

STRUCTURES / ESSAY (100 marks)

Instruction: This section consists of six (6) structures questions. Answer only four (4) questions.

QUESTION 1

- (a) Explain the benefits of reinsurance to the insurance industry. (10 marks)
- (b) Give the definitions of the following:- (8 marks)
- i. stability clause
 - ii. reciprocal arrangement
 - iii. hour clause
 - iv. error and omission clause
- (c) Differentiate between proportional and non-proportional treaty. (7 marks)

POLITEKNIK
Jabatan Pengajian Politeknik

EXAMINATION AND EVALUATION DIVISION
DEPARTMENT OF POLYTECHNIC EDUCATION
(MINISTRY OF HIGHER EDUCATION)

COMMERCE DEPARTMENT

FINAL EXAMINATION
DECEMBER 2011 SESSION

P5316 : REINSURANCE

DATE : 30.04.2012 (MONDAY)
DURATION : 2 HOURS (11:15AM – 01:15PM)

This paper consists of **SIX (6)** pages including the front page.
Section A: Essay (6 questions – answer 4)

CONFIDENTIAL UNTIL 30.04.2012
DO NOT OPEN THIS QUESTION PAPER UNTIL INSTRUCTED BY THE
CHIEF INVIGILATOR

QUESTION 3

- (a) Bestworld Insurance has a RM 4 million excess of loss of RM 1million reinsurance policy with Zurich Reinsurers in 2009. In the same year there is a claim on the policy, however due to legal proceeding, the claims was only settled in 2011 for RM2.85 million. .

The CPI for the years are as follows:-

YEAR	CPI
2009	110
2010	115
2011	117

Calculate the claims payable by

- i. Cedant (4 marks)
- ii. Reinsurer (4 marks)

- (b) The following are the reinsurance details for property class for Gemilang General Insurance

Property Reinsurance policy coverage – RM5 million XSL RM1million
 Treaty period : 1 Jun 2009 – 31 May 2010
 Annual Premium: RM90,000
 Hour Clause 72 hours (1 reinstatement only)

During the period, Windstorm ‘Durian’which started at 13.00 hours on 28 December 2009 incurred a loss of RM5.5 million as at 1130 hours on 31 December 2010. The policy was duly reinstated.

QUESTION 2

- (a) Nusajaya Insurance Berhad is a provider of general insurance. It decides that its maximum retention property insurance is RM80,000 and takes out a 10-line first surplus treaty, a 10-line second surplus treaty and a 5-line third surplus treaty. The following risks were received.

- i. Compute the distribution of risk table (10 marks)

RISK	Sum Insured	Retention	1 st Surplus	2 nd Surplus	3 rd Surplus
Factory Raja	RM64,000				
Factory Seri	RM950,000				
Factory Tekun	RM1.8 mil				
Factory Utama	RM2.5 mil				

- ii. If Factory Utama suffered a loss of RM400,000 in a fire how much is the share of loss among the cadent and the reinsurers. (8 marks)

- (b) Majuria Specialist Insurer has an risk excess treaty of RM400,000 excess of RM100,000. The event limit is 4 times cover of the treaty in a given event. A major fire has broken up at the Bayan Lepas Industrial area where there are 4 risks insured by Majuria each incurring a loss of RM600,000. Calculate the total reinsurance recoveries. (7 marks)

QUESTION 5

- (a) What are the function of reinsurance accounting?
(10 marks)
- (b) An insurance company reinsurance programme will depend several factors. Explain the factors that determine the retention level of a ceding company?
(15 marks)

QUESTION 6

- (a) Describe the roles play by the followings in the reinsurance market.
- i. Direct insurer
 - ii. Reinsurance broker
 - iii. MNRB
- (9 marks)
- (b) Why should a life office reinsure?
(8 marks)
- (c) Differentiate between retakaful and reinsurance
(8 marks)

Calculate the reinstatement premium cost based on:-

- i. Pro rata as to the amount
(4 marks)
 - ii. Pro rata as to the time
(4 marks)
 - iii. The date of reinstatement of the policy.
(1 marks)
 - iv. Reinsurance recovery
(2 marks)
- (c) Summit General Re has the following excess of loss ratio treaty "to pay amount of loss in excess of 75% loss ratio up to 120% loss ratio". At the end of the year, the underwriting result of Summit General Re's reinsured is as follow:
- | | |
|-----------------|-------------|
| Earned premium: | RM5,000,000 |
| Incurred losses | RM3,800,000 |
- Calculate the loss ratio and the amount of claim payable to the reinsured.
(6 marks)

QUESTION 4

- (a) Explain the conditions in which a reinsurance contract maybe terminated by both parties.
(9 marks)
- (b) Briefly explain the following terminologies:-
- i. Arbitration
 - ii. IBNR
 - iii. Ceding Commission
 - iv. Facultative Obligatory Treaty
 - v. Run-off
- (10 marks)
- (c) Explain the application of 'privity of contract' and 'cut through clause' in reinsurance contract.
(6 marks)