

UNIVERSITY OF COLOMBO-SRI LANKA

FACULTY OF ARTS

FOURTH YEAR EXAMINATION IN ARTS (ECONOMICS)-2018/2019

(End of First Semester)

ECN 4191 – ECONOMICS OF RISK MANAGEMENT

*Answer Four (4) questions altogether, by selecting at least ONE question from Each Part.*

*Question No. 8 is Compulsory for TECS Students*

*All Questions carry equal marks*

Time: 2 Hours.

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PART - I

(Answer at least one question from this Part)

Question No. 1 (25 Marks)

- (a) What do you understand by “risk”? Differentiate between “risk” and “uncertainty”.  
[8 Marks]
- (b) “Riskiness of an event depends on the possibility of exposure and the gravity of impact”.  
Discuss. [10 Marks]
- (c) Briefly explain different “risk responses”, and what type of response that leads to obtain insurance covers. [7 Marks]

Question No. 2 (25 Marks)

- (a) Indemnity means an exact financial compensation for an insured loss. But indemnity cannot apply to all types of insurance. Explain situations where indemnity cannot be applied and examine how insurance companies overcome such instances. [9 Marks]
- (b) In insurance the following concepts are very important. Critically examine their meaning. Provide examples where necessary to clarify them. [16 Marks]
- |                              |                         |
|------------------------------|-------------------------|
| (i) Utmost Good Faith        | (ii) Insurable Interest |
| (iii) Principle of Indemnity | (iv) Proximate cause    |

→ p.t.o

Regulation of Insurance Industry (Amendment) Act No 3 of 2001 introduced a new requirement making it compulsory for all insurance companies to list on the Colombo stock Exchange (CSE).

(a) Please explain what the Government may have expected to achieve through this policy action  
[10 Marks]

(b) Considering the overall impact of this policy on the insurance industry, please explain whether you are in favour of this policy or against it justifying the reasons for your position  
[15 Marks]

Question No. 4 (25 Marks)

Briefly explain the following (5 x 5 = 25 marks)

- (a) Relevance of the Law of Large Numbers to Insurance
- (b) How the non-availability of insurance can impact interest rates
- (c) Factors contributing to the low level of insurance penetration in Sri Lanka
- (d) Difference between insurance brokers and insurance agents
- (e) Role of Reinsurers

**PART - II**

(Answer at least one question from this Part  
*Question Number 8 is Compulsory for TECS Students*)

Question No. 5 (25 Marks)

(a) Explain the two main types of reinsurance arrangements available for a primary insurer.  
[5 Marks]

(b) "Underwriting" is the process of evaluation the risk presented by a customer to the insurer." Critically evaluate this statement paying attention to the following with respect to fire insurance products.

(i) Process of underwriting (ii) Purpose of underwriting (iii) Customer fairness  
[10 Marks]

(c) Identify 3 factors each with respect to following proposals that an insurer would consider when underwriting each of them.

(i) Fire insurance (ii) Motor insurance (iii) Life insurance  
[10 Marks]

→ p.t.o

Question No. 6 (25 Marks)

- (a) Identify the four categories of motor insurance policies and explain their respective coverage. [8 Marks]
- (b) Explain five general exclusions that would be included in a standard comprehensive private car insurance policy. [10 Marks]
- (c) "Motor insurance is one of the products in the insurance market that will be least affected by the advancement of technology in the future" Critically evaluate this statement explaining in detail your reasons to agree or disagree with it. [7 Marks]

Question No. 7 (25 Marks)

- (a) Explain three additional benefits that a customer may obtain from a standard endowment life insurance policy. [7 Marks]
- (b) Explain the role of the actuary in a life insurance company [8 Marks]
- (c) Explain five types of claims that a claims division of a life insurance company would be dealing with in terms of life insurance policies. [10 Marks]

Question No. 8 (25 Marks)

*(This question is compulsory for TECS Students)*

- (a) "General average is a global maritime industry loss mitigation convention whereby ship owners and cargo interests proportionately contribute to, fully reimburse those in the venture, who sustained loss or damage in preventing the total loss of a vessel, crew and its cargo." What are the conditions for General Average to be properly declared by a ship owner? Explain your answer. [7 Marks].
- (b) Any claims on the ship-owner for loss or damage to cargo will be handled by the Protection & Indemnity Clubs. Explain the reason for the establishment of these clubs and how they operate. [11 Marks]
- (c) Discuss different marine cargo policies available for traders involved in International Trade. [7 Marks]

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