Insurance

1 (2016)

4.	<table><tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr><tr><td>C</td><td>D</td><td>F</td><td>A</td><td>B</td></tr></table>	10

2 (2010)

7. Illustrate the difference between the insurance terms (i) Insurable interest and (ii) Indemnity.

(a) The policy holder must benefit by the continued existence of the object and suffer by its loss. The owner of property has insurable/personal interest in the property. Insurable interest is determined by monetary (pecuniary) value.

Example: Everyone has an insurable interest in their own personal possessions e.g. house,but your next door neighbour would not normally have an insurable interest in your house.

(b) An insurer indemnifies the person taking out the insurance against a loss happening. There can be no profit from insurance, only recovery of the actual loss. The contract is for the reinstatement of the actual property insured, i.e. putting the claimant in the same financial position, as far as possible, as was the case prior to the accident or loss.

Example: A 3 year old car insured for €15,000, but with a market value of €10,000 is written off in an accident. The maximum compensation for the loss suffered is €10,000.

3 (2009)

(a) Public Liability Insurance is:

Insurance cover for the business which protects the business against claims by members of the public for injury or loss resulting either from an accident on the business premises or the actions (or inactions through negligence) of the business.

(b) Fidelity Guarantee Insurance is:

Insurance cover for the business which protects the business against financial losses, as a result of theft or fraud by an employee.

4 (2008)

10	(a) 6 marks (b) 4 marks	10

5 (2007)

1.

1.	2.	3.	4.	5.
D	**E**	**F**	**C**	**B**

7	5 + 5 marks (2 + 3)

7. Insurance Principles

Utmost Good Faith: (Uberrimae Fidei)
All material facts must be disclosed to the insurer. A material fact is one that would influence the insurer into either accepting or rejecting the risk, or in setting the premium. This means that all the information that might have a bearing on the decision to enter the contract must be supplied on the proposal form even if the information is not requested. The insurer can declare the contract void and claims made by the insured can be refused if all the facts are not disclosed.

The Principle of Indemnity
An insurer indemnifies the person taking out the insurance against a loss happening. There must be no profit from insurance, only recovery of the actual loss. The contract is for the reinstatement of the actual property insured, i.e. putting the claimant in the same position, as far as is possible, as was the case prior to the accident or loss. The amount for which the asset is insured is usually the cost of replacing it. The amount of the total sum insured is not relevant if there is over-insurance since the insurer will only make good the actual loss that occurred. If there is under-insurance on the part of the policy holder then the concept of average will apply and only a proportion of the loss will be paid.

5	**(A)**		<u>**Advantages**</u>: • It is a form of expansion which requires, **low capital investment by the franchisor** as the capital used to expand the business comes from franchisees. Very suitable/popular in the current economic climate as a form of expansion. • Franchising permits a **more rapid expansion**. By using the franchisees' capital, the franchisor is able to establish a large number of outlets in a short period of time. Rapid expansion can be achieved **without incurring the overheads and costs associated with opening company-owned restaurants.** • An owner will be more attentive than a manager. This is the central point which makes franchising so attractive. **The franchisor can be assured that the person operating its restaurant will be "attending to business" as much as they would.** By franchising the business, the franchisor places the expansion of his/her business in the hands of **people who are motivated to make it work** and are therefore more likely to succeed. • Economies of scale exist. There is strength in numbers. The successful franchisor can **command deals with various suppliers**. Can control supplies to various franchisees. The cost savings can increase the franchisor's profits. • Because there is a smaller capital investment required the **franchisor's profits are generated on a much lower capital investment** even though the revenue from franchised restaurants may be less than that received from company-owned restaurants. • A franchise system **requires less management than a company owned chain of restaurants**. Hiring, motivating and retaining competent staffing are all functions handled by the franchisee, not the franchisor. • There is low risk to the franchiser as should the franchisee not adhere to the conditions of the contract it could be cancelled.	2@7(4+3) 1@6(3+3) At least one of each required.
			<u>**Disadvantages**</u> • Control is lost over the day-to-day management of the franchise businesses. • The reputation of the whole business could be affected by the actions of one franchisee /poor quality standards/staff problems • A training programme for franchisees will be required. This will be expensive and time consuming. • Franchisees will have to be monitored on a regular basis.	

<table>
<tr>
<td>5</td>
<td>(B)</td>
<td></td>
<td>
Phoenix Risk Management Ltd
Main Street, Athlone, County Westmeath
14th June 2018
Ricardo’s Burgers Ltd
O’Connell Ave
Dublin

Dear Sir/Madam,

<u>Re: Risk Management and types of insurance cover</u>
Further to your enquiry, I have identified the following insurance policies you should consider and recommend a number of risk management approaches:

<u>Employers Liability **</u>
This protects the business against claims made by employees who are injured in the course of their work.

You should ensure all employees are trained in the use of cooking equipment.

<u>Public Liability**</u>
This protects the business against claims made by members of the public who are injured while on the premises, such as slip-and-fall injuries.

You should ensure that all floors have appropriate warning signs placed on them when they have been washed to avoid any injury.

<u>Product Liability**</u>
This insures the business against claims made by customers relating to the products you sell such as food poisoning claims.

You should ensure all foods are cooked properly on the premises before serving. All sell by dates on stock should be checked and adhered to. A stand-by generator could be considered in the event of loss of electricity to protect frozen food products. Ensure that staff are properly qualified.
</td>
<td>
Layout
9marks

Address(1)
Address(1)
Date(2)
Dear(2)
Re(1)
Close(1)
Signature (1)

Content
16marks
3@4(2+2)

Must have one of the first three policies, named **

Risk minimisation
2@2m
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Buildings and Contents
This provides you with protection against any loss caused by damage to the structure of the building caused by fire, flood or storm. You should ensure a smoke alarm is fitted and there are adequate fire extinguishers in the premises.

This provides you with protection against any loss or damage to stock, raw materials, components etc. caused by burglary, fire or flood.

A stock control system should be put in place and stock taking carried out regularly.

I hope this is of help to you.
Yours faithfully,

Aaron Ryan
Risk Consultant

Other policies:

Fidelity Guarantee Insurance – insurance against fraud, theft or dishonesty of employees - ensure checks and balances are in place.

Cash in transit insurance – ensure secure procedures are in place.

Commercial vehicles- ensure you have adequate insurance cover and the vehicles are roadworthy.

5	(C)		• **One type of product only (mass produced standardised product)**/Being a leader in price only. Can the business survive on price leadership alone? • **Demand/Does the size of market exist?** Has adequate market research been carried out to determine the size of the market? / Is the demand for that product sufficient? • Can **quality** be maintained across a large numbers of goods? • **Capital investment** required/**necessary finance**. Can sufficient capital be raised as it is expensive to set up production lines? /machine maintenance costs can be high. • **Staff working conditions**/Will key people leave due to more repetitive work?/less variety (boredom)/Semi-skilled to unskilled. Could there be redundancy issues? • **Will it be more difficult to change/adapt the product** to meet changing needs of customer?/less flexibility when producing just one product. • **The amount of space available** (will more space be required for new machinery and stock?) • **Impact on the brand name**. Will the change affect the reputation of the business? /status of the brand? • **Competition**. Large markets can have dominant firms in place/Can this business compete? • Highly standardised product so not all customers will be satisfied.	3@5(2+3)

8 (2015)

		i	**Outline the function of an *insurance proposal form*.** Insurance Proposal forms are used to apply for insurance cover and the company is given full particulars of the risk against which the insurance protection is desired. Insurance Proposal form helps the insurance company to calculate the premium based on all the potential risks in relation to the insurance policy.		
		ii	**Explain the principle of insurance referred to in the extract from the above private motor Insurance proposal form.** Utmost Good Faith: All **material facts** must be revealed. The person taking out the insurance must answer all the questions truthfully. Failure to do so can make the insurance cover worthless. If the insurance contract is obtained by way of fraud or misrepresentation it is void e.g. a driver should declare truthfully the number of penalty points on his licence.		

		iii	**Outline two other principles of insurance that apply to insurance contracts.** **Indemnity**: An insured person cannot make a profit from an insurance claim i.e. insurance can at best put an insured person in the same financial position as they were prior to a loss occurring. If a car is written off in an accident the insured receives its replacement value and not the original sum paid for it. **Insurable Interest**: The insured must gain from the existence of the exposure unit and suffer from its loss. You can insure your own car but not your neighbours. In essence you can't insure something unless you have a vested interest in it. **Subrogation:** If a third party is responsible for damaging your car in an accident and you are compensated by your own insurer, your insurer can then sue the other driver. Subrogation says when you accept an insurance settlement, the insurer gets your right to sue the third party. This prevents you collecting twice for the same damage and gives your insurer a way to recoup its losses. Fundamentally the principle is linked to indemnity ensuring that a person doesn't profit from insurance.	
			Contribution: This principle states that if you hold more than one insurer liable for your losses, they have to share the loss. If you take out two polices on your car, you can't collect from both insurers. One company would pay you and then collect from the second, or both companies would share the compensation payment between them. Fundamentally the principle is linked to indemnity ensuring that a person doesn't profit from insurance	

9 (2014)

5	**C**		Explain what it means to be 'underinsured' **and** outline **one** possible effect of being underinsured on a business. **Underinsured** means the business has inadequate insurance cover. The insured fails to insure for the full value of the policy. In the event of a claim for total loss or partial loss underinsurance may result in economic losses to the policy holder, since the claim would exceed the maximum amount that can be paid out by the insurance policy. The motivation for being underinsured is the lower premiums paid by the policy holder, however, the losses arising from a claim will far outweigh savings experienced in reduced insurance premiums as a consequence of the inadequate insurance.	15

			Possible effects on business: Underinsurance could result in a serious financial crisis in a business depending on the asset that is insured. For example if a building is insured for €300,000 and is subsequently destroyed in a fire and the cost to replace the building is €500,000 the business will have to make up the difference of €200,000 from its own resources. The lower premiums will reduce the business costs and thereby increase profits. This could be intentional with the full knowledge of the risk. However, the losses arising from a claim may far exceed any marginal savings in insurance premiums. It may not be intentional. Businesses should review and update cover annually (e.g. stock may have increased in value due to inflation).	

EXON Insurance PLC
(Address, Telephone No, E-mail, Directors etc.)

Your ref:
Our ref:

Date 14/06/'12

Bianua Ltd
(Address)

RE: Business risks and the appropriate types of insurance policy for the company.

Dear Mr. /Ms…
The following is a list of possible business risks and the appropriate types of insurance policy for your company.

The risk of structural damage to the factory, warehouse or office building.
Buildings Insurance – provides protection against loss or damage to the structure of the building caused by fire, flood or storm.
The risk of damage to stock, raw materials, components etc.
Contents insurance – provides protection against loss or damage to contents caused by burglary, fire or flood.
The risk of being involved in a road traffic accident.
Motor insurance – it is compulsory by law to have third party insurance. Other policies include Third Party Fire and Theft and Comprehensive.
The risk of losing an important member of staff -*Key Person Insurance* – protects the business against the loss of a valuable staff member.
The risk of a customer injuring themselves while on premises.
Public Liability Insurance – protects the business against claims made by the public as a result of accidents while on site.
The risk of a worker injuring himself while carrying out his job.
Employer Liability Insurance – Covers the business against claims made by employees as a result of accidents in the workplace.
The risk of having cash or stock being stolen by an employee.
Fidelity Guarantee Insurance – Protects the business against dishonesty or fraud committed by an employee.
The risk of the company's products being harmful to the public.
Product Liability Insurance – Protects the business in the event of a customer making a claim as a result of defective products that may have caused harm.
Others: Goods in Transit/Consequential Loss**.**
I look forward to hearing from you.

Yours faithfully

____

Signature
Position Held
Enc.

(B) (i) Calculate the following for 2011 for Bianua Ltd:

- Return On Investment (ROI);
- Current Ratio;
- Acid Test Ratio:
- Debt/Equity Ratio.

Return on Investment = Net Profit x100 / Cap. Employed
(Ordinary share capital + Retained Earnings + Long Term Loan)
50,000/(500,000 + 100,000 + 300,000)
50,000/900,000
5.56%

Current Ratio = Current Assets: Current Liabilities
155,000: 85,000
1.82:1

Acid Test Ratio = Current Assets – Closing Stock: Current Liabilities
(155,000 – 80,000): 85,000
75,000:85,000
0.88:1

Debt Equity Ratio = Debt: Equity/ (Ordinary share capital + Retained Earnings)
300,000: (500,000 + 100,000)
300,000:600,000
0.5:1

(20 marks)

(ii) Analyse the *profitability* and *liquidity* of Bianua Ltd, with reference to the industry average results, shown in the box above, **and** make recommendations for Bianua Ltd.

Profitability

The ROI for Bianua Ltd is 5.6%, which measures the return on capital for investors in a business. This is half the average performance of companies in the same industry. However, it is a new company and its ROI still compares favourably with the prevailing interest rates currently available on deposit accounts e.g. Rabo Direct personal savings account offering a return of 3.10%.

Recommendation for Bianua Ltd
Bianua Ltd will want the ROI to be as high as possible and to remain above the bank interest rate. To improve its position it needs to reduce its capital employed figure or improve its net profit by for e.g. controlling its expenses/overheads or trying to increase its sales.

Liquidity

The Current ratio

The average industry result in 2011 had a very healthy level of working capital. It had €2 available to pay for every €1 of liabilities. Maintaining this healthy working capital is essential for a businesses' cash flow.

Bianua Ltd has €1.82 available to pay for every €1 owed, a little below the ideal of 2:1. It should make every effort to maintain its current ratio so that it can pay its short term debts as they fall due. If the liquidity position of a new business is poor and it cannot pay its current liabilities it may have to go into liquidation.

The Acid test ratio

In 2011 the average industry result was 1.2:1 indicating that on average €1.20 was available immediately to pay for every €1 owed. The situation for Bianua Ltd in 2011 was 0.88:1 with the business only having 88c available to pay for every €1 it owes. Neither the industry average, nor Bianua Ltd manages to attain the ideal acid test ratio of 1: 1. The industry has some idle resources; however it is able to pay its short term debts as they fall due. On the other hand Bianua Ltd may have difficulty raising cash quickly to pay its bills as they fall due. Failure to improve on this could result in Bianua Ltd having difficulty in buying goods on credit in the future.

Recommendation for Bianua Ltd:

- Sell slow moving stock at a discount.
- Effective cash flow forecasting in order to avoid liquidity problems.
- Effective credit control will reduce the risk of bad debts.
- Effective stock control will reduce the amount of money tied up in stock.
- Increase cash sales.

(20 marks)

(60 marks)

(B) Risk Management

(i) Explain the term **'risk management'.**

A planned approach to the handling of the risk that the individual or business is exposed to is known as risk management.
It involves:

- The identification of all possible risks e.g. the risk of fire, employer negligence, etc.
- Identifying the causes of loss eg. personal injury, legal liability, etc.
- Measuring the risk/likelihood of the event occurring.
- Management of the costs/calculate the costs of the methods of protecting from loss.

(ii) Methods to reduce risks (illustrate):

- Insurance: Transfer the risk to an insurance company for a premium where the company will make good any loss suffered.

- Safe Procedures: The manner/act of doing something strictly laid out and adhered to/handling and working with hazards /stringent monitoring procedures.

- Health and Safety Statements: Regulations, identification of hazards, etc.

- Training of personnel in health and safety. Drills, courses of action and medical training. Provision of safety equipment, protective clothing and training in same.

- Ensure that designers, suppliers and manufacturers' products are used in accordance with safety requirements.

- Appoint Health and Safety representatives in the work force. Report safety issues.

- Install Security systems. Alarms, fire, Security etc.

- Regular safety inspections/audits. Investment in new, replacement, upgraded equipment.

12 (2006)

(A) (i) Indemnity and Insurable Interest (differentiate and illustrate)
Indemnity: There must be no profit from insurance, only compensation for the actual loss.
Insurable Interest: The insured must benefit by the continued existence of an object and suffer by its loss.

(ii) Insurance for a household and a business (distinguish)

- The scale of the operation (size, risks, value of items, etc.)
- Types of policies
  Fire
  Accidents
  Public liability
  Motor insurance
  Life assurance
  Employer's liability
  Public liability
  Fidelity guarantee
  Credit insurance
  Stock in transit.

13 (2001)

(b) Risk Management 10 marks (6 + 4)
Illustration 10 marks (6 + 4)