

Text Guide for Non-Life PSU Officer's Exam

(For Scale 1-5 based on new syllabus covering 7
departments)

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Editor,

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Disclaimer

Since the insurance market has been detariffed all the companies are charging premium on case to case basis. The premium rates given in the book are just indicative. Our book cannot be held responsible for variation in rates in any manner as the tariff is subject to constant change.

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Preface

The Insurance Times has entered into 38th glorious year of its publication in the year 2018. As we celebrate three decades of publication of our journal it reminds us of the humble beginning the journal had in the year 1981. During the long journey of 38 years our journal faced many ups and down but we never failed in our mission to disseminate the knowledge of insurance in the nook and corner of the country.

Since past few years new recruitment policy for the public sector general insurers has come in vogue. Now the officers must clear the exam for being eligible for promotion. This is a welcome step as this will encourage officers to get promotion based on their qualification and experience.

The earlier editions of this book received very good response from the readers. We are thankful to the readers for their support and we shall try our best to bring out the latest material in order to help them to clear the examination in one attempt.

We hope this book will be very useful for the officers to prepare for the exam. After the detariffing of the market there has been vast changes in the general insurance industry. The changes has been so frequent that it is very difficult to compile all the informations in a single book. We have tried to incorporate all the changes that came to our knowledge.

In case you come across any errors please let us know so that we may rectify the same in our next edition.

R.G.Agarwala
Chief Editor
The Insurance Times

January 2018

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Department II

MARINE and AVIATION

* After detariffing companies are charging premium on case to case basis, hence it is not possible to give the current premium prevailing in the market. The premium given in this chapter is just indicative. Insurers are offering 25% - 60% discounts in premium based on their companies policy. You are requested to cross check any rates/informations in case of any doubt.

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MARINE INSURANCE

Origin and Development of Marine Insurance

The History of Marine Insurance in England is associated with the history of Lloyds. The word "Lloyds" is associated with the name of Edward Lloyd, a small coffee-house keeper where in, towards the latter part of the seventeenth century, the commercial community interested in shipping met. The Italian merchants who introduced the practice of marine insurance in England were known as Lombards. The frequenters of "Lloyds" coffee-house were not allowed the privilege of conducting the marine insurance on a monopoly basis and it was in 1720 that the parliament allowed two more marine insurance companies to be established in London. In 1820 an Act was passed by which marine insurance in England was thrown open and thereafter many other insurance companies together with Lloyds formed the marine insurance market of London. Lloyds were incorporated in 1871 under Lloyds Act of that year and the same was amended by Lloyds Act, 1911.

According to history of Marine Insurance, all trade operations of any nature, until 17th century had operated by Sea from one port to another port. When transport facilities were gradually developed, the other modes of conveyances like Road, Rail, Air were utilised.

With the development of various modes of conveyances, marine insurance is now extended to cover the transit risks while the cargo is shipped/dispatched by different modes of conveyances according to the convenience of the shippers.

Need for Marine Insurance

Marine Insurance occupies an important position in overseas commerce. It enables the parties engaged in overseas trade to venture their capital more freely since it affords protection against fortuitous losses. The advance made by the Bank is secured on the goods if marine policy is obtained by the client. Where shipments are not financed by a Bank, common prudence suggests that the client should obtain marine policy to protect his financial interest. In terms of Section 2 of The Insurance Act, 1938, "Marine Insurance Business" means the business of effecting contracts of insurance upon vessels of any description including cargoes, freight and other interests which may be legally insured, in or in relation to such vessels, cargoes and freight, goods, wares, merchandise and property of whatever description insured for transit by land or water, or both, and whether or not including warehouse risks or similar risks in addition or as incidental to such transit, and includes any other risks customarily included among the risks insured against in marine insurance policies. The law of marine insurance has been codified by the Marine Insurance Act, 1963.

Who are entitled to Marine Insurance

The following are only entitled to Marine Insurance

1. Individual person(s).
2. Bank or any financial institution
3. Exporters
4. Importers
5. Shipowners
6. Ship Builders
7. Ship Repairers

Who are not entitled to Marine Insurance

1. Carriers/Transporters
2. Clearing and Forwarding Agents
3. Stevedores
4. Freight forwarders
5. Commission Agent

Basic Principles

The following basic principles are applicable for Marine Cargo insurance contracts

- ✓ Insurable Interest
- ✓ Indemnity
- ✓ Utmost Good Faith
- ✓ Subrogation
- ✓ Proximate Cause
- ✓ Contribution

Since applicability of Insurable Interest and Indemnity in Marine Insurance differs from other branch of insurances, the details of both the principles are to be specifically observed

- (i) **Insurable Interest:** Sec. 7 of Marine Insurance Act, 1963 refers that every person has insurable interest who is interested in marine adventure. Sec. 8 of MI Act provides that the assured must be interested in the subject matter insured at the time of the loss though he need not be interested when the insurance is done.
- (ii) **Indemnity:** Sec. 67 of Marine Insurance Act 1963 states that the sum which the assured can recover in respect of a loss on a policy by which he is insured, in the case of an unvalued policy to the full extent of the insurable value, or, in the case of a valued policy to the full extent of the value fixed by the policy. Therefore, the Assured is allowed to set the insured value while effecting the insurance according to the value of consignment shown in the invoice issued by them. The Assured is allowed to include some mark up, say 10-15% over and above the invoice value. The maximum liability under the policy will be the insured value on which the premium was collected.
- (iii) **Proximate Cause:** Proximate cause is the active, efficient cause that sets in motion a train

of events which brings about a result, without the intervention of any force started and working actively from a new and independent source. Sec. 55 of Marine Insurance Act, 1963 provides included and excluded losses. The insurers are liable to compensate the loss under the subject provision if an insured peril is the proximate cause of loss. However, if an insured peril is only the remote cause of the loss, the proximate cause being an uninsured or excepted peril, the insurers are not liable.

- (iv) **Utmost good faith :** Every contract of insurance is a contract of "uberrimae fidei", that is, one which requires utmost good faith on the part of both, the insurer and the assured. Sec. 19 to 23 of MIA (1963) deals with principle of utmost good faith which states that the contract of insurance is based on utmost good faith where promise or insured is bound to communicate to the promisor or the insurer every fact or circumstance which will decide by the promisor whether to accept the insurance or not. In other words, the assured must disclose to the insurer before the conclusion of contract every material circumstance known to the assured as the contract of marine insurance is a contract based upon utmost good faith and if the good faith is not observed by either party, the contract may be avoided by the other party. It is important to note that the duty of disclosure of any circumstance within the knowledge of the Insured will also continue even after the contract is concluded.

Example: where, after attachment of insurance, the original destination is changed by the Insured during the course of voyage, the same should be informed to the Insurer prior to such change.

- (v) **Subrogation:** Sec.78 of Marine Insurance Act, 1963 provides where the Insurer pays for a total loss, either of the whole, or in the case of any apportionable part, of the subject matter insured, he there upon becomes entitled to take over the interest of the assured in whatever may remain of the subject matter so paid for, and he is thereby subrogated to all the rights and remedies of the assured in and in respect of that subject matter as from the time of the

casualty causing the loss. It is to be noted that the Insured will subrogate all his rights and remedies to the Insurer to recover the loss from the wrongdoer after being indemnified.

- (vi) Contribution: Sec.80 of MI Act, 1963 states that where the assured is over insured by double insurance, each insurer is bound, as between himself and the other insurers, to contribute rateably to the loss in proportion to the amount for which he is liable under his contract. It is further stated that if any insurer pays more than his proportion of loss, he is entitled to maintain a suit for contribution against the other insurers, and is entitled to the like remedies as a surety who has paid more than his proportion of the debt.

An overview of risks exposed during transit

During the course of transit, the cargo may be exposed to various risks despite adopting adequate precautions in packing, transportation, loading/unloading, selection of Carriers etc. The risks can be classified into two categories, depending on their causes:

- Normal risks during transit
- High risks during transit (War/SRCC or Terrorism)
- Normal risk is Particular Average
- High risk is General average

(1) Particular Average

The Particular Average refers to physical loss or damage to the cargoes suffered by the insured during a particular voyage/transit.

Depending upon the voyage, conveyance and nature of cargoes, the insured may suffer the following losses:

- Loss or damage to cargo due to Sinking of vessels, Grounding, Stranding, Capsizing, Collision, Fire, Earthquake, Volcanic eruption etc.
- Loss or damage to cargo due to sea water, river water, fresh water, washing overboard, lost overboard, entry of lake water, sea water into the vessel and place of storage, Condensation,

Contamination, Heating and sweating, oil stained, acid damage and mud damage etc.

- Accident to the carrying conveyances, mishandling, spillage, shortage, Theft, pilferage and non delivery of entire consignment etc.

In addition to physical loss or damage to cargo, the insured may also incur certain expenses at short of destination to avert or minimize the losses which are admissible under the policy.

(2) General Average

Rule A of York Antwerp Rules , 1994 provides definition of General Average as " There is a general average act when, and only when, any extraordinary sacrifice or expenditure is intentionally and reasonably made or incurred for the common safety for the purpose of preserving from peril the property involved in a common maritime adventure" The word " general" has been defined in Harris v Scaramanga case to mean that the loss is to be generally distributed , or the contribution to be generally made by all.

Example

- (i) A ship had discharged nearly all its cargo when a fire broke out, which necessitated the use of water to extinguish it. The remaining goods were thus damaged. It was held that the common adventure was not at an end until all the goods are discharged and therefore the ship was liable to contribute to the damage cargo
- (ii) The vessel put into a port of refuge to repair general average damage, which necessitated discharge of cargo. It was held that the inward port charges, cost of discharging and warehousing cargo, together with the outward port charges and reloading cargo expenses were all general average

Extent of cover under ICC 1982

The Institute of London underwriters issued the first Institute Cargo Clauses in 1912. The standard clauses, which covered named perils , were actively updated throughout the early twentieth century and standard all risks clauses, the Institute Cargo Clauses (All Risks), were introduced on 1st January 1951. The Institute Cargo Clauses were reissued in

Model Question Bank
for
Non Life Insurance PSU
Officer's Exam

(Scale 1-5 covering 7 departments)

(Multiple Choice questions)

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Preface

We are happy to launch the 14th edition of Model Question Bank for promotional exam of PSU officers. This edition has been thoroughly updated and we have included new questions in all chapters based on the latest trend.

Since it is not possible to cover all the questions in a topic you may also refer our Text Guide for Officers Exam wherein we have covered all the topics in detail and which will help you to take cross reference in case of any confusion.

Based on the feedback on questions that were asked in the previous exam we have included the same in different sections.

Insurance is a technical subject. There may be different opinions on a particular question due to different underwriting practices. The choice of answer may slightly differ.

Though we have taken care to make the book error free, however if you come across any error please email us so that we can correct the same in our next edition. I would like to thank Shyam Agarwal, Associate Editor, The Insurance Times for his efforts in the book.

We wish you best of luck for the examination.

- R.G.Agarwala
Chief Editor
The Insurance Times

PSGICs Officers' Pre-Promotional Examination,(Online Mode)

The Officers of the Public Sector General Insurance Companies (PSGICs) included in the Zone of Consideration for Promotion from (1) Scale-I to Scale-II, (2) Scale-II to Scale-III, (3) Scale-III to Scale-IV and (4) Scale-IV to Scale-V and the Officers who have applied for being considered for promotion under 'Fast Track Channel' under Para 14A of the Promotion Policy for Officers in the PSGICs are required to qualify in a Written Test under para 9.2.1 and para 14A of the said Promotion Policy, respectively.

As per the provisions of the Promotion Policy for Officers, the Written Test under para 9.2.1 and the Written Test under para 14A is a common Test (hereinafter referred to as "Examination"). However, the qualifying benchmark for qualifying the Examination for consideration of promotion under Para 14 (Normal Channel) is 35% (31.5% for SC/ST candidates) as prescribed under para 9.2.3 whereas the benchmark for qualifying the Examination for consideration of promotion under Para14A (Fast Track Channel - being introduced and implemented from the 2012-13 round of Promotions) is 60% (54% for SC/ST candidates) as prescribed under para 14A (e).

From the Promotion Exercise 2012-13, the PSGICs have entrusted the job of conducting the above said Examination to this Academy and it has been decided to conduct the same through On-line mode on 09.09.2012 at 16 Venues.

Model Question Bank for PSU Officer's Exam

This handout contains information and important instructions pertaining to the structure of the Examination and various aspects of conduct of the Examination through On-line mode. All the concerned Officers in Scale I, II, III & IV of PSGICs are advised to carefully read the Handout as it will help & facilitate them in preparing for the Examination and attempting the questions in a right manner.

A. STRUCTURE OF THE EXAMINATION:

1. For all Scales of Officers, the Examination will comprise of Seven (07) Sections containing the Objective Type Multiple Choice Questions as in table below:-

Section	Name of the Section	Max. No. of Ques. in the Section	No. of Ques. to be attempted
1.	Fire & Engineering	30	25
2.	Marine & Aviation	30	25
3.	Motor (OD & TP)	30	25
4.	Misc. (Other than Motor, Aviation & Engineering)	30	25
5.	Reinsurance (Treaty, Facultative & Accounts)	30	25
6.	Finance (including Accounts, Investment and IT)	30	25
7.	HR (including HR-Legal)	30	25

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2. Out of the Seven (07) Sections, a candidate is required to select any Four (04) Sections of his choice.
3. Each Section contains 30 Multiple Choice Objective Type Questions, each with four alternatives Answers.
4. The Candidate will have the option to view the questions and the alternative answers in English or Hindi.
5. The Candidate is required to select the most appropriate alternative to answer a question.
6. A Candidate is required to answer any 25 questions (out of 30 questions) in each selected Section and a total of 100 questions from the four Sections, selected by him/her.
7. The maximum composite time allowed for the Examination is 2 hours 30 minutes (i.e; 150 minutes).
8. Each question carries 01 mark. For every correct answer 01 mark will be awarded. However, there will also be a penalty for wrong answers. For each wrong answer, 1/3 mark will be deducted.
9. In case, any candidate, in default, attempts more than 25 questions in a Section, the first 25 questions would only be evaluated and the remaining attempted questions shall be ignored.
10. In case, any candidate, in default, attempts more than 04 Sections, the 04 best scored sections will be taken into consideration for compiling his final score.

B. MODE OF THE EXAMINATION:

1. The examination would be conducted On-line i.e. on a computer.
2. The candidates are required to report at the Examination Venue well before the start of the Examination as mentioned in the Admit Cards to complete pre-Examination procedure.
3. On announcement of the start of the Examination, a candidate will log-in to the Examination by furnishing his Roll Number and Password allotted to him.
4. Thereafter, the Computer Screen will show the Instructions as to How to take the Exam. These Instructions are very important and prescribe the right manner in which the questions are required to be attempted. The candidates are advised to read the instructions very carefully and follow them scrupulously.
5. The next screen will ask the candidate's choice between English or Hindi as default language which can be selected through a drop button given on the screen. The candidates are advised to select the default language carefully as all the questions will appear in default language only. The language of a particular question can be changed to the other language by selecting through the drop button given on the right side of the particular question but there will be no option to change the default language once selected on the Instructions page.
6. On the same screen, the candidate will indicate his confirmation to have read and understood the instructions

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and acceptance to adherence thereof. Thereupon, 'I am ready to begin' button will be highlighted and by clicking this button the candidate will access the question paper & be able to start attempting questions.

C. GENERAL INSTRUCTIONS:

1. The candidates are advised to note their Username, Password, Date, Time, Reporting Time and Venue address of the Examination Venue for the Examination given in the Admit Card.
2. The candidates are required to carry their Admit Cards with them to the Examination Venue along with their recent passport size photograph duly pasted on it.
3. The candidates are also required to carry their Photo Identity Cards issued by his employer PSGIC.
4. The candidates should also bring with themselves One Ball Point Pen.
5. The candidates will be provided a sheet of paper for rough work at the Examination Venue. The candidates must hand over this sheet of paper to the Examination Administrator after the completion of the Examination and before leaving the Examination Venue.
6. The candidates must scrupulously follow the instructions of the Examination Administrator and the Venue Representative Officers (VROs) at the Examination Venue. If a candidate violates any of the instructions given by them, he will be disqualified and will be asked to leave the Examination Venue.

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7. Use of calculators (separate or with watch), books, note books or written notes, mobile phones (even on switch off mode), or any other electronic device and bringing any of these items to the Examination Venues is strictly prohibited.
8. Use of system calculators, internet, personal emails etc is also strictly prohibited during the Examination.
9. Any candidate who is found copying or receiving or giving any wrongful assistance from or to any other candidate / person or restoring to the use of any unfair means or malpractice or engaging in any behavior unbecoming of an officer, his candidature for the Examination will be liable to be treated as cancelled. Moreover, the matter will also be reported to the concerned PSGIC to take further action against such a candidate as deemed fit by it.

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Tips for passing the exam successfully

1. Plan out your study programme in advance and do not leave any important topic.
2. Mark topics which seem to be important and put more stress on the selected topics.
3. Go through all the latest amendments, and be aware of those that have undergone sea changes.
4. Before appearing in the examination try to simulate exam conditions by setting up time and place as if appearing in exam.
5. Do not consult too many things at a time, or you will confuse everything. Go step by step.
6. Do not answer the questions to which you are not confident. Since all excess answers are ignored, if you have answered some questions correctly in the middle you have marked the question wrong, this will lead to negative marking and your correct answers will be excluded being excess.
7. You have to answer total 100 questions. Be confident in say 80 questions, don't guess, and leave remaining questions unanswered.
8. Read and read carefully before answering. Sometimes the question might have been twisted.
9. Before deciding the answer give stress on the key words. You will get the correct answer.
10. Always keep some time to review the answers.
11. Try to understand the concept and not just memorize. If you just try to remember the question and the answer is twisted you will get it wrong. So understand the question/answer.

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Department 2

**Marine and
Aviation Insurance**

Marine Insurance

Quick Recapitulation

Cargo is exposed to following risk during transportation

- u Standard risks of transport
- u Exceptional risks of transport (war, strike or similar)

When these risks occur, they may result in either total loss or partial losses. Partial losses can be of two types viz. :-

1. **Particular Average** - The term Particular Average refers to physical damage and loss as well as to any loss in weight or quantity suffered by the insured goods during transit.
2. **GENERAL AVERAGE** - General Average is a risk specific to marine transport. Therefore, if a vessel is in danger and the only way to prevent the vessel from striking is to throw one persons cargo overboard, then the rest of the cargo owners and the vessel owner will make up the loss to that person in proportion to the value of their goods in relation to the total amount saved.
3. **RISKS OF WAR, STRIKE, ETC.**

Extent of Cover and duration

The cover is provided under this policy under Institute Cargo clauses A B & C.

1. The risk attaches from the time the goods leave the warehouse or place of storage at the place named in the policy for commencement of transit and continues during ordinary course of transit.
2. The first possibility of termination is upon delivery to the consignees or other final place of storage. The Policy also terminates at any intermediate point if the goods come into the control of the assured for storage other than in ordinary course of transit, for allocation or for re-distribution. A time

Model Questions Bank - SET - I

1. **Marine Insurance is concerned with which factors?**
 - a. Goods in transit.
 - b. Ships and other interests associated with ships.
 - c. Premium.
 - d. Incidental charges and profits.
 - e. All of these.

2. **What are the various interests associated with ships?**
 - a. Freight.
 - b. Disbursements.
 - c. Liabilities like ship repairs.
 - d. Charterers' and Stevedores' liabilities.
 - e. All of these.

3. **What are the modes of transport under the purview of Marine Insurance?**
 - a. Sea and Inland waterways.
 - b. Railways and Roadways.
 - c. Air.
 - d. Post, parcel and couriers.
 - e. All of this.

4. **What does the word 'Yogakshema' mentioned in Manusmriti mean?**

a. Risk.	b. Safety.
c. Risk and safety.	d. Insurance.
e. Capacity.	

5. **Which ancient Indian book contains rules for marine contracts?**

a. Gita	b. Manusmriti
c. Ramayana	d. Mahabharata
e. Arthashastra	

Model Question Bank for PSU Officer's Exam

- 6. Lloyd's Act of _____ established a Council to manage and regulate the Society's affairs.**
- a. 1860.
 - b. 1871.
 - c. 1982.
 - d. 1999.
 - e. 2006.
- 7. How many members are there in Lloyd's Council?**
- a. 10.
 - b. 16.
 - c. 22.
 - d. 28.
 - e. 35.
- 8. What is the purpose of collection of subscriptions from Lloyd's underwriting members?**
- a. To provide for the premises.
 - b. To provide for the administrative staff.
 - c. To provide for services which enable the underwriting members to transact insurance business.
 - d. All of these.
 - e. None of these.
- 9. What are the features of Corporation of Lloyd's?**
- a. It is a corporate entity financed primarily by subscriptions from underwriting members, whose subscriptions help to provide the premises, administrative staff and services to enable the members to transact insurance business.
 - b. The Corporation itself does not accept insurance or assume liability for business transacted by its underwriting members.
 - c. The Lloyd's council manages and supervises the affairs of Lloyd's.
 - d. All of these.
 - e. None of these.
- 10. What are the features of elected underwriting members of Lloyd's?**
- a. Underwriting members are elected by the Council only after careful examination of their financial position and after a 'means test', and after depositing security money.
 - b. The underwriting members, through their underwriting agents,

Model Question Bank for PSU Officer's Exam

Answers - SET I

1. (c) Total loss Only for Hull
2. (d) Aviation Policy
3. (d) For test flight & Ferry Flight both
4. (d) 90% of expenses incurred subject to maximum of 10% of Hull Sum Insured
5. (d) Both are correct
6. d. 1.7%
7. b. 1972
8. e. All of the above
9. a. Aviation Fuelling
10. d. Limit of indemnity
11. C. It is a general health..
12. c. Only a
13. a. 7 days
14. d. Both the statements
15. c. Rs 2000
16. e. Trade unions
17. a. 100 per centum of .
18. e. All the above
19. C) 1972
20. D) All the above
21. B) 1.7%,
22. D) Provides cover for....
23. E) Number of cabin crew
24. E) Provides Cover for....
25. C) Hijacking
26. E) The policy covers....
27. A) All the above cases.
28. B) From 0.40% to.....
29. a) Capital sum Insured
30. d) Aviation Fuelling....
31. b) Limit of Indemnity
32. a) Aviation Hull.....
33. b. 3 section
34. d. All of the above
35. a. Under agreed limits
36. f. All of the above
37. a. Passenger liability on...
38. d. All of the above
39. g. All of the above
40. g. All of the above
41. a. Seven days notice
42. a. True
43. a. True
44. a. True
45. f. All of the above
46. (b) Exclusion for War and Allied perils
47. (a) Extension cover for War and allied perils
48. (b) Constructive Total loss
49. (a) Facultative basis
50. (b) No Claim Bonus on Renewal

Answers - SET II

1. (b) Having more than one aircraft
2. (c) Part has limited life (hours)
3. (c) On both
4. (a) Can be insured by a separate policy
5. (c) Excess applicable under Aircraft hull/liability insurance policy
6. b. False
7. c. Both
8. a. High deductible....