RSK3701  
MAY/JUNE 2017  
SECOND PAPER  
RISK FINANCING AND SHORT TERM INSURANCE

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RSK3701
SECOND PAPER

RISK FINANCING AND SHORT TERM INSURANCE

Duration  2 Hours  70 Marks

EXAMINERS
FIRST  MS CJ DE SWARDE
SECOND  MISS Z YOUSUF
EXTERNAL  PROF RW VIVIAN

Use of a non-programmable pocket calculator is permissible

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be
removed from the examination venue

This paper consists of 16 pages in total, including 2 pages for rough work.

This paper comprises TWO sections, A and B

Section A comprises multiple choice and true/false questions. You must answer the
questions in this section on the examination paper as instructed. Section B comprises
paragraph and essay type questions which must be answered in the designated areas on
the paper

Please note:

1  This is a fill-in examination paper and there is no need for any examination
books. Students must hand over the examination paper to the invigilator before
leaving the examination hall.

2  NO MARK READING SHEET IS PROVIDED for the multiple choice questions.
The answers must be indicated on the exam paper as instructed.

3  Any silent, non-programmable, battery operated pocket calculator may be
used.

4  Pages for rough work have been provided (see pages 15 and 16). No rough
work will be marked.

[TURN OVER]
SECTION A. MULTIPLE-CHOICE AND TRUE/FALSE QUESTIONS

Question 1: Multiple-choice questions

**INDICATE THE CORRECT ANSWER TO EACH QUESTION BY DRAWING A CIRCLE AROUND THE NUMBER OF THE CORRECT OPTION.**

1. A business has a current ratio of 2:1 and an asset test ratio of 1.5:1. The business has a risk-seeking attitude and is considering a risk retention programme. With due consideration of these ratios and the intention of the business, indicate the correct statement below.
   1. The ratios of the business are not favourable for a risk retention programme
   2. A higher level of loss assumption based on working capital guidelines is possible
   3. The business is not in a good position to handle current obligations
   4. The current ratio is indicative of an illiquid working capital position

2. Mr Naidoo has both a Personal Accident and a Whole Life insurance policy. He works as a shift manager. During one of the shifts he gets injured in an explosion but survived and is awarded sick leave for six months. During this time he is killed in a motor car accident. His dependents will:
   1. have no claim against the Personal Accident policy as his death was not work-related
   2. not be able to claim from both policies as it would be regarded as double indemnity
   3. be able to claim the full benefits of both life insurance policies
   4. be able to recover the damages caused to the deceased motor vehicle from the Personal Accident policy

3. Acts of terrorism is a typical example of a(n) __________ risk.
   1. uninsurable
   2. insurable
   3. particular
   4. speculative

4. Consideration in terms of insurance policies
   1. defines the conditions of a policy
   2. is not essential for concluding a contract
   3. refers to the terms and conditions in the policy
   4. refers to the extensions of the policy

5. An insured has a motor policy with a straight deductible of R5,000. The insured is involved in a car accident, sustaining damages of R10,000. The damages will be covered:
   1. in full by the insured
   2. on a rateable basis between the insured and insurer
   3. in full by the insurer
   4. in full by the insurer, less the deductible
The principle of subrogation

applies to policies of compensation
is enforced where the insured is considered underinsured
is enforced where the insured is insured by more than one insurer
enforces the principle of indemnity

Indicate the correct statement

Collusion or theft by employees is a general exclusion to most accident policies
Cover for property, also covered in terms of a marine policy, is a standard exception to the multi-peril policy
Exceptions to policies can be deleted and the particular peril covered for an additional premium
Loss of damage arising from war is a general exclusion to all short-term policies

Finite insurance or reinsurance

is classified as long-term insurance in the industry market
has an aggregate limit of cover
compensates the insured for limitation of risk through control procedures
takes expected investment income into account when calculating premiums

Choose the correct combination

a, b, d
a, b, c, d
b, c
b, c, d

Insurable interest must exist

when a marine policy is issued
at the time a life insurance policy claim is submitted
when entering into a wagering agreement
when a life policy is issued

Indicate the correct statement

Stamp duties are paid on short term insurance policies in South Africa
Consideration in terms of insurance policies refers to the terms and conditions of the policy
The replacement of stolen assets with new assets is a violation of the principle of indemnity
The issuance of a policy is not essential for concluding an insurance contract in South Africa

Hull insurance

is only available to completed vessels
covers the vessel and associated machinery
only covers perils of the sea
provides no cover for collision liability
A House Owners policy covers the buildings and outbuildings of a residence but can also be extended to include

- swimming pool machinery against deterioration
- fixed sanitary ware against chipping and scratching
- accidental damage to television sets and video cassette recorders
- fixed glass against accidental breakage

An insurer has a stop loss treaty for 90% of any access of claims over 70% of premiums in any one year up to 100%. The insurer has R20 000 000 premium income and losses amount to R18 000 000. The stop loss treaty will pay

- R14 000 000
- R18 000 000
- R 4 000 000
- R 3 600 000

You insured your house with a newly founded insurer. In order to limit its exposure the insurer enters into a reinsurance agreement in terms of which the reinsurance company retains 70% of the total risk and the insurer retains 30%. This reinsurance agreement is referred to as a

- quota share treaty
- stop-loss
- surplus treaty
- excess of loss

Indicate which of the following items will be covered under the All Risk section of a Personal Lines policy

- A torn evening jacket
- An expensive cricket bat stolen from a locker at school
- A crashed computer hard drive
- Money, cheques and coins

In terms of the difference basis of calculating the annual gross profit under Business Interruption insurance, gross profit is defined as

- net profit plus standing charges
- turnover minus closing stock, plus opening stock and uninsured costs
- turnover plus closing stock, minus opening stock and uninsured costs
- net profit less standing charges

Indicate the correct statement

- Fidelity guarantee insurance provides cover against theft of money and stock by employees
- Fidelity guarantee insurance is always issued on a named persons' basis
- The premium of Fidelity guarantee insurance is based on the sum insured and the number of employees
- The level of hazard under Fidelity guarantee insurance is judged by the salaries and wages paid in a business

[TURN OVER]
1 18 Indicate the correct statement

1 Arbitration can be used to resolve all types of claim disputes
2 Litigation can only be used to resolve problems of quantum
3 Negotiation is the most common way of handling disputed claims
4 Arbitrations are normally conducted in a court of law

1 19 With regard to a comprehensive motor insurance policy, indicate which of the following statements are correct

a The cost of hiring a vehicle after an accident will normally be covered by the policy
b Tyres damaged by the application of brakes will be covered in terms of the policy
c The insured is generally not covered by the policy should he or she be involved in an accident while driving a car not belonging to him or her
d The insured is generally not covered by the policy should his or her vehicle be driven by an unlicensed driver

Choose the correct combination

1 All of the above
2 a,b,c
3 b,c,d
4 a,c,d

1 20 The major limit of a money policy applies to money

1 transferred to and from the bank
2 held at the home of any partner or director
3 held in the custody of directors on business of the insured
4 stolen by employees

(20 x 1 = 20)
Question 2: True/False questions

THIS SECTION COMPRISSES TEN QUESTIONS AND MUST BE ANSWERED IN THE SPACES PROVIDED. ALL THE QUESTIONS MUST BE ANSWERED.

INDICATE WHETHER A STATEMENT IS TRUE OR FALSE AND PROVIDE A MOTIVATION FOR YOUR ANSWER. NO MARKS WILL BE AWARDED FOR AN ANSWER WITHOUT A PROPER MOTIVATION.

2.1 An insurance system can only operate successfully when potential losses can be predicted accurately.

True/False

2.2 A farmer insures his crop for R80 000. The value of the crop is R120 000. A loss of R50 000 is sustained. If the principle of special condition applies, R33 333.33 will be payable by the insurer.

True/False

2.3 An insured insured his vehicle with two different insurance companies for its full value. In the case of a loss, he would therefore be sufficiently insured as well as be able to profit from the insurance.

True/False

2.4 The suicide clause included in life policies reduces adverse selection in terms of life insurance.

True/False

[TURN OVER]
2.5 A high claims reserve of an insurer is preferred by investors and shareholders of the company.
True/False

2.6 In terms of the "pillion passenger extension" liability cover is provided for injuries to passengers carried in a side-car of a motor cycle
True/False

2.7 An insured has a policy with a R10 000 deductible and a recapture factor of 4%. Should a loss of R100 000 be sustained, the insured will pay the full deductible of R6 400
True/False

2.8 An underwriter is requested to underwrite a tyre manufacturing plant. The sums insured are:

Fire R40 000 000
Loss of profits R20 000 000

The underwriter has a net line of R5 000 000 and can take an additional 50% if the risk involves Fire and Loss of profit. The underwriter has an eight line surplus treaty. The underwriter will need no facultative reinsurance in this case.
True/False

[TURN OVER]
2.9 Mr Smith is a plumber. Apart from the working tools he carries with him, he also carries wires and pipes and in many cases sanitary ware that needs to be installed at a clients’ premises. In terms of Goods in Transit insurance the working tools, pipes, wire and the sanitary equipment that needs to be installed will all be covered.

True/False

2.10 Mr Nel pays the premium of his short-term policy every month to his broker, Mr Hugo. Mr Hugo experienced a cash flow problem in March and failed to pay over the premium to the insurer before the agreed payment date of 1 April. On 10 April Mr Nel was involved in an accident Mr Nel will therefore not be covered and will need to claim the money from the broker.

True/False

(10 × 2 = 20)
[20 + 20 = 40]

[TURN OVER]
SECTION B: PARAGRAPH QUESTIONS

THIS SECTION COMPRISSE SIX QUESTIONS AND MUST BE ANSWERED IN THE SPACES PROVIDED. ALL THE QUESTIONS MUST BE ANSWERED.

Question 3 (5 marks)

Highlight and briefly explain five prescription periods enforced in terms of insurance claims.
Question 4 (5 marks)

Briefly highlight the role and function of Brokers within the insurance sector.
Question 5 (5 marks)

A collective policy is an option available to an insurer where the size of an exposure to be underwritten is beyond its capacity. **Outline the basic features of a collective policy.**
Question 6 (5 marks)

An organisation will be engaged in a unique venture for the next two years. The risks associated with the venture are not considered to be insurable by the private insurance market. The risk manager of the company suggested that the company forms a captive.

Indicate whether you agree with his suggestion and give reasons for your answer.
Question 7 (5 marks)

Use numerical examples to distinguish between straight, aggregate and franchise deductibles.
Question 8 (5 marks)

Explain the cover provided under glass insurance. In your answer also refer to the sum insured and rating of these policies.

[6 x 5 = 30]

TOTAL MARKS: 70
ROUGH WORK
NO ROUGH WORK WILL BE MARKED
This is to certify that I have read the rules governing the examinations as set out on the inside cover of this examination answer book and in the examination instructions. That the information supplied by me in this answer book is correct and valid.

I undertake to adhere to the procedures, rules and regulations of the University of South Africa as published in the official brochures.

Signature of candidate

NOTE: Not a valid document if not completed by the invigilator.