



CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 1 EXAMINATIONS
F1.2: INTRODUCTION TO LAW
DATE: WEDNESDAY 28, MAY 2025
MARKING GUIDE AND MODEL ANSWERS

QUESTION ONE

Marking guide

a) i 1 Mark for any 1 definition of law and 2 Marks for a well explained sanction	3
a) ii 2 Marks for explaining how subjective law apply and 2 Marks on how objective law apply	4
b)i 1 Mark for affirmation and 1 mark each for any 2 justifications	3
b)ii 1 Mark each for any 2 morals identified and 1 mark each of any 2 ethical issues identified	4
b)iii 1 Mark for identifying the ethical issue and 1 Mark for linking it to promotion	2
b)iv 2 Marks each for any 2 differences of ethics and morality	4
Total Marks Awarded	20

Model Answers

a.

i) The student is expected to demonstrate knowledge and understanding of the term law and the sanctions of law

- Law is the system of rules which a particular country or community recognizes as regulating the actions of its members and which it may enforce by the imposition of penalties.
- Law, in its specific sense, is a set of rules of conduct prescribed by a controlling authority and which has a binding force.
- Law is also referred to as a scientific subject studying the wide and heterogeneous body of rules regulating human conduct.
- Law is a set of rules that are created and are enforceable by social or governmental institutions to regulate behavior.

Sanction

- The applicable sanction is civil
- Civil sanctions concern violations of a law which protects private interests (right to use the road safely by crossing at designated areas such as zebra crossing).
- When an act is committed and it qualifies a civil wrong susceptible of causing damages (body injury by being hit), a remedy may be defined by the court or the persons themselves may define the mode of reparation.
- Can also be criminal sanction for violation of traffic rules (not stopping at zebra crossing or speaking when driving)

Remedies: imprisonment, community service, fines

ii) The student is expected to demonstrate knowledge and understanding on subjective and objective law

- Objective law is a set of rules governing persons' conduct in a society, enacted and sanctioned by the public authority.

- Objective law refers to the norms and rules that regulate people's daily lives.
- Objective law under the traffic rules requires a person to drive and not to use the phone while driving since that is likely to cause an accident as in the case before us
- Similarly, the traffic rules allow pedestrians to cross the road at designated points (zebra crossing) and if you hit a person crossing the road as is the case then you commit an offence.
- Subjective law refers to the prerogatives or rights bestowed (given) to a person by the objective law.
- Subjective law refers to the powers that arise for citizens to exercise the rights contained in objective law.
- As illustrated above the objective law as provided that crossing the road and driving without any influence is a must and thus James Rukundo is the subject to which the right provided for by the objective law belongs to and hence that being subjective law

b.

(i) The student is expected to demonstrate knowledge and understanding on ethics and morality

- No, the Government is fair.
- The Government incurred all the expenses for the training and the amount which was given (2,000 USD) was for emergency and indeed there was no emergency and hence money should be returned back.
- Umutoni Chantal is not sincere and trustworthy and therefore cannot be trusted to take care of resources placed on her care as opposed to Ingabire Grace who demonstrated the principle of accountability and hence can be trusted even with more resources under her control.

(ii) The student is expected to demonstrate knowledge and understanding on ethics and morality

Morality: refers to personal principles and beliefs about what is right or wrong, often shaped by cultural, religious, or personal values;

Ethics: formalized rules and standards that govern behavior within a specific context, such as the workplace

- Ingabire was taught to account and hence the ethical principle of accountability.
- Morality is by virtue of upbringing (stealing and not being accountable and dishonesty)
- Ethics by virtue of professional conduct (not being trustworthy, no accountability for no return money yet no emergencies)
- Not to take anything without asking for permission brings out the principle of being honesty.
- Returning the dollars as much is a principle of accountability but yet the principle of transparency is intertwined together with integrity and leadership.
- The moral aspect in the case is that of stealing which both of them adhered to.
- Equally the moral aspect of respecting others is espoused in the case scenario.

(iii) The student is expected to demonstrate knowledge and understanding on ethics (integrity /honesty and accountability)

- The Government incurred all the expenses for the training and the amount which was given (2000 USD) was for emergency and indeed there was no emergency and hence money should be returned back.
- Umutooni Chantal is not sincere and trustworthy and therefore cannot be trusted to take care of resources placed on her care as opposed to Ingabire Grace who demonstrated the principle of accountability and hence can be trusted even with more resources under her control.
- Ingabire was taught to account and hence the ethical principle of accountability and by giving the report on the training in addition to returning the dollars she demonstrated the principle of integrity and leadership.
- The act of Umutooni not accounting for what transpired in the training and keeping the dollars goes against integrity and leadership and hence her demotion.

(iv) The student is expected to demonstrate knowledge and understanding on the difference between morality and ethics

- Morals refer to a sense of right or wrong, ethics, on the other hand, refer more to principles of "good" versus "evil" that are generally agreed upon by a community.
- A person who knows the difference between right and wrong and chooses right is moral.
- A person whose morality is reflected in his willingness to do the right thing – even if it is hard or dangerous – is ethical
- Ethics refer to rules provided by an external source, e.g., codes of conduct in workplaces or principles in religions. Morals refer to an individual's own principles regarding right and wrong.
- Morals deal with the principles or habits with respect to right or wrong conduct, morals also prescribe dos and don'ts, morality is ultimately a personal compass of right and wrong.

QUESTION TWO

Marking guide

a) i)1 Mark for the competent court, 1 Mark for the jurisdiction and 1 Mark each for any 3 justifications	5
a) ii)1 Mark each for the 5 offences identified from the case scenario	5
b) (i) 1 Mark each for the 2 courts identified, 1 Mark for the jurisdiction and 1 Mark each for any 2 justifications	5
c) (ii) 1 Mark each for the 5 offences identified from the case scenario	5
Total Marks Awarded	20

Model Answers

(a)

(i) The student is expected to demonstrate knowledge and understanding on Jurisdiction of courts under the jurisdiction of the chamber of economic crimes

- The competent court is the intermediate court.
- The jurisdiction falls under the specialized chamber of economic crimes.
- Missing of transformers worthy FRW 800,000,000 can be regarded as embezzlement and office triable under the identified jurisdiction.
- The electric poles worthy FRW 20,000,000 Traced to Umutara farm where they have been used for fencing amounts to misuse of public property which is triable under the jurisdiction.
- Eschewed tendering process in favor of Monica's extended family members is regarded as award of unjustified advantages during the execution of public tenders and corruption especially on making a decision based on favoritism, friendship, hatred, acquaintances or nepotism triable under the jurisdiction identified.
- The establishment that the manager would only authorize the installation of electricity to those customers who have appreciated her with some gifts amounts to corruption and related offences which triable under the same jurisdiction.
- The indication that the Value Added Tax (VAT) was never remitted to the concerned authority (RRA) amounts to tax evasion and hence an offence triable under the same jurisdiction

(ii) The student is expected to demonstrate knowledge and understanding on the offences tried by the chamber of economic crimes

- Embezzlement
- Misuse of public property
- Award of unjustified advantages during the execution of public tenders
- Corruption and related offences
- Tax evasion

(b)

(i) The student is expected to demonstrate knowledge and understanding on the jurisdiction under chamber with jurisdiction over international crimes and transnational crimes

- High court
- he jurisdiction is under the chamber with jurisdiction over crimes and transnational crimes
- Intermediate court for Crimes of genocide perpetrated against the Tutsi and crimes against humanity committed in Rwanda between 1st October 1990 and 31st December 1994.
- Smuggling of beautiful minor girls from Rwanda who entertained his customers at his several joints at a premium prize amount to human trafficking hence an offence triable under this chamber of High Court.
- The girls were kept in environment which was very degrading and they were mistreated and used as chattels by Jean who never allowed them to move out of the very highly

protected compound amounts to slavery and other related crimes hence an offence triable under this chamber of High Court.

- These girls would be seriously beaten and assaulted without any reason and sometimes they will go for days without food amounts to torture, inhuman or degrading treatment hence an offence triable under this chamber of High Court.
- It was also established that Jean provided safe haven to criminal who had committed serious crime in east African region and who the police were tracking down amounts to terrorism and hostage-taking and hence triable under this chamber of High Court.

(ii) The student is expected to demonstrate knowledge and understanding on offences tried by the chamber of international crimes and transnational crimes

- Human trafficking
- Slavery and other related crimes
- Torture, inhuman or degrading treatment
- Terrorism and hostage-taking
- crime of genocide against the Tutsi and crimes humanity perpetrated between 1st October 1990 and 31st December 1994;
- Crimes against humanity
- Genocide denial or revisionism

QUESTION THREE

Marking guide

a) i	1 mark each for any 5 sources of law well mentioned and explained	5
a) ii	2 marks each for any 3 situations through which a law can apply to foreign situations well explained	6
a) iii	1 mark for any organ allowed to request interpretation of law well mentioned and the maximum marks are 2 and 1 mark for the organ allowed to interpret the law well mentioned	3
b)	2 marks for any 3 limitations for the applicability of this principle of non-retroactivity well explained	6
Total Marks Awarded		20

Model answers

a)

i) The candidate is expected to demonstrate knowledge and understanding on sources of national law of Rwanda

- Constitution of the Republic of Rwanda of 2003 as revised in 2015
- Organic law
- International treaty ratified by Rwanda
- Ordinary law
- Orders and regulations provided for by a law

ii) The candidate is expected to demonstrate knowledge and understanding of Rwandan law can apply to foreign situations

- The personal status and family situation of foreigners are governed by their laws as far as the substance is concerned;
- The immovable property is governed by the law of the place it is located;
- Legal acts are subjects as to their substance on the autonomy of parties' will. They are governed by the law of the location they were performed as to their form;
- Legal facts are governed by the law of the place they happened.

iii) The candidate is expected to demonstrate knowledge and understanding on request for the authentic interpretation of the law and the required institution to interpret it

- Authentic interpretation of laws is done by the Supreme Court.
- Authentic interpretation of laws may be requested by the Cabinet or the Bar Association.
- Any interested person may request for an authentic interpretation of a law through the Bar Association

(b) The candidate is expected to demonstrate knowledge and understanding limitations for the applicability of this principle of non-retroactivity of laws

- The legislation can expressly declare some laws retro-active;
- Interpretative laws are laws retro-active;
- The new law is said to be retroactive when it is in favour of the accused person

QUESTION FOUR

Marking guide

a) i 1 Mark for identifying the subject and 2 marks for the definition of the subject	3
a) ii Mark for each of any 5 legal critiques on the various views espoused on legal personality	5
a) iii 1 Mark for the right view of legal personality and 1 mark for justification of that view point	2
b) i 1 Mark each for any of 4 elements that identifies a person	4
b) ii 2 Marks each for any 3 reasons the legislators gave to justify why a personal name is maintained instead of a family name in Rwanda.	6
Total Marks Awarded	20

Model Answers

(a)

(i) The student is expected to demonstrate knowledge and understanding on legal personality

- The subject is legal personality
- In law, a legal person is any person or thing which can do the things a human person is usually able to do in law

- Legal personality is an artificial creation of law
- Entities under the law are capable of being parties to a legal relationship
- A natural person is a human being and legal persons are artificial persons

(ii) The student is expected to demonstrate knowledge and understanding on bearers of rights and duties

- The view of Nyiraneza that animals, death people, unborn child and people of unsound mind is not true because animals are not aware of their rights same as death people, people unsound mind because they do not know if the rights are violated so as to seek protection of the law.
- Kayitare view point that there are two types of persons (natural and artificial) is correct and indeed animals or death persons or persons of unsound mind have no personality. However, although the law says that rights start at birth but if the right of unborn child is in question the law shall consider that child as a bearer of rights though unborn.
- Nzabamwita view point that it is only human beings who are bearers of rights is misplaced for the law recognizes artificial persons like companies to bearer of rights in the same way that human beings are bearers of rights.
- Muvunyi view point of recognizing that it is only human beings who are bearers of rights is misplaced because the law recognizes artificial persons like companies to bearer of rights in the same way that human beings are bearers of rights.
- The view point of Nyundo is perfect and right being a complete reflection of legal personality.

(iii) The student is expected to demonstrate knowledge and understanding on definition of legal personality

- Nyundo is the one who gave the proper definition of the term legal personality
- Personality entails bearing of rights and duties to which we have natural person (human beings) and artificial or legal person (company).
- Bearing of rights duties start at birth but the law recognizes the right of unborn child if such rights are in context.

(b)

i. The student is expected to demonstrate knowledge and understanding on elements that identifies a person

- The identification of a person serves to distinguish people from others while exercising their rights.
- A person is identified by his/her name,
- A person is identified by his/her origin,
- A person is identified by his/her sex,
- A person is identified by his/her residence and domicile.

ii. The student is expected to demonstrate knowledge and understanding on reasons to justify why a personal name is maintained instead of a family name

- Most of Rwandan names are closely related to previous circumstances of their parents' life;
- Some names are ridiculous and are against good morals;
- There are some names which are not suitable for females (e.g. Mfizi –Bull, Gasekurume – Goat, Semubi – The Ugly.);
- Attribution of family surnames is no more than a blind obedience to foreign traditions.
- It is unanimously known that Rwandan culture, regardless of potential nicknames, officially attributes one surname and if need be one given name.

QUESTION FIVE

Marking guide

a	2 marks each for any 4 characteristics well named and explained (1 mark for listing and 1 mark for explanation)	8
b	1 mark for any 4 relevant comments on the case	4
c	2 marks for any 4 conditions for the liability of teachers for wrongs of students well explained	8
Total Marks Awarded		20

Model answers

a) The candidate is expected to demonstrate knowledge and understanding on the characteristics of the reparable damage

- The damage must be actual and certain. It means that there is no doubt of its reality. In order to be compensated, the victim must prove the existence of the damage which he suffered. This damage must be certain at the time when the judge is evaluating it in order to facilitate him.
- The damage must consist of the violation of a legitimate interest (legally protected interest). The damage which the victim claims must be a legitimate damage. It is the interest which is protected by the law that will be considered. For example, the owner of a property has a right to request for indemnity because he has a right to property (interest protected by the law).
- The damage must be direct. The damage to be compensated must be the direct and immediate continuation of a faulty behavior. This characteristic makes it possible to put aside the reparation of many other consequential damages, which perhaps, could not have been caused by the fault of the author of the damage.
- The damage must be personal. The victim must have personally suffered the damage. Thus one must prove that s/he is victim of the damage. If the action causes damage to various persons, each of them must prove his/her personal damage.

b) The candidate is expected to demonstrate knowledge and understanding on for liability for acts committed by others

- Yes, the hotel is liable for the loss of the laptop of Mr. Habimana Bruno because the laptop was in the hands of the hotel.

- Mr. Habimana Bruno has a right to lodge a civil case against the cleaner in a criminal case but I would advise to request the hotel for getting his laptop basing on the principle of liability of the masters for wrongs of their domestics or workers.
- As it is in the case study, the following conditions are there for having the liability of the hotel for the laptop lost such as
 - Relationship of subordination. The cleaner is the work of the hotel and under subordination of manager of the hotel
 - The fault of the domestic or agent (worker). The cleaner has stolen the laptop. It is even an offense
 - The damage is supposed to be caused to a third party, that is to say, any other person other than the master. Here the damage was caused by the third party who is a cleaner of the hotel
 - A relationship between the act of the work and the functions which he/she does. The cleaner is responsible to clean the rooms of the hotel and he/she has the keys of the rooms.

(c) The candidate is expected to demonstrate knowledge and understanding on the conditions for the liability of teachers for wrongs of students

- The most important condition is one of time. The law indicates that the damage for which the teachers are liable is that which was caused by the students while the latter was under the supervision of the former
- The act which caused the damage must be the fault of the students. The law only talks about teacher and student, craftsman and apprentice. It does not prescribe that the student or apprentice must be minors.
- The damage for which teachers are liable are those caused by the students against third parties or those committed between themselves.
- There must be a relationship of teachers and students or artisan and apprentice. This is usually by way of contract of apprenticeship.

QUESTION SIX

Marking guide

a) 1 Mark for identifying the contract of sale of goods and 1 mark for definition of a contract of sale of goods	2
b) 2 marks each for any 5 elements of a contract of sale of goods well explained. i.e 1 mark for outlining, 1 mark for definition	10
c) 1 mark each of identifying a sale and 1 Mark for an agreement to sale and 2 marks each for any 3 differences between a sale and an agreement to sale	8
Total Marks Awarded	20

Model Answers

a) The student is expected to demonstrate knowledge and understanding on contract of sale of goods

- Contract of sale of goods.
- A contract of goods is a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a price.
- There may be a contract of sale between one part-owner and another.
- A contract of sale may be absolute or conditional.
- The term ‘contract of sale’ is a generic term and includes both a sale and an agreement to sell.
- Sale and agreement to sell: when under a contract of sale, the property in the goods is transferred from the seller to the buyer, the contract is called a ‘sale’, but where the transfer of the property in the goods is to take place at a future time or subject to some conditions thereafter to be fulfilled, the contract is called an ‘agreement to sell’.
- An agreement to sell becomes a sale when time elapses or the conditions, subject to which the property in the goods is to be transferred are fulfilled.

b) The student is expected to demonstrate knowledge and understanding on the elements of contract of sale of goods.

The following are the essential elements of a contract of sale of goods:

- **Two parties:** There must be 2 distinct parties i.e., a buyer and a seller, to affect a contract of sale and they must be competent to contract. ‘Buyer’ means a person who buys or agrees to buy goods and ‘Seller’ means a person who sells or agrees to sell goods.
- **Goods:** There must be some goods the property in which is or is to be transferred from the seller to the buyer, the goods which form the subject-matter of the contract of sale must be movable.
- **Price/Consideration:** Price is an essential ingredient for all transactions of sale and in the absence of the price or the consideration, the transfer is not regarded as a sale, thus transfer by way of sale must be in exchange for a price. It has been held that price normally means money. The price can be paid fully in cash or it can be partly paid and partly promised to be paid in future. The price can be fixed by the agreement between the parties before the conveyance of the property
- **Transfer of general property:** There must be a transfer of general property as distinguishes from special property in goods from the seller to the buyer. For example, if A owns certain goods, he has general property in the goods. If he pledges them with B, B has special property in the goods.
- **Essential elements of a valid contract:** All essential elements of a valid contract must be present in the contract of sale.

c) The student is expected to demonstrate knowledge and understanding on the difference between a sale and an agreement to sale

POINT	SALE	AN AGREEMENT TO SALE
Nature of Transaction	Complete transfer of ownership of goods	Transfer of ownership to take place in future
Legal Status	Immediate transfer of rights and property	Conditional transfer of rights and property
Rights of Parties	Buyer becomes the owner of the goods	Buyer acquires a right to become the owner
Transfer of Risk	Risk passes to the buyer at the time of sale	Risk remains with the seller until ownership transfer
Performance	Seller must deliver the goods to the buyer	Seller promises to deliver the goods
Delivery	Delivery is completed at the time of sale	Delivery is to take place at a future date
Title to Goods	Title passes to the buyer at the time of sale	Title will pass to the buyer in the future
Goods' Condition	Buyer accepts the goods in the current state	Buyer will accept the goods in the future
Ownership	Ownership is immediately transferred	Ownership transfer is deferred

QUESTION SEVEN

Marking guide

a) 1 Mark the definition and 1 mark for the explanation of why the insurance refused	2
b) 1 mark for any definitions of insurer and 1 mark each for any definitions of insured and 1 mark for each role of insurance provided	4
c) 1 mark each for each element required for legally binding contracts in general and 1 Mark for each principle of insurance	6
d) 1Mark each for the 2 categories and 1 Mark each for any 2 operations	4
e) 1 Mark each for any 4 categories	4
Total Marks Awarded	20

Model Answers

a) The student is expected to demonstrate knowledge and understanding on the contract of insurance

- A contract of insurance is a contract whereby a person called insurer undertakes, against payment of a premium or more, to provide a person named insured or beneficiary a cash benefit in case of realization of a determined risk.
- Another definition is not directly oriented to the contract of insurance but to “Insurance Business” which is a business of undertaking liability of loss, damage, compensation, disease, health as well as reinsurance business in accordance with laws and agreements

- That the contract of insurance is any contract whereby one party assumes that risk of an uncertain event, which is not within his control, happening at a future time, in which event the other party has an interest, and under which contract the first party is bound to pay money or provide its equivalent if the uncertain event occurs.
- Although John was the single largest shareholder of BRALIWA, he had no insurable interest in the property of the company.
- Once a company is registered it becomes a legal entity(person) separate and independent from its owners.
- If the insurance policy would have been taken in the name of the company, then the insurance would have been under legal obligation to indemnify and hence John as the single largest investor would be indemnified too.

b) The student is expected to demonstrate knowledge and understanding on the parties to insurance contract

- An insurer is a party that accepts the risk of loss in return for a premium (payment of money) and agrees to compensate the insured against a specified loss
- The insurer is the insurance company that provides the insurance cover.
- The insured is the person whose life is being covered against the risk
- The proposer is the person who takes the cover and is also called the policyholder. The rights of ownership of policy lie with the proposer and he is liable to pay premiums.
- The beneficiary is the person/s entitled to receive benefits of insurance and can be spouse, parents, children, siblings or business partner etc.

Role of insurance companies

- **The protective** function is related to providing the insured with protection in case of the occurrence of certain events.
- The protection usually has a financial dimension, because the benefits paid by the insurance company are supposed to meet the suddenly increased needs or compensate unexpected damages.
- In practice, insurance services also provide solutions to problems in an organizational manner, such as an overnight accommodation or a replacement car.
- This means that even before the occurrence of the insured event, the insured has a sense of security, because for a low price in comparison to possible losses, he discards the need to prepare financially and psychologically for the consequences of what might happen.
- **The preventive is the** second role of the insurance functions, which means preventing the random events from occurring.
- Preventing damage is one of the obligations of the policyholder – its negligence or intentionally causing damage constitutes the basis for the refusal to pay the benefits.
- An example would be the loss of discounts on mandatory civil liability insurance of the car, after the occurrence, due to the insured's fault, of the need to pay compensation to a victim.
- **The financial** function is the last function of insurance.
- There are many positive effects of risk financing through insurance.
- These are: eliminating worries related to experiencing loss experience or the occurrence of sudden, increased financial needs; financial security for loved ones in the event of the insured's death; certainty and financial stability; increased financial credibility, or the release of funds that would otherwise be used to cover the damages.

c) **The student is expected to demonstrate knowledge and understanding on the general and specific elements of a contract of insurance**

- **Offer and Acceptance:** This refers to an offering being made and then being accepted by the other party.
- When you fulfill this legal requirement, you are saying that all of the negotiations have been settled and you've come to an agreement.
- This is also often called "agreement" or a "meeting of the minds."
- In the insurance context, that means you have made an application to the insurance company, they have accepted it and you have accepted the policy terms they offered.
- **Consideration:** This refers to a fair exchange of value. A contract where one party gets everything while another party contributes nothing does not meet this requirement.
- In the example of an insurance policy, you are paying them premiums while they are providing you with a promise to pay claims in the future.
- **Legal Capacity:** To satisfy this requirement, everyone that is a party to the contract must have the legal capacity or competence to enter into a contract.
- This means you have to meet certain requirements such as being above the age of majority in your jurisdiction and have the mental capacity to understand what you are signing and agreeing to.
- **Legal Purpose:** Obviously, the courts will not enforce a contract that is not legal.
- For example, a contract for the provision of illegal services would not be a legal and valid contract because the courts would not enforce it.

The principles of insurance

- **Indemnity:** An indemnity contract, however, is one that pays an amount equal to the loss. Contracts of indemnity attempt to return the insured to their original financial position.
- Fire and health insurance policies are examples of indemnity contracts
- **Insurable Interest:** Another element of a valid insurance contract is insurable interest.
- Insurable interest is a component of legal purpose.
- Insurable interest is not defined but can be interpreted by the loss to the proposer.
- **Utmost Good Faith:** Insurance is a contract of utmost good faith.
- This means both the policy owner and the insurer must know all material facts and relevant information.
- **Subrogation.** This principle can be a little confusing, but the example should help make it clear.
- Subrogation is substituting one creditor (the insurance company) for another (another insurance company representing the person responsible for the loss).
- **Proximate Cause.** The loss of insured property can be caused by more than one incident even in succession to each other. Property may be insured against some but not all causes of loss. When a property is not insured against all causes, the nearest cause is to be found out. If the proximate cause is one in which the property is insured against, then the insurer must pay compensation. If it is not a cause the property is insured against, then the insurer doesn't have to pay

d) The student is expected to demonstrate knowledge and understanding operation of insurance companies

insurance that are espoused in the above case scenario?

- ✓ Life insurance
- ✓ property insurance

The following are the operation of insurance

- **Links:** s consumers, it is our responsibility to know where our premium money is going and how it is being used.
- When we transfer risk to the insurance company and pay the premium, we get an intangible product in return and a contract.
- However, this contract is for future payments in case of losses.
- Only when or if we have a loss will we actually see a return on our purchase of insurance.
- Therefore, it is imperative that the insurance company be there when we need it.
- To complete the puzzle of ensuring that our holistic risk management process is appropriate, we also need to understand how our insurance company operates.
- Because the risks are not transferred to just one insurer, we must learn about the operations of a series of insurers—the reinsurers that insure the primary insurers.
- **Insurance operations: marketing, underwriting, and administration;** Underwriting is the process of classifying the potential insureds into the appropriate risk classification in order to charge the appropriate rate.
- An underwriter decides whether or not to insure exposures on which applications for insurance are submitted.
- There are separate procedures for group underwriting and individual underwriting.
- For group underwriting, the group characteristics, demographics, and past losses are judged
- **Insurance operations: actuarial analysis and investments:** Actuarial analysis is a highly specialized mathematic analysis that deals with the financial and risk aspects of insurance.
- Actuarial analysis takes past losses and projects them into the future to determine the reserves an insurer needs to keep and the rates to charge.
- An actuary determines proper rates and reserves, certifies financial statements, participates in product development, and assists in overall management planning.
- **Insurance operations: reinsurance, legal and regulatory issues, claims adjusting, and management:**
- Reinsurance is an arrangement by which an insurance company transfers all or a portion of its risk under a contract (or contracts) of insurance to another company.
- The company transferring risk in a reinsurance arrangement is called the ceding insurer.
- The company taking over the risk in a reinsurance arrangement is the assuming reinsurer.
- In effect, the insurance company that issued the policies is seeking protection from another insurer, the assuming reinsurer.

- Typically, the reinsurer assumes responsibility for part of the losses under an insurance contract; however, in some instances, the reinsurer assumes full responsibility for the original insurance contract.
- As with insurance, reinsurance involves risk transfer, risk distribution, risk diversification across more insurance companies, and coverage against insurance risk.
- Risk diversification is the spreading of the risk to other insurers to reduce the exposure of the primary insurer, the one that deals with the final consumer.

e) The student is expected to demonstrate knowledge and understanding categories insurance

- Categories of insurance business provided by the Law governing the organization of insurance business comprise classes as specified under subparagraphs 2 and 3 of the article 2 of the regulation n°05/2009 of 29/07/2009 on licensing requirements and other requirements for carrying out insurance business.
- According to this regulation Long-term insurance business refers to insurance business of all or any of the following classes, namely:
 - ✓ Ordinary life insurance business,
 - ✓ Industrial insurance business,
 - ✓ Treasury bonds investment business,
 - ✓ Any business carried on by the insurer as incidental to any class of business above mentioned
- Short-term insurance business refers to insurance business of any class not being long-term insurance business. This is the non-exhaustive list:
 - ✓ Motor insurance business comprising commercial Lines and personal lines
 - ✓ Property insurance business comprising fire and natural forces, aviation – aircraft, and marine – ships
 - ✓ Miscellaneous comprising damage to property, expropriation and confiscation of property, insurance contracts primarily designed to cover the interests of any natural person against loss or damage to immovable and movable property as well as specified property as a result of fire, explosion, storm, water and certain natural forces, (excluding the risks of riot, strike, war and nuclear energy, accidental incident or any other unforeseeable event), transportation insurance business, accident and health insurance, liability insurance, engineering insurance business, guarantee insurance business

End of marking guide and model answers