RSK3701
MAY/JUNE 2018
RISK FINANCING AND SHORT TERM INSURANCE

STUDENT NUMBER

IDENTITY NUMBER

FOR USE BY EXAMINATION INVIGILATOR

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WARNING

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NB PLEASE COMPLETE THE ATTENDANCE REGISTER ON THE BACK PAGE, TEAR OFF AND HAND TO THE INVIGILATOR.
RSK3701
Risk Financing and Short Term Insurance

Duration 2 Hours

EXAMINERS
FIRST MS CJ DE SWARDT
SECOND MS TG LEGOTLO
EXTERNAL DR GJ SANDROCK MISS Z YOUSUF

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 14 pages in total, including 2 pages for rough work

This paper comprises of 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 calculation and written questions. These questions must be answered in the
designated spaces provided on the paper

Please note:

1. This is a fill-in examination paper and there is no need for any examination scripts.
   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 13 and 14). 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 1  Indicate the **correct** statement
1  Insurance contracts indemnify the insured in terms of money only
2  Pooling is a prerequisite for insurance
3  Organisational charts are useful in identifying supplier risk
4  Driver training is an example of a pre-loss minimisation technique

1 2  A farmer insures his crop for R800 000. Just before harvesting the crop, the whole crop is destroyed by a run-away fire from a neighbouring farm. The total estimated loss amounts to R1 000 000. If the principle of special condition applies, the insurer will be liable for
1  R0
2  R600 000
3  R800 000
4  R1 000 000

1 3  The drought in the Western Province is an example of a(n) **risk**
1  uninsurable
2  insurable
3  particular
4  speculative

1 4  Indicate the **correct** statement
1  Companies authorised to issue SASRIA cover are remunerated by means of interest payments
2  The government is the sole shareholder of SASRIA
3  The government has an unlimited liability towards SASRIA
4  SASRIA cover risks in South Africa and Namibia

1 5  Indicate the **correct** statement.
1  Collusion or theft by employees is a general exception to most accident policies
2  Cover for property, also covered in terms of a marine policy, is a standard exclusion to the multi-peril policy
3  Exceptions to policies can be deleted and the particular peril covered for an additional premium
4  Loss of damage arising from war is a general exclusion to all short-term policies

1 6  Medical equipment carried with a doctor while doing house-calls to bedridden patients can be covered under insurance
1  goods-in-transit
2  business all risk
3  motor vehicle
4  house holder

[TURN OVER]
For a loss to be insurable it should be

- inevitable
- catastrophic
- measurable
- unique

An insurer has a stop loss treaty for 90% of any excess of claims over 70% of premiums in any one year up to 100%. The insurer has R20 000 000 premium income for 2017 and losses amounts 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

In terms of a comprehensive motor insurance policy the insured is

- covered against damages to recovered stolen vehicles
- not covered against accidental damages to his/her own vehicle
- not covered while driving the insured vehicle in Malawi
- covered by the policy should his/her vehicle be driven by an unlicensed driver

Question 2: True/False Questions

THIS SECTION COM普RIS.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 insured has a motor policy with a straight deductible of R5 000. The insured is involved in a car accident, sustaining damages of R4 000. The damages will be covered in full by the insurer.

True/False
2.2 Consideration in terms of insurance policies is not essential for concluding a contract

True/False

2.3 Neighbours have an insurable interest in each other's life

True/False

2.4 The replacement of stolen assets with new assets is a violation of the principle of indemnity

True/False

2.5 A worker sustained lung cancer as a result of working in an asbestos plant. The worker will have a claim under the personal accident section of his short-term policy

True/False

2.6 Fidelity guarantee insurance provides cover against money transported to and from a bank

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 R10 000.

True/False

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

- Fire: R20 000 000
- Loss of profit: R15 000 000

The underwriter has a net line of R5 000 000 and can take an additional 50% if the risk involves both Fire and Loss of profit. The underwriter has an eight-line surplus treaty. The underwriter will need no facultative reinsurance in this case. (Show all calculations.)

True/False

2.9 Hull insurance does not cover barratry and collision.

True/False

2.10 A House Owners policy covers the buildings and outbuildings of a residence but can also be extended to include fixed sanitary ware against chipping and scratching.

True/False

(10 x 2 = 20)

[30]

[TURN OVER]
SECTION B: WRITTEN QUESTIONS

THIS SECTION COMPRIS ES EIGHT QUESTIONS AND MUST BE ANSWERED IN THE SPACES PROVIDED. ALL THE QUESTIONS MUST BE ANSWERED

Question 3 (5 marks)

You are appointed as the risk manager of a company with the following financial results

<table>
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<th>Description</th>
<th>Value</th>
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<td>Turnover</td>
<td>R10m</td>
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<td>Net assets</td>
<td>R5m</td>
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<td>Net current assets</td>
<td>R3m</td>
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Determine the upper and lower levels of the company’s retention capacity
Question 4 (5 marks)

Discuss the cover provided under Theft insurance using the following headings

- The importance of forcible and violent entry or exit
- First loss sum insured
Question 5 (5 marks)

A broker is approached by a client who wishes to underwrite an extensive exposure. The broker is aware that the exposure is beyond the capacity of a single insurer.

Suggest alternative options available in the short term market for insurers to cover risk exposure of such a nature. Explain each option briefly.
Question 6 (5 marks)

Use the table below to outline the cover provided under the minor and major limit of **Money Insurance**

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[TURN OVER]
Question 7 (5 marks)

An important function of the claims negotiator in the short term market is to raise an estimate against claims that have been notified. Explain why this function is so important and highlight the impact of incorrect claims estimates to insurers.
Question 8 (5 marks)

Explain how the principles of subrogation and contribution enforce the principle of indemnity in insurance.
Question 9 (5 marks)

Distinguish between the various ways in which disputed claims can be resolved
Question 10 (5 marks)

Highlight the main differences between conventional and finite insurance agreements
ROUGH WORK PAGE

NO ROUGH WORK WILL BE MARKED
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Examination period

Student number

Surname

First Names

Subject

Code of paper — Number of paper

Centre Date

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Signature of candidate

ID Number

Signature of invigilator UNISA invigilator’s personnel number

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Batch No 28092015MCQ

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