

Insurance

2015 Q6 (A) Read the information supplied and answer the questions which follow.

PRIVATE MOTOR INSURANCE PROPOSAL FORM DECLARATION

I/We declare to the best of my/our knowledge and belief that the information given on this form is true and complete in every respect.

- (i) Outline the function of an *insurance proposal form*.
 (ii) Explain the principle of insurance, referred to in the extract from the above private motor insurance proposal form.
 (iii) Outline **two** other principles of insurance that apply to insurance contracts.

MS: 5m (2+3); 5m (2+3); 2 x 5m (2+3)

(i) Insurance Proposal forms are filled in by **someone applying for insurance cover**. They fill in **details** that would **affect their premium** e.g. risk factors like age... The form helps **the insurance company** to **calculate the premium based** on all the **potential risks** in relation to that policy.

(ii) Utmost Good Faith

The applicant when applying for insurance must **disclose all material facts**. If the insurance contract is obtained by **misrepresentation it is void** (all answers must be **truthful**)
 e.g. a driver not disclosing that he has 4 penalty points on his licence.

(iii) Indemnity - An insured person **cannot make a profit** from an insurance **claim**. They should end up 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.
 If something is **underinsured**, the **average clause** should be used.

Insurable Interest - The insured must **gain from the existence** of the item and **suffer financially from its loss**. You can insure your own car but not your neighbour's car.

Subrogation - When a claim is settled, the insurer **gets your right to sue the third party**. 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**.

Contribution - When a **risk is covered by more than one insurer**. They have to **share the loss**, you **can't collect from both insurers**. (It would break Indemnity)
 One company would pay you and then collect from the second, or both companies would **share the compensation payment** between them.

2010 – Short Q7

Illustrate the difference between the insurance principles 'Insurable Interest' and 'Indemnity'.

As per above, but illustrate means you must provide an example as well

E.g. You can insure your own car but not your neighbour's car.

E.g. If you insured your car for €10,000, but its value was €6,000 (**over-insured**), you are only entitled to **compensation** of €6,000, or else you would be making a profit on insurance.

2016 Q4 Short

Column 1: Terms	Column 2: Explanations
1. Insurable Interest	A. Applies if item is insured against the same risk with more than one insurance company.
2. Average Clause	B. The insured person cannot make a profit from insurance.
3. Subrogation	C. The insured person must gain from the item's existence and suffer financially from its loss.
4. Contribution	D. Applies if an item is under-insured and there is a partial loss.
5. Indemnity	E. The insured person must declare all material facts about the item being insured.
	F. Once compensation has been paid any legal right to the item recovered passes to the insurer.

MS: 3+3+2+1+1

1	2	3	4	5
C	D	F	A	B

2020 Short Q10

Henry Winters insured his home for €200,000 with Allianz. The market value of the house is €250,000. A chimney fire caused €36,000 worth of damage.

(i) Calculate the amount of compensation Henry will receive from Allianz.

Show your workings.

(ii) Explain why Henry receives this amount of compensation.

MS: (i) Calculation = 1+1+1+3 (ii) 4m (2+2)

(i) <u>Insured Value</u> x loss suffered	$\frac{200,000}{250,000} \times 36,000 = €28,800$
Actual Value	250,000

(ii) The item is **underinsured**. He should only receive the fraction insured of any loss due to **average clause**, or they would profit (breaking **indemnity**)

2021 Short – Q4

Circle the correct option in the case of each of the following statements

MS: 3,2,2,2,1

- (i) A larger policy excess will result in a **higher** / **lower** insurance premium.
- (ii) The person who calculates the amount of compensation to be paid to a claimant is known as an **Actuary** / **Assessor**.
- (iii) **Indemnity** / **Utmost good faith** means you cannot make a profit from an insurance claim.
- (iv) Loadings on an insurance policy result in an **increase** / **decrease** in the premium.
- (v) An insurance company who tries to reclaim any losses against a third party is using the principle of **contribution** / **subrogation**.

2014 Q5 (C)

Explain what it means to be 'underinsured' and outline **one** possible effect of being underinsured on a business. (15 marks)

MS: (4 + 4 + 4 + 3)

The insured has **not insured** for the **full value** of the **item** in the **policy**. In the event of a claim the policy holder would only get the **percentage insured** (using **average clause**).

Underinsurance will lead to **lower premiums** paid, but can lead to **catastrophic losses** in the event of **full loss occurring**.

Possible effects on business

Negative: Underinsurance could result in a **serious financial crisis**.

For example if a building is insured for €500,000 and is subsequently destroyed in a fire and the cost to replace the building is €800,000 the business will have to make up the difference of €300,000 from its own resources.

Positive: The lower premiums will **reduce the business costs** and thereby **improve cash flow**.

The Business Guys

2012 Q5 (A) Read the information supplied and answer the questions which follow.

Bianua Ltd, a medium size company, operating in the agrifood sector, supplies quality prepared food products in Ireland and in the UK market.
Draft a business letter from EXON Insurance PLC to Bianua Ltd, using today's date, identifying the possible business risks and the appropriate types of insurance for Bianua Ltd. Use fictitious names and addresses. (20 marks)

MS: Layout: 8 marks Letterhead 1m Date 2m, RE 1m Inside Name & Address 1m Salutation 1m, Complimentary Close 1m, Author's Signature 1m. 4 risks @ 2m 4 types of insurance @ 1m

EXON Insurance PLC

Clontarf, Dublin 3 – cover@exon.ie - 01-8530000

Your ref: jhfsa8234

Our ref: asfd8347

Date 14/06/12 **(Read the Q – No marks awarded for other dates)**

Bianua Ltd

123 Raheny, Dublin 5

RE: Business risks and the appropriate types of insurance policy

Dear Mr. O'Leary,

The following is a list of possible business risks and the appropriate types of insurance policy for your company.

Public Liability Insurance

Risk: protects the business against claims made by the **public** as a **result of accidents** while on your **business premises**.

Employer Liability Insurance

Risk: Covers the business against claims made by **employees** as a **result of accidents in the workplace**.

Fidelity Guarantee Insurance

Risk: Protects the business against **cash** or **stock** being **stolen** by an **employee**.

Product Liability Insurance

Risk: Protects the business in the event of a **customer** making a **claim** as a result of **defective products** that may have **caused harm**.

I look forward to hearing from you.

Yours faithfully,

Pablo Veranda Head of Risk Management

Others: Goods in Transit/Consequential Loss, Key Person Insurance, Motor insurance, Contents insurance, Buildings Insurance

2009 – Short Q3

Distinguish between 'Public Liability' and 'Fidelity Guarantee' as types of insurance.

Public Liability Insurance

Protects the business against claims made by the **public** as a **result** of **accidents** while on your **business premises**.

Fidelity Guarantee Insurance

Protects the business against **cash** or **stock** being **stolen** by an **employee**.

2018 Q5 (B)

Draft a business letter, using today's date, from Phoenix Risk Management Ltd to Ricardo's Burgers Ltd, a fast food retailer. In your letter identify the main types of insurance Ricardo's Burgers Ltd should have **and** outline ways in which it could minimise business risks. Use fictitious names and addresses. (25 marks)

MS: Layout 9 (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

Phoenix Risk Management Ltd Main Street, Athlone, County Westmeath

14th June 2018

Ricardo's Burgers Ltd
O'Connell Ave
Dublin

Re: Risk Management and types of insurance cover

Dear Sir/Madam,

Further to your enquiry, I have identified the following insurance policies you should consider and recommend a number of risk management approaches:

Employers Liability **

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.

Public Liability**

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 wet floors have appropriate warning signs on them.

Product Liability**

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.

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.

The Business Guys

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

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.

2020 Q6 (C)

A consumer watchdog is to carry out an investigation into the public liability insurance market as businesses raise concerns about rising insurance costs.

(i) Explain the term **public liability insurance**.

(ii) Outline **three** types of insurance, **other than public liability**, that a business might have.

MS: (i) 5m (3+2) (ii) 3 x 5m (3+2)

(i)

Covers a business against loss as a result of claims made by members of the public as a result of accidents while on the business premises.

e.g. protects against a consumer who falls and is injured on the business premises.

(ii)

Employer Liability Insurance

Covers the business against financial loss as a result claims made by employees as a result of accidents in the workplace.

Fidelity Guarantee Insurance

Protects the business against financial loss as a result fraud or cash or stock being stolen by an employee.

Product Liability Insurance

Protects the business from financial loss in the event of a customer making a claim as a result of defective products that may have caused harm to a consumer.

Buildings and Contents

This provides the business 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.

Other: Goods in transit; key person insurance; motor insurance;

2011 Q5 (C)

- (i) Illustrate your understanding of the term 'risk management'.
 (ii) Describe **three** methods a manager might consider to minimise risk within a business. (20 marks)

MS: 8 marks (4+4) 3 x 4 marks (2+2)

(i) Risk Management is a **planned approach** to **reduce risks** faced by a business.

They would **identify** all **possible risks** they face and taking **preventative action** to **minimize** or **eliminate** the risks (through **insurance/training/new systems**)

(ii)

Insurance

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

Safety procedures

A business could implement proper steps to reduce the **risk of events occurring**. E.g. Aer Lingus has its pilots follow steps in case of emergency while flying. Constant **safety checks** should occur as well.

Training

Improve **health and safety procedures**. A business could **train** its staff to deal with issues e.g. a restaurant training all waiting staff in **first aid** in case of emergency while a customer is on their premises.

Other: Install Security systems. Alarms, fire doors, CCTV etc, Safety Audits/Inspections, Practising fire drills, Giving staff correct protective clothing if required.

Chapter 12 – Insurance and Tax - Tax

2015 Q2 – Short

- (a) What do the letters PAYE stand for?
- (b) Outline two main features of the PAYE tax system

MS: (a) 4m (b) 2 @ 3m

- (i) Pay As You Earn
 - (ii) Progressive – Takes more off you as you earn more income
- Efficient** - Business collects the tax for Revenue
Direct - It is a direct tax on income for all employees
Form based – Includes specific forms like the P60, P45, P12 etc.

2012 Q3 – Short

Explain the difference between the terms *tax rates* and *tax credits*.

MS: 6 marks (3+3) 4 marks (2+2)

Tax rates: This is the **percentage charged** for each tax. E.g. Income is taxed at two different rates - **standard rate of 20%** up to a certain income and then the **higher rate of 40%**.

Tax credits: **Gross Tax less Tax Credits = Tax Payable.**

Tax credits are used to **reduce tax liability** calculated on **gross pay**.

A taxpayer is entitled to a **range of allowances** depending on each person’s personal circumstances e.g. **PAYE credit, Married Person’s Credit**

2019 – Short – Q3

In the context of business, what do the following letters stand for?

PAYE	Pay As You Earn
USC	Universal Social Charge
PRSI	Pay Related Social Insurance
DIRT	Deposit Interest Retention Tax
CGT	Capital Gains Tax

MS: 3,2,2,2,1

2017 – Short – Q4

Write TRUE or FALSE after each of the following statements.

Statements	True or False
1. Customs Duty is a tax on goods imported from outside the European Union.	TRUE
2. Corporation Tax is applied to profits made by every business in Ireland.	FALSE
3. A P45 is given to employees when their employment is terminated.	TRUE
4. The existence of Tax Credits reduces the amount of Universal Social Charge to be paid.	FALSE
5. Capital Acquisitions Tax is a tax on the profits made on the sale of assets.	TRUE

2020 Short Q4

Circle the correct option in the case of each of the following statements

MS: 3,2,2,2,1

- (i) The profit from the sale of an asset is subject to capital acquisitions tax / **capital gains tax**.
- (ii) The Universal Social Charge (USC) is an example of a **progressive** / regressive tax.
- (iii) Tax credits **increase** / **reduce** the amount of PAYE paid by an employee.
- (iv) Value Added Tax (VAT) is an example of a **direct tax** / **an indirect tax**.
- (v) A holiday voucher worth €3,000 given as a benefit-in-kind **is** / is not treated as taxable income.

The Business Guys

Q6 (C) Read the information supplied and answer the questions which follow.

Ben Caffrey is a manager at Fun-Go Holidays Ltd and earns a gross **annual** salary of €55,000. His employer provides him with a holiday voucher worth €5,000. This is treated as income for tax purposes and is taxed accordingly. Ben's tax information is shown in the following table.

PAYE		
20% on the first €34,550	40% on the balance of his gross income.	
Tax Credits		
Single Person Tax Credit €1,650	PAYE Tax Credit €1,650	Dependent Relative Tax Credit €70
USC		
0.5% on the first €12,012	2% on the next €7,360	4.75% on balance of his gross income
PRSI		
Ben pays employee PRSI at 4% of his gross income		

Calculate **each** of the following (show your workings):

- (i) The PAYE which Ben has to pay
- (ii) The total amount of USC
- (iii) The total amount of PRSI
- (iv) Ben's net **annual** take-home pay.

Question	Detail:	€	€	€	Marks subtotal:
	Gross Salary			55,000	(2 marks)
	Voucher			5,000	
	Taxable Income			60,000 ②	
(i)	Pay As You Earn				<u>P.A.Y.E.</u>
	34,550 x 0.20	6,910	③		
	25,450 ① x 0.40	10,180	①	17,090 ①	
	Tax Credits				
	PAYE	1650			
	Single Person	1650			
	Dependent Relative	70	(3370)	①	
	PAYE Ben has to Pay			13,720 ①	
(ii)	Universal Social Charge				<u>U.S.C.</u>
	12,012 x 0.005	60.06	③		
	7,360 x 0.02	147.20	①		
	40,628 ① x 0.0475	1929.83	①		
	USC			2,137.09 ①	
(iii)	Pay Related Social Insurance				<u>P.R.S.I.</u>
	60,000 x 0.04	2,400	①		
	PRSI			2,400	
(iv)	Net Annual Take home pay				<u>Annual Net Pay.</u>
	Gross Pay			55,000	
	PAYE		13,720		
	USC		2137.09		
	PRSI		2,400	(18257.09)	
	Net Annual Take home Pay			36,742.91 ②	
Own Figures highlighted above		NOTE:	41,742.91 ① <u>only other figure accepted</u>		

2013 Q5 (A)

Calculate Audrey Stapleton's net **monthly** take-home pay.
 Audrey Stapleton is an employee at BAT Resources Ltd and earns a gross annual salary of €78,000. Her employer provides her with a holiday voucher worth €2,000. This is treated as a benefit-in-kind for tax purposes and is taxed accordingly.

The standard rate band for a single taxpayer is €32,800. (This means that the first €32,800 is taxed at the 20% standard tax rate, and the remainder is taxed at the higher tax rate of 41%.)

Audrey has the following tax credits: Single Person Tax Credit €1,650, PAYE Tax Credit €1,650 and Rent Tax Credit €320.

The Universal Social Charge (USC) rates on Audrey's gross income are 2% on the first €10,036, 4% on the next €5,980 and 7% on the balance of her gross income. Audrey pays employee PRSI at 4% of her gross income.

MS: 14 figures @ 1 mark + 3 figures @ 2 marks

	€	€	€
Gross Salary			78,000
Add Benefit in kind			2,000
Gross Income			80,000 (2m)
PAYE Tax payable calculation			
€32,800 @ 20%		6,560 (1m)	
€47,200 @ 41% (1m)		19,352 (1m)	
Gross PAYE Tax		25,912 (1m)	
Less Tax credits			
Single Person	1,650 (1m)		
PAYE	1,650 (1m)		
Rent	320 (1m)	-3,620	
Net Tax Payable		22,292 (1m)	
Employee's PRSI €80,000 @ 4%		3,200 (2m)	
Universal Social Charge (USC)			
€10,036 @ 2%	200.72 (1m)		
€5,980 @ 4%	239.20 (1m)		
Balance of €63,984 @ 7% (1m)	4,478.88 (1m)	4,918.80 (1m)	
Total Statutory Deductions			-30,410.80
Net Income (Take-home Pay) p.a.			47,589.20
(€78,000 - €30,410.80)			
Net Income (Take-home Pay) p.m. (47,589.20 ÷ 12) (2m)			3,965.77 (1m)

A similar question also came up in 2010 – Short Q10

2011 Q5 (B)

Pay As You Earn (PAYE), Value Added Tax (VAT), and Corporation Tax are examples of taxes relevant to a business.

(i) Explain **each** tax underlined above.

(ii) Evaluate the implications of **each** tax for a business. (25 marks)

MS: 3 x 6 marks (3+3) 7 marks (3+2+2)

PAYE is a **direct tax** on income earned by **employees**.

It is a **progressive tax** as it takes **more off higher income earners**.

It is **deducted at source** by the employer; passed on to the

Revenue Commissioners.

Evaluation: In my opinion, high rates of PAYE (40% in the higher tax band) are a **disincentive for people to do overtime**, which affects a business's ability to **meet sales orders in busy periods** like Christmas time for a shop.

VAT is an **indirect tax** charged on the **sale of goods and services**.

Businesses **register for VAT** and receive a VAT number.

VAT is added to the price before it goes on sale.

VAT is charged at **different rates**, depending on the type of goods or services involved e.g. 9% for the tourism sector, 0% for baby's nappies

Evaluation: In my opinion, increased rates of VAT **increase the purchase price for consumers**. This **reduces the demand** for goods and services for a business.

Corporation tax is a **tax on the profits made by companies**.

The current rate of corporation tax is **12.5%** for manufacturing businesses.

Expenses of the business are **allowable** when calculating the taxable profits of the business. E.g. deducted from profits before tax is paid on them.

Evaluation: In my opinion Corporation tax in Ireland is **relatively low by international standards**. This **encourages** Irish entrepreneurs and foreign investors **to set up business** here.

No repeat points in either explanations or implications for each tax – you will never score twice for the same information, even in different questions.