee
 - (c) As far as the insurer is concerned, it means selling more insurance products under one policy and earning more premium
 - (d) To the insured, the policy provides a comprehensive cover in one single policy. Other wise, the insured has to take a number of individual policies to cover all these perils
 - (e) Since the insured is taking a number of covers under one umbrella policy, the insurer will be able to give substantial discount in the premium though tariff rates are required to be charged in case of tariff sections.
7. Which of the following is **false** under Farmer's Package Insurance Policy? [<Answer>](#)
- (a) Policy contains 15 sections including tariff and market agreement sections
 - (b) Sections A and B, that is, fire and allied perils and terrorism cover on contents are compulsory
 - (c) Minimum number of sections to be opted are 3
 - (d) A family discount of 5% on premium under the sections is allowed for a family comprising a minimum of two persons
 - (e) Discount will be allowed only if a minimum of 4 sections are opted for.
8. Which of the following is **not true** about exclusions under professional indemnity policy? [<Answer>](#)
- (a) Infringement of plans, copy right, patent, trade name, trade mark, registered design
 - (b) Infringement of patents and copy-rights or arising from the granting of licenses by the insured as a party to the construction project
 - (c) Insured will be indemnified as a result of claims arising out of all personal injuries such as libel, slander, false arrest, wrongful eviction, wrongful detention, defamation etc., and mental injury, anguish, or shock resulting there from
 - (d) Any dishonest, fraudulent or malicious act or omission
 - (e) Liabilities assumed by the insured by agreement and which would not have attached in the absence of such agreement.
9. Under Money Insurance Policy, the company shall not be liable with respect to: [<Answer>](#)
- I. Loss of money where an employee of the insured or member of the insured's family is concerned as principal / accessory or arising out of or attributable to act of fraud or dishonesty committed by one or more of the employees carrying the money.
 - II. Shortage due to error or omission.
 - III. Loss of money abstracted from safe, following the use of key to the said safe or any duplicate thereof belonging to the insured unless such key has been obtained by assault or violence or any threat.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Only (III) above
 - (d) Both (I) and (II) above
 - (e) All (I), (II) and (III) above.

10. Which of the following is **not** a general exception where company shall be held liable? [<Answer>](#)
- (a) Loss or damage, whether direct or indirect, occasioned by happening through or arising from any consequence of war etc.
 - (b) Loss or damage not caused by depreciation or wear and tear
 - (c) Consequential loss of any kind or description
 - (d) Loss, destruction of or damage to any property, whatsoever, or any loss or expenses, whatsoever, resulting or arising there from or any consequential loss
 - (e) Any liability of whatsoever nature directly or indirectly caused by or contributed to by arising from ionizing radiations of or contamination by radioactivity from any nuclear fuel or from any waste from combustion of nuclear weapons material.
11. No claim bonus has been a subject of controversy. Which of the following is a **false** argument either for or against no claim bonus? [<Answer>](#)
- (a) It creates no extra work to the work force of insurers in calculation of premiums and operation of renewal notices
 - (b) It leads to many disputes between the insured and insurers
 - (c) The discount acts as an effective incentive to the insured to exercise care
 - (d) Indirectly, the discount helps contribute towards the objective of road safety
 - (e) The disputes between the insured and the insurers are not common as are thought of. At any rate, the tariffs permit discretion to the insurers to allow no claim discount when they are satisfied that the claim is being made solely by virtue of the Knock-for-Knock agreement and that the insured was free of blame for the accident.
12. Which of the following special conditions related to baggage insurance policy which has a bearing on underwriting is **false**? [<Answer>](#)
- (a) Baggage must be insured for its full value. In the event of under-insurance, condition of average will apply
 - (b) The purpose of the policy is to cover baggage i.e. personal effects whilst on travel. The cover starts from the time the travel begins and continues during the stay even at intermediate places and destination and ends when the insured returns to his original place or when the period expires whichever is earlier
 - (c) Notice to police in case of theft is not a must
 - (d) If baggage policy is to cover objects which are fragile in nature, such other special items which have high value, will have to be specifically declared and value stated thereof. If percentage of such items is large the premium rate is loaded
 - (e) Since the cover is valid during the journey the loss can take place anywhere within the geographical area covered. Hence it is necessary that notice of claim has to be sent to the nearest office of the company so that prompt action is possible.
13. Which of the following is **false** with reference to principle of good faith? [<Answer>](#)
- (a) The special facts upon which the contingent chance is to be computed lie more commonly in the knowledge of the insurer only
 - (b) The underwriter trusts the insured's representations and proceeds with confidence that the latter does not keep back any circumstance in his knowledge, to mislead the underwriter into a belief that the particular circumstance does not exist, and induce him to estimate the risk as if it did not exist
 - (c) Hiding such circumstance is deemed a fraud and therefore the policy is voidable
 - (d) Although the suppression should happen by mistake without any fraudulent intention, the underwriter is deceived and the policy is void because the risk run is really different from the risk understood and intended to be run at the time of agreement
 - (e) Good faith forbids either party by concealing what he alone knows, to draw the other into a bargain exploiting his ignorance.

14. Based on the survey report which of the following is **false** with regard to settlement of claims? [<Answer>](#)
- (a) The insurer decides whether they are settling the claim and if so for what amount
 - (b) The recommendations of the surveyor are binding on the insurer
 - (c) The insurer's decision has to be communicated to the claimant
 - (d) A discharge certificate is obtained from the claimant that he is accepting the amount in full and final settlement of his claim
 - (e) A letter of subrogation duly executed by the insured/claimant is also obtained.
15. Which one of the following is **false** with reference to loss prevention measures? [<Answer>](#)
- (a) Loss prevention measures tend to be profit-makers for the insurers
 - (b) Loss prevention measures are aimed primarily at reducing the insurance companies losses
 - (c) Another effect of loss prevention is the leveling of risks
 - (d) Creating less homogeneous portfolios require less extensive reinsurance arrangements
 - (e) Loss prevention promotes a true premium justice; good risks pay lower premium and bad risks pay higher premium.
16. Which one of the following features of a warranty is **false**? [<Answer>](#)
- (a) It is an unconditional promise by the assured
 - (b) It need not relate to the material fact
 - (c) It can be withdrawn during the currency of the policy
 - (d) It must be adhered to exactly
 - (e) The assured cannot remedy a breach of warranty, as the fact of breach determines the insurer's liability.
17. Which of the following is a **true** benefit of Industrial All Risks Policy? [<Answer>](#)
- (a) The policy covers all risks including petrochemical risks having sum insured of Rs.100 crores
 - (b) Premium is charged only for flood and cyclone and earthquake perils. All other special perils under the fire portfolio are inbuilt covers and no additional premium charged
 - (c) Loss of profits for special perils under fire (except storm, tempest, flood, inundation and earthquake) is optional with extra premium
 - (d) The Industrial All Risks Policy is a policy with warranties
 - (e) Under the policy, fire loss of profits is optional whereas machinery loss of profits is built-in.
18. Which of the following causes are **excluded** under Industrial All Risks Policy? [<Answer>](#)
- I. Collapse or cracking of buildings.
 - II. Nuclear group of perils.
 - III. War group of perils.
 - IV. Larceny, fraud or dishonesty.
 - V. Willful negligence on the part of the insured.
- (a) (I), (II) and (III) above
 - (b) (II), (III) and (IV) above
 - (c) (III), (IV) and (V) above
 - (d) (I), (II), (III) and (IV) above
 - (e) All (I), (II), (III), (IV) and (V) above.
19. Which one of the following risks is **not** covered under Motor Package Policy? [<Answer>](#)
- (a) Riot and strike, malicious or terrorist acts
 - (b) Earthquake, flood, inundation, cyclone etc
 - (c) Damage to tyres
 - (d) Damages to vehicle by accidental external means, fire, lighting, explosion, self-ignition, burglary and housebreaking
 - (e) Landslide/rockslide while in transit by rail, road, air, inland waterways, lift or elevator.

20. Which one of the following is **not** a basis for premium rating in motor insurance? [<Answer>](#)
- (a) Cubic capacity of engine
 - (b) Insured's declared value
 - (c) Driver's age
 - (d) Geographical zone
 - (e) Age of the vehicle.
21. Which of the following is **not true** with regard to the details that need to be submitted for the purpose of rating and underwriting of Boiler and Pressure Plant Insurance Policy? [<Answer>](#)
- (a) Description, maker's name, capacity and year of manufacture
 - (b) Type of the boiler
 - (c) Working pressure and the minimum load on safety valve
 - (d) Inspection report conducted by professional surveyors
 - (e) Details of people who operate the boilers.
22. The farmers should follow certain procedures to ensure smooth processing of the claim settlement. Which of the following procedures is **false**? [<Answer>](#)
- (a) Adequate records should be maintained by the farmer regarding the production of crops
 - (b) The farmer should have a clear idea about his policy and should clarify his doubts with his agent
 - (c) The samples of the crops should be available with the farmer, if possible
 - (d) The grains from different units can be mixed freely
 - (e) Avoid making false claims as it is a criminal offense.
23. The concept of orphan claim exists in [<Answer>](#)
- (a) Aviation insurance
 - (b) Marine insurance
 - (c) Burglary insurance
 - (d) Motor insurance
 - (e) Fire insurance.
24. Which of the following is **not true** about Marine Cargo Policy? [<Answer>](#)
- (a) The policy is issued covering individual shipments from a named starting point to a named final destination point
 - (b) The policy document must be stamped as per the Indian Stamp Act
 - (c) Sum insured is based on unvalued policy
 - (d) The policy document contains the name of the insurer and a clause binding the insurer to the performance of contract
 - (e) The schedule of policy shows the type of cover granted and any special conditions or warranties.
25. Which of the following implied warranties under marine insurance policy is **not true**? [<Answer>](#)
- (a) There is an implied warranty in every marine policy that the marine adventure insured is lawful and, in so far as the insured has control will be carried out in a lawful manner
 - (b) There is an implied warranty in marine policy as to the nationality of a ship or that the nationality of a ship will not be changed during the risk period
 - (c) Warranty of neutrality
 - (d) Warranty of seaworthiness of ship in voyage policy and warranty of fitness for each stage of voyage
 - (e) Warranty of fitness against perils of the port.
26. A doctor, during the course of treating a patient caused death because of his carelessness. This liability is covered under which policy? [<Answer>](#)
- (a) Directors and Officers Liability
 - (b) Professional Indemnity Insurance policy
 - (c) Golfers and Sportsmen policy
 - (d) Product Liability policy
 - (e) Personal Accident policy.

27. Which of the following data mining techniques used by the insurers is **not true**? [<Answer>](#)
- Forecasting frauds in claims
 - Customer life cycle analysis
 - Profile customer base
 - Buying patterns
 - Enhance overall productivity.
28. Generally the services value chain comprises of the following stages. Which of the following is **not a** stage? [<Answer>](#)
- Developing the opportunity
 - Defining the solution
 - Service delivery
 - Administration
 - Market research.
29. Which one of the following is **not** the duty of an insurance agent towards his customers? [<Answer>](#)
- Choose a suitable policy
 - Fill up the proposal papers
 - Submission of proposal papers in the office and delivery of policy document to the policyholder
 - Collection of premiums from the policyholder as and when they fall due
 - Look after the formalities of claims settlement.
30. Which one of the following is **not** a reason for purchasing reinsurance? [<Answer>](#)
- Limiting liability on specific risks
 - Stabilizing loss experience
 - To earn more ceding commission and profit commission
 - Increasing capacity
 - Protection against catastrophes.

END OF SECTION A

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Section B : Problems/Caselets (50 Marks)

- This section consists of questions with serial number 1 – 6.
- Answer all questions.
- Marks are indicated against each question.
- Detailed workings/explanations should form part of your answer.
- Do not spend more than 110 - 120 minutes on Section B.

1. A warranty is defined as an “undertaking by the insured that a certain state of affairs will, or will not, continue, or that something shall, or shall not be done, throughout the duration of the contract”. For example, in fire insurance there will be a warranty on a policy to the effect that no liquids with flash point below a specific level are stored. This ensures that extremely hazardous inflammable liquids are not kept and so this warranty obviously maintains a reduced fire risk. [<Answer>](#)
- Required:**
- In what way the warranties in fire insurance differ from the concept applicable in the law of contract? **(5 marks)**
 - Explain the features of warranties in fire insurance. **(7 marks)**
2. The tariff advisory committee has laid down rules, regulations, rates, terms and conditions, for transaction of fire insurance business in India, in accordance with the provisions of the Insurance Act, 1938, as amended. The tariff is effective from 1st January, 2000. The tariff is binding on all industries and any breach of tariff shall be seriously dealt with as per relevant provisions of the Insurance Act, 1938, as amended. Based on these regulations explain the following issues: [<Answer>](#)

- a. Coverage and benefits of the fire insurance policy. (6 marks)
- b. General rules and regulations of the fire insurance policy. (7 marks)
3. Over the past few years there has been a steady rise in the number of insurance claims made. Managing each claim based on its own merits is vital to ensure that claims are handled quickly and efficiently. The procedures that must be followed when handling a claim are generally strict, so workflow automation is vital to ensure that the claim is processed correctly. Developing a solution from scratch to support this specific requirement is expensive and complex. [<Answer>](#)

Especially in health insurance, rampant malpractices are bleeding public sector insurance companies and they need to restructure their activities so as to bring about change in the sector. The claims ratio in the health insurance is as high as 150 percent and rampant malpractices are bleeding public sector health insurance companies and added to that the structural inefficiencies are hampering development of the sector.

Nowhere is the mantra of customer-centricity, cost-control, and competitiveness more prevalent than in the property and casualty (P&C) sector. With the cost of claims contributing up to 80 percent of the total costs of P&C insurers, improved management of claims processing and expenses is a strategic focus for these enterprises.

Equally important is the role claims processing plays in customer satisfaction, renewal, and retention. Claims processing and handling have always represented the key touch-point where customers are most likely to be retained or lost depending upon the quality of customer service rendered – whether by the insurer or third-party service provider. This translates into a dual challenge to reduce loss expenses while at the same time improving customer satisfaction. Now the expectations of consumers of claims services, which include both claimants and business partners, have changed dramatically. This is due in part to exposure to new business models featuring premium claims service as well as exposure to service events across other industries.

Required:

“Rampant malpractices are bleeding public sector insurance companies.” What are the ethical aspects of claims management? What are the procedures followed by the insurance companies in close proximate claims cases? (10marks)

Caselet 1

Read the caselet carefully and answer the following question:

4. After analyzing the liability insurance concepts, determine whether the farm owner is justified in claiming compensation for the loss of income due to crop failure. [<Answer>](#) (5 marks)

Raja Reddy, a farm owner holds 30 acres of land at Patancheru, an industrial area in Hyderabad. The main cultivation was paddy for which there was separate irrigation facility. A fertilizer factory is situated adjacent to the land. The waste products from the factory flow to the nearby lake through a cement pipe. The pipe runs through the land owned by Raja Reddy. The waste products are originally the chemicals used for the manufacturing process and are poisonous. The farm owner identified that the cement pipe used by the factory for carrying the waste products has cracked and as a result the waste products are accumulated in his land resulting in poor yield from his land in that year.

**END OF
CASELET 1**

Caselet 2

Read the caselet carefully and answer the following question:

5. Comment whether the engineering group is able to get indemnity from the insurance company. [<Answer>](#) (5 marks)

The Metro Engineering Pvt. Ltd., has forayed into the manufacturing of engineering

equipment which cater to the construction industry. It imports certain materials used for the manufacturing purpose from Brazil. The shipment of the materials, from Brazil to Chennai, is usually made through Marine Shippers, a renowned marine transport company. As the imported material is costlier, the group decided to buy a marine insurance policy to protect the company from any loss of material during shipment. The policy subscribed covers maritime perils, and was issued by the insurance company. During one such shipment, it was found at the Chennai port that a substantial part of the material was damaged. The materials were identified as not useful for the production purpose. The company preferred a claim from the insurance company stating that the damage was due to rough weather. The company lacked enough evidence to prove the same.

**END OF
CASELET 2**

Caselet 3

Read the caselet carefully and answer the following question:

6. Considering the concepts learned in workmen's compensation insurance, ascertain whether Naganna will receive compensation from his employer. [<Answer>](#)
(5 marks)

Naganna is a daily laborer working in the production department of a factory which manufactures automobile springs. He is the sole earning member of his family. The workers come in shifts and thus the production process goes on throughout the day. Once, when he was on leave, he was helping his friend who is in another department. An accident occurred there and fractured his both arms. He was not able to work any more in the factory. Naganna claimed compensation as the accident occurred with in the factory even though he was not performing his duty. He argued that the employer is responsible to compensate him.

**END OF
CASELET 3**

END OF SECTION B

Section C : Applied Theory (20 Marks)

- This section consists of questions with serial number 7 - 8.
- Answer all questions.
- Marks are indicated against each question.
- Do not spend more than 25 -30 minutes on Section C.

7. What legal aspects should be looked into by the claims management (manager)? (10 marks) [<Answer>](#)
8. New product development is one of the important and riskiest techniques for the corporate success. It drives the market shares and revenue profits, and also share prices. With the increasing customer focus, it is necessary for the insurer to design and offer new products that will suit the needs of the customer. In this context, explain the following: [<Answer>](#)
- a. Key steps involved in the product development process. (5 Marks)
- b. The role of market research in the product development process. (5 Marks)

END OF SECTION C

END OF QUESTION PAPER

Suggested Answers

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Section A : Basic Concepts

Answer	Reason
1. C	Expenses of treatment are not payable in respect of a medical condition that was known by the insured person to exist and/or had been treated in the year immediately preceding the effective date of the policy, which commences on the day and time of boarding the aircraft from India. Under all other conditions expenses are payable. <TOP>
2. B	Engaging the services of an advocate is not compulsory. All others are true. <TOP>
3. A	Guideline rates are applicable to all types of personal accident Insurance underwritten in India except the cases stated from (b) to (e). <TOP>
4. E	In all the three instances, the provision of waiting period of 30 days is not applicable under a mediclaim policy. <TOP>
5. A	One policy for one person only allowed. All others are true. <TOP>
6. B	Packaged policy lead to less administrative expenses such as policy preparation expenses including stamp fee. All others are true. <TOP>
7. D	A family discount of 5% on premiums under the Farmers' Package Insurance Policy is allowed for a family comprising a minimum of four persons. <TOP>
8. C	The policy shall not indemnify the insured against any claim arising out of all personal injuries such as libel, slander, false arrest, wrongful eviction, wrongful detention, defamation, etc., and mental injury, anguish or shock resulting there from. All others are exclusions and the insured will not be indemnified against any claim made against them <TOP>
9. E	Under all the situations the company shall not be liable to make good the loss. <TOP>
10. B	Loss or damage caused by depreciation or wear and tear is not covered as a general exception., where as all the others are general exceptions under a general insurance contract. <TOP>
11. A	It creates an extra clerical work for insurers in calculation of premiums and preparation of renewal notices – work which is out of all proportions to its value. <TOP>
12. C	Notice to police in case of theft is a must to investigate into the matter. All others are true <TOP>
13. A	The special facts upon which the contingent chance is to be computed lie more commonly in the knowledge of the insured only. All others are true. <TOP>
14. B	The recommendations of the surveyor are not binding on the insurers. <TOP>
15. D	Creating more homogeneous portfolios which require less extensive reinsurance arrangements. All others are true. <TOP>
16. C	Some warranties can be deleted by paying extra premium. Certain warranties are a permanent part of the contract and cannot be deleted even by paying extra premium. eg: daily removal of waste. <TOP>
17. B	Only option (b) is true. All others are not benefits available under the policy. <TOP>
18. E	All the causes are excluded under the Industrial All Risks Policy. <TOP>
19. C	Damage to tyres is exclusion under package policy, unless the vehicle is damaged at the same time. All others are true. <TOP>
20. C	Premium rating depends upon insured's declared value of the vehicle, cubic capacity of the engine, geographical zone of operation and age of the vehicle. For premium rating the driver's age is not required. <TOP>

21. C Working pressure and maximum load on safety valve and not the minimum load on [<TOP>](#) the valve is required for rating purpose. All others are true.
22. D The grains from different units should be mixed only after approval of the insurance [<TOP>](#) company or the agent.
23. D The concept of orphan claim exists in motor insurance third party claims. These are [<TOP>](#) claims where the details of the vehicle, insurance details, etc., are not available. Hence option (d) is the relevant answer.
24. C Unlike most insurance policies the marine cargo policy is an agreed value policy. Sum [<TOP>](#) insured in cargo insurance is fixed on agreed value basis.
25. B There is no implied warranty in marine insurance policy as to the nationality of a ship [<TOP>](#) or that the nationality of a ship will not be changed during the risk.
26. B The Professional Indemnity Insurance policy covers the legal liability of the insured [<TOP>](#) person or his named assistants against claims arising out of the professional service rendered, caused by or alleged to have been caused by error, omission or negligence in their service.
27. A Data mining technique is used for identifying frauds in claims and forecasting claims [<TOP>](#) apart from the other four listed in the question.
28. E Market research is not part of services value chain stage. It is a part of product [<TOP>](#) development. Generally the services value chain comprises of (i) Developing the opportunity (ii) Defining the solution (iii) Service delivery and (iv) Administration.
29. D The agent cannot collect premiums on his own on behalf of the insurer, unless he has [<TOP>](#) the authority from the insurer. He can only remind orally or in writing, the policyholder about payment of premium due. If the policyholder pays the premium to the agent, he is doing so at his risk and responsibility. Insurer is not responsible if the agent has not tendered the premium in the insurer's office.
30. C Reinsurance is bought for a number of reasons. But earning ceding commission is not [<TOP>](#) one of them. The other four reasons are more relevant for purchasing reinsurance.

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Section B : Problems/Caselets

1. a. The concept of warranty in a fire insurance policy differs from the concept applicable in a law of contract. In a law of contract, a warranty is a minor contractual term, a breach of which gives the innocent party the right to claim damages for breach, but not to refuse further performance under the contract. In a fire insurance policy, warranty is a promise made by the assured, which if broken, allows the insurer to deny liability as from the date of breach. The seriousness of the situation can be revealed from a small instance. If a person who subscribed to fire insurance policy brought a can of petrol on the premises for one day, the insurance company can negate the policy for that day. [<TOP>](#)
- b. A warranty in fire insurance has the following features:
 - i. It is an unconditional promise by the assured
 - ii. It need not relate to the material fact
 - iii. It must be adhered to exactly
 - iv. The assured cannot remedy a breach of warranty, as the fact of breach determines the insurer's liability.

An assured may be required to warrant one of the three things:

- i. That a particular fact is true or that an intention is held by the assured, at the date of the policy.
- ii. That the assured generally holds a particular opinion at the date of the policy
- iii. That the assured will act, or will refrain from acting, in a stated fashion during the period of the policy.

The following points with respect to warranties are worth noting:

- i. A warranty is a condition which forms a part of the contract. "A warranty is a condition or contingency and unless it is performed there is no contract. It is perfectly immaterial for what purposes a warranty is introduced, but being introduced, the contract does not exist unless it is literally complied with".
 - ii. A breach of warranty permits the insurer to avoid the claim under the policy, whether the breach has any connection with the loss or increases the risk.
 - iii. Warranties apply during the entire period of the policy. All warranty forms attached to the policy incorporate a condition to this effect.
 - iv. Some warranties can be deleted by paying extra premium. Certain warranties are a permanent part of the contract and cannot be deleted. Example: daily removal of waste.
 - v. If the warranty that all fire proof doors would be closed at night is broken, its effect on the contract would depend on the following circumstances:
 - vi. If the doors were left open one night only and a fire occurs on that night, then the insurers would not be liable for the loss.
 - vii. If the doors were closed in the night for 6 months and were regularly left open after that, then the policy would be avoided from the date when the regular closing of the doors ceased, until that date the contract enjoys full validity.
 - viii. If the doors were left open for one night only and no fire occurred, but the fact came to light 2 months later following a fire when the doors were closed, then the insurer, according to strict legal position will not be liable for the loss, although the breach of warranty had no connection with the loss.
2. a. **Coverage:** Along with the basic coverage against loss or damage by occasional fire, the standard fire and special perils policy provides protection from a host of other perils such as: [<TOP>](#)
 - i. Lightning
 - ii. Explosion/implosion
 - iii. Aircraft and articles dropped there from
 - iv. Riot, strike, malicious and terrorism damage
 - v. Subsidence and landslide (including rockslide)

- vi. Storm, cyclone, typhoon, tempest, hurricane, flood and inundation
- vii. Damage caused by sprinkler, leakages, overflow, leakage of water tanks, pipes, etc.

The policy can be extended to cover earthquake, fire and shock; deterioration of stock in cold storages following power failure as a result of insured peril, additional expenditure involved in the removal of debris, architect, consulting engineers' fee over and above the amount covered by the policy, forest fire, spontaneous combustion and impact damage due to own vehicles.

Benefits of the policy: In case of a partial loss, the insurance company shall effect payment for repairs and replacement. In case of policy with the reinstatement value clause, cost of reinstatement will be paid on completion of reinstatement subject to overall limit of the sum insured. The insurance company may at its option, also repair or replace the affected property instead of paying the cost of restoration.

b. **General rules and regulations of fire insurance policy:**

The various rules and regulations of fire insurance policy include:

- i. The insurer who issues a fire insurance policy should follow the standard terms and conditions. He is not allowed to issue at rates lower than the rates provided in the tariff without the specific approval of the committee. But the insurers are allowed to charge higher rates than those given under the tariff.
- ii. The policy can be extended to cover additional perils by incorporating appropriate endorsements with an additional premium.
- iii. The policy can exclude perils like earthquake (fire and shock), and/or storm, cyclone, typhoon, tempest, hurricane, etc., by deleting these perils from the standard fire and special perils policy. A reduction in premium rate is allowed for this exclusion.
- iv. Policies should be read together with the schedules, specifications, endorsements, warranties and clauses as one contract. Insurers may devise a suitable format for the schedule, specification and proposal form.
- v. The risks which are not provided in the tariff shall be referred to the committee for rating. A provisional premium of Rs.2.50 per mille shall be charged in such cases for covering the risk.

3. **Ethical aspect of claims management:** Claims operation involves considerable sums of money. It is not uncommon to find that some of the individual claimants are tempted, either knowingly or unknowingly, to make use of insurance to the best possible ability to get a little more than indemnity. But, leakage of insurance company's funds due to the activities of such persons is not justifiable as far as other honest claimants are concerned who are satisfied with what is due to them in terms and conditions of the policy. Therefore, it is the responsibility of the insurance companies, as trustees of the policyholders' money, to ensure as far as possible, that moral hazard is eliminated or at least minimized. [<TOP>](#)

Since loss is personal, the individual is likely to react in a subjective manner and tends to exaggerate his claim. This can be tackled without much difficulty. But, a more difficult problem is corporate clients trying to take advantage of insurance. Some of them are said to treat their insurance division as a profit center.

Therefore, it is necessary to successfully assess the moral hazard at the time of underwriting itself. When this is subsequently found, it is essential that insurance companies share this information with one another and deal with such clients in a suitable manner.

Close Proximity claims: Generally, a feeling arises that whenever a claim occurs immediately after the assumption of risk, that there is some thing wrong with the claim. It need not necessarily be a false claim if it occurs immediately after a policy is issued instead of occurring after a gap of 5/10 days and is deemed a pure chance event.

However, in the present scenario, there should be a standard procedure as described below to conduct an investigation and clear the doubt. Unfortunately, the insurer is in such a vulnerable position that if he settles such a claim, it may become a matter of vigilance. If he delays, he is open for criticism in the consumer forums and it may turn out to be a grievance as far as the insured is concerned.

When a claim arises within 5 days from the date of inception of the cover, the following procedure should be adopted as a matter of routine. The operational office has to appoint an investigator immediately who has to comply with the following guidelines:

- He has to visit the accident spot immediately and collect the details of persons/vehicles involved.
 - Contact police/transport authorities for obtaining the material evidence as to the nature, cause, exact date and time of accident.
 - To collect prefix and suffix cover notes issued, if any.
 - To obtain the copy of the proposal submitted, and also to confirm as to whether the subject matter was inspected before inception of the cover and if so by whom.
 - To get confirmation as to whether any message has been given to operating offices by the development officers/agent immediately after assumption of the cover.
4. The fertilizer factory can be held liable for the loss of income due to crop failure. The factory operators could have reasonably foreseen that the waste product was likely to accumulate in the farm owner's land if there is a breakage of the pipe. Also, the accumulation of waste products as a result of the breakage of the pipe resulted in land becoming not useful for cultivation purposes. The factory is clearly identified as responsible for the loss and thus Raja Reddy is justified in claiming compensation for loss from the factory. [< TOP >](#)
5. The engineering group will not get indemnity for the loss of materials. [< TOP >](#)
It should be noted that the duty of proving the fact that the loss has not occurred due to any of the insured perils is on the insurance company. If the insurance company is able to prove this, it is the duty of the insured to provide evidence and facts to prove it otherwise. He should have enough evidence to prove that the loss is due to insured perils. In the given case, even though the insured claims that the loss of materials is due to rough weather, there is no sufficient proof to substantiate the same. As the policyholder has not discharged his duty of proving that the rough weather is the primary cause of the damage, the insurance company is not liable to indemnify.
6. One important condition to be noted in workmen's compensation is that the employer is not responsible for accidents which results from an act unconnected with his duties. As the worker in this case met with an accident when he was not on duty, the employer is not liable to compensate the loss. The act which resulted in the injury is foreign to the employment. Helping his friend was not a part of Naganna's duty. [< TOP >](#)

Section C: Applied Theory

7. Claims settlement involves examination of loss in relation to the coverage under the policy and compliance with policy conditions and warranties. Therefore, the first aspect to be decided is whether the loss is within the scope of the policy or not. The legal doctrine of proximate cause provides guidelines to decide whether the loss is caused by an insured peril or an excepted peril. [< TOP >](#)
- The burden of proof or, to use the legal expression, the onus of proof that the loss is within the scope of the policy is upon the insured. However, if the loss is caused by an excepted peril, the onus of proof is on the insurer.
- The second aspect to be decided is whether or not the insured has complied with policy conditions, especially conditions which are precedent to 'liability'. These conditions relate to immediate notification of loss' to the insurers, submission of proof of cause and extent of loss.
- The third aspect is with respect to compliance with warranties. The survey report would indicate whether warranties have been complied with or not.
- The fourth aspect relates to the observance of utmost good faith by the proposer before the conclusion of the contract and during the currency of the policy, if provided by policy conditions. Especially on the occurrence of a loss, the insured is expected to act as if he is uninsured. In other words, he has a duty to take measures to minimize the loss.
- The fifth aspect concerns the determination of the amount payable. The amount of loss payable is subject to the sum insured. However, the amount payable will also depend upon the following:
- i. The extent of insured's insurable interest in property affected.
 - ii. The value of salvage.
 - iii. Application of pro-rata average.
 - iv. Application of contribution and subrogation conditions.

8. a. Key steps involved in new product development include:

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Initial Screening: It is the first decision to develop a new product. Involves idea generation and screening of ideas based on the market requirements. The customer's needs and wants should be kept in mind while generating the ideas for the new product. Various idea-generating techniques are available which help develop creative ideas for new products. Example: Brain storming, Synectics, Need/Problem identification, etc.

Preliminary Market Assessment: The first but quick assessment to determine the market potential and expected market penetration.

Detailed Market Study or Market Research: Detailed analysis of the market through user needs-and-wants-studies, concept tests, competitive analysis. Target market size, structure and behavior, product positioning, sales and market share can be analyzed in this stage.

Business and Financial Analysis: Involves financial analysis, risk assessment, reinsurance options, with respect to market attractiveness and competitive advantage.

After developing the product concept and the strategies for marketing the product, the company has to evaluate the proposal's business feasibility. Sales, cost and profit projections are to be made. Based on the new market information, the business analysis should be modified as and when required. The sales estimates should prove that the new product will give the insurer a satisfactory profit. After preparing the sales projections the management estimates the costs and profits. One of the simple techniques used to evaluate the merit of a new product is Break-Even Analysis.

Test Marketing: Testing the product with the customer in a specified area or a limited group of customers.

Market Launch: The full market launch of the product in the target market area.

- b. **Market Research and Product Development**

Market research helps the companies learn more about how to offer a service by focusing on the marketing mix that is the "4 Ps" of marketing.

Product: The features a service should have to deliver the benefits that customers want and to assess whether the service has features that customers find important.

Price: How much the customers can pay for a particular service.

Place: The network through which the products will be distributed and whether the suppliers need a wide network.

Promotion: Does the customer have knowledge of the service benefits and how he/she learns about the suppliers of the service. How the promotion can be used as a tool for increasing the number of customers.

Companies can make use of various market research tools to analyze the market and effectively place the product in the market.

Usage, Attitude, Image (UAI) market studies;

Focus group discussions;

In-depth interviews;

Product concept tests;

Price sensitivity tests;

Advertising research and advertising tracking studies;

Test marketing;

User studies; and

Customer satisfaction surveys.

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