

Insurance and Taxation – Ordinary Level

State and explain three principles of insurance.

(20m) (LCOL 2005)

Marks: State three principles: 4 marks + 4 marks + 3 marks
Explain each: 3 marks + 3 marks + 3 marks

A SAMPLE ANSWER:

- (i) **Insurable Interest:** A person can only insure something if they benefit from its existence and would suffer from its loss or from damage to it, e.g. I can insure my house but not my neighbour's.
- (ii) **Utmost Good Faith:** An insured person must disclose all "material facts" to the insurance company. A "material fact" is anything which could affect the level of risk involved or the premium charged, e.g. whether the person smokes, in the case of Life Assurance.
- (iii) **Indemnity:** Insurance is meant to just compensate for loss suffered, so a person is not entitled to make profit from an insurance claim, e.g. seeking €200 compensation for something worth only €100.

The principles of **subrogation** or **contribution** could similarly be explained.

Insurance and Taxation – Higher Level

Capdata is a small software-writing business located in the south of Ireland employing four employees. It has the opportunity to grow but has little experience of the day-to-day reality of running a business. It needs premises, equipment and employees not only with computer technology skills but also with business management and sales skills.

(a) Describe what is meant by Risk Management.

Illustrate a method that Capdata could use to reduce risks to the business. (20m) (LCHL 2001)

The Marks:

Explanation of Risk Management: 2 points @ 6 marks and 4 marks

Example of method to reduce risk: 2 points @ 6 marks and 4 marks

A SAMPLE ANSWER:

Risk Management involves:

- Identifying all risks which could cost the business money (e.g. fire, employee injury etc.).
- Reducing these risks where possible by management action.
- Taking out insurance against significant risks which the business does not want to carry itself.

Capdata could reduce the risk of fire by regular inspection of electrical wiring and installations. Alternatively, Capdata could reduce the risk of employee injury by a ban on loose wires trailing across the floor.