

RSK3701

(492888)

October/November 2012

RISK FINANCING AND INSURANCE

Duration 2 Hours

70 Marks

EXAMINERS FIRST SECOND

EXTERNAL

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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 19 pages including 2 pages for rough work, plus instructions for completing a mark-reading sheet.

This paper comprises two sections, A and B

Section A consists of thirty multiple choice questions of 1 mark each. The answers to these questions must be indicated on the mark reading sheet provided. Indicate your student number and the unique number 492888 on the mark reading sheet.

Section B comprises FOUR paragraph/calculation type questions. Each question counts 10 marks. Section B must be answered in the designated areas on pages 10 to 17.

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Please note:

- This is a partial fill-in examination paper and there is no need for any examination scripts. Students must hand over the examination paper and the mark reading sheet to the invigilator before leaving the examination hall. Students must answer the questions in Section B in the spaces provided on the examination paper.
- 2 Any silent, non-programmable, battery operated pocket calculator may be used.
- Pages for rough work have been provided (see pages 18 and 19). No rough work will be marked.

SECTION A: MULTIPLE-CHOICE QUESTIONS

Indicate the correct answer to each question on the mark-reading sheet.

Question 1

Loss adjusters ...

- 1 are responsible for the settlement of claims
- 2 deal with all classes of insurance
- 3 are also sometimes called claims assessors
- 4 are appointed go handle all claims received by insurers

Question 2

Indicate the correct statement

- 1 Risk management focus on insurable losses
- 2 Pooling of risk is a prerequisite for insurance
- 3 Organisational charts are useful in identifying process type risk.
- 4 The wearing of a safety belt is an example of pre-loss minimisation technique.

Question 3

Multi peril policies

- 1 have one limit of indemnity for all the sections of the policy
- 2 cover similar types of perils under each section of the policy
- 3 have different terms and conditions for each of the different sections in the policy
- 4 provide limited cover

Question 4

Short term insurance companies include the following types of companies:

- a Mutual companies
- b Protection and indemnity associations
- c Reinsurers
- d Captives

Choose the correct combination:

- 1 b,d
- 2 a,b
- 3 a,b,c,d
- 4 a,b,d

Based on the attributes a risk needs to have before it can be classified as an insurable risk, the following risks are considered as insurable.

- a bad debts
- b money transported from a business to a bank
- c theft by employees
- d property investments

Choose the correct combination.

- 1 all of the above
- 2 a,b,c
- 3 b.c
- 4 a.c

Question 6

Mr A insured his car, valued at R400 000, with Company X for R150 000 and Company Y for R250 000. Mr A is involved in an accident and damage to his car amounts to R25 000. His claim, however, is repudiated due to some technical reasons. Company Y, however, decided to make an ex gratia payment of R15 625 to Mr A

Based on the aforementioned scenario, indicate the correct statement.

- 1 Ex gratia payments are indemnity payments.
- 2 Company X will be liable to pay R9 375 to Mr A.
- 3 The principle of contribution does not apply to ex gratia payments
- 4 Ex gratia payments may affect future claims payments.

Question 7

Insurable interest .

- 1 must exist at the time when marine insurance is issued
- 2 must exist at the time a life insurance policy claim is submitted
- 3 is not a requirement for wagering agreements
- 4 must only exist at the time of issuing of a motor policy

Question 8

Indicate the correct statement(s).

- The breaching of a warranty in an insurance contract by the insured may result in the repudiation of a claim by the insurer.
- b The preamble of a policy document defines what is covered by the policy
- c Insurance contracts are based on the premise of caveat emptor.
- d The expression "uberrima fides" (utmost good faith) forms part of South African Insurance law

Choose the correct combination:

- 1 b.c
- 2 a,b,d
- 3 a,b,c
- 4 a.d

Question 9

Examples of post-loss minimisation of losses include

- a boarding up of shop fronts after a robbery
- b training in the use of dangerous substances
- c installation of sprinkler systems
- d fire drills

Choose the correct combination:

- 1 a.b.d
- 2 b.c.d
- 3 a,b,c,d
- 4 a,c

Question 10

In terms of the Short term Act, intermediaries

- 1 must provide annual statements of premiums received and commissions due
- 2 must have written authorisation from the insured to handle premiums
- may not deduct commissions from premiums received and pay the net amount to the insurer
- 4 must pay over premiums within 15 days after the end of the months in which they were received

Question 11

In terms of a true monthly policy, .

- a premiums are quoted annually but paid in monthly instalments
- b any underwriting changes come into effect immediately
- c premiums are quoted and paid monthly
- d premiums are adjusted at a fixed percentage on a monthly basis

Choose the correct combination:

- 1 a,b,d
- 2 b,c,d
- 3 b,c
- 4 a,b,c,d

Indicate the correct statement

- 1 The principle of indemnity applies only to short term insurance contracts.
- 2 Insurable interest is not a requirement for taking out a life insurance policy on another person's life
- 3 Insurance contracts are contracts of caveat emptor
- 4 Insurable interest enforces the principle of indemnity

Question 13

The insurance policy schedule contains full details of

- 1 the insurer
- 2 exceptions
- 3 general conditions
- 4 period of insurance

Question 14

Indicate the **correct** statement

- 1 Wagering contracts are illegal in terms of common law.
- In terms of common law the issuing of a policy document is not essential for the conclusion of an insurance contract.
- 3 Insolvent people have no capacity to enter into contracts.
- In terms of common law the payment of the first premium is essential for the conclusion of an insurance contract

Question 15

In terms of the general law of contract, at least the following must exist for a valid contract to come into existence

- a There must be offer and acceptance.
- b The performance agreed upon must be possible and lawful.
- c At least one party must exchange consideration.
- d Prescribed formalities, if any, must be complied with.

Choose the correct combination.

- 1 a,c,d
- 2 a,b,d
- 3 a,c
- 4 b,d

In terms of a quota share treaty

- 1 the reinsurer is bound to accept a fixed proportion of every risk
- 2 risk is shared on a non-proportional basis between the cedant and reinsurer
- 3 the share of the different parties involved in the agreement is expressed as an amount
- only the amount of excess of the cedant's normal capacity for a particular risk is ceded to the reinsurers

Question 17

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

Fire R50 000 000 Loss of profits R30 000 000

The underwriter has a net line of R2 000 000 and can take an additional 50% if the risk involves Fire and Loss of profit. The underwriter has a nine line surplus treaty.

Under the above scenario ...

- 1 the gross retention is R27 000 000
- 2 the total net line is R2 000 000
- 3 facultative reinsurance of R50 000 000 will have to be placed
- 4 no facultative reinsurance is required

Question 18

Non Proportional reinsurance products include ...

- a Stop loss insurance
- b Excess of loss
- c Quota share treaty
- d Surplus treaty

Choose the correct combination:

- 1 a,b,c
- 2 a,c
- 3 b,c
- 4 a,b

Question 19

A farmer insures his crop for R100 000. The value of the crop is R125 000. A loss of R20 000 is sustained if the principle of special condition applies, an amount of ...will be payable by the insurer

- 1 R16 000
- 2 R15 000
- 3 R20 000
- 4 No payment will be made

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 Arbitration is the most common way of handling disputed claims.
- 4 Repudiation of liability applies where the terms and/or conditions of a policy have not been complied with

Question 21

An excessive claim reserve will result in..

- the loss ratio of the insurer appearing higher than it actually is
- 2 an increase in the share price of the insurance company
- an increase in investments from external sources
- 4 a lower solvency margin

Question 22

Indicate the correct statements:

- The solvency margin of a company is represented by the capital from shareholders and free reserves of the company.
- b Policyholders usually prefer higher solvency margins
- c Higher solvency margins indicate a higher utilisation of resources.
- d Shareholders usually prefer higher solvency ratios.

Choose the correct combination

- 1 a,b,c
- 2 a,d
- 3 a,b
- 4 b,c

Question 23

Indicate the correct statement.

- 1 Personal Accident policies are policies of compensation.
- 2 Personal Accident policies provide cover for accidents and illnesses.
- 3 No age restrictions apply to Personal Accident cover.
- Death cover under Personal Accident policies are sold in units of R1 000.

The following items are covered in terms of a Houseowners policy

- a outbuildings
- b swimming pools
- c furniture in servant's quarters
- d cars of the owner parked under a car port at a private dwelling

Choose the correct combination.

- 1 a,b,c,d
- 2 a,b
- 3 c,d
- 4 b.c

Question 25

Indicate the correct statement:

- 1 The cover provided by All Risk Insurance is also referred to as premises risks.
- A cricket bat broken during a match will not be covered under the All Risk section of a Personal Lines policy.
- A radio system stolen from a locked motor vehicle will be covered under the All Risk section of a Personal Lines policy
- 4 Money, cheques and coins are covered under the All Risk section of a Personal Lines policy

Question 26

Mr A insures his factory in terms of a general fire policy. A worker who was dismissed by the company deliberately sets fire to some flammable material which is stored in the factory. The sprinkler system is activated which extinguishes the fire but causes water damage to the other stock in the factory. Some records of debtors are also destroyed. It is assumed that it will take more or less two months to restore the factory to full production. Based on the aforementioned scenario, indicate the correct statement(s).

- a Consequential losses caused by damage to the factory will be covered in terms of the policy.
- b Water damage caused by the sprinkler system will be covered in terms of the policy
- c The insurer will not be liable for any losses due to the fact that the fire was caused by arson.
- d The water represents both the hazard and peril in this particular case.

Choose the correct combination.

- 1 a,d
- 2 a,c,d
- 3 b.d
- 4 b,d,e

Indicate the correct statement.

- Theft of money by employees is covered under money insurance only if discovered within 30 days of its happening.
- 2 The breakage of mirrors in a fitting room of a retailer is covered under glass insurance.
- 3 Money transported to and from the bank is covered under Fidelity guarantee insurance.
- 4 Shoplifting is covered under theft insurance

Question 28

Motor traders internal policies ...

- 1 cover vehicles damaged at the premises of the insured
- covers the insured's vehicles against and vehicles in his/her custody against accidental damage
- 3 are rated on a trade plate basis
- 4 cover vehicles temporarily garaged in the course of a journey

Question 29

Indicate the correct statement.

- 1 Under third party only cover, cover is provided for the insured's vehicle.
- Damage to the insured's recovered stolen vehicle will be covered under a Third party, Fire and Theft policy
- The first amount payable under motor insurance is cumulative in the case of windscreen excess.
- In terms of the "pillion passenger extension" liability cover is provided for injuries to passengers carried in a side-car of a motor cycle.

Question 30

Mr Albany is an electrician. Apart from the working tools he carries with him, he also carries wires and pipes and in many cases electrical equipment that needs to be fitted at a clients' premises. In terms of Goods in Transit insurance the following items will be covered:

- 1 the working tools, pipers and wire
- 2 the electrical equipment that needs to be installed
- the working tools, pipes, wire and electrical equipment that needs to be installed
- 4 the working tools and electrical equipment

[30 X 1 = 30]

SECTION B: PARAGRAPH QUESTIONS

ANSWER ALL 4 QUESTIONS IN THE SPACES PROVIDED.

Question 1 (10 marks)

The organisation for which you are currently working as a risk management consultant 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. Management is considering one of two options, namely establishing its own captive insurance company or joining a rent-a-captive. It approaches you for advice in this regard

You are required to make a recommendation on the most appropriate form of captive in this particular circumstance. Support your answer by referring to the distinguishing characteristics and benefits associated with each of the two types of captives.

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Question 2 (10 marks)

Mr Samuels, the sole owner of a small retail outlet, is considering the implementation of a self-insurance programme and approaches you for some assistance in this regard. The following information is supplied by the auditor of the organisation to assist you with your final recommendations:

Annual sales	R600 000
Net income after tax	R220 000
Average net income after tax for 5 years	R235 000
Net income percentage of turnover	33%
Total Assets	R500 000
Unmortgaged Assets	R200 000
Current Assets	R250 000
Current liabilities	R125 000

You are required to comment on the aforementioned organisation's ability to absorb losses and to make recommendations with regard to the implementation of a self-insurance programme. All recommendations should be backed by sound theoretical principles. In your answer make reference to the advantages and disadvantages of self-insurance programmes.

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Question 3 (10 marks)

A large component of the savings of many individuals are done via policies and investments provided by long term insurers. Argue the need for the valuation of long term insurers and the factors that actuaries will consider to perform the evaluations					
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Question 4 (10 marks)

You have been appointed as the claims manager at a large South African long term insurer. One of
your priorities is to reduce the risk of the payment of invalid claims and you therefore want to ensure
that staff involved in the handling of claims is competent and have a good understanding of the
assessment of claims. Motivate what information the claims assessor must verify before the process
of assessing a claim

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[4 x 10 = 40] TOTAL MARKS: 70

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DO YOUR ROUGH WORK HERE. NO ROUGH WORK WILL BE MARKED. DO YOUR ROUGH WORK HERE. NO ROUGH WORK WILL BE MARKED.

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UNIVERSITY OF SOUTH AFRICA UNIVERSITEIT VAN SUID-AFRIKA **EXAMINATION MARK READING SHEET**



EKSAMEN-MERKLEESBLAD

PART 1 (GENERAL/ALGEMEEN) DEEL 1

STUDY UNIT # g PSY100-X STUDIE-EENHEID by PSY100-X

INITIALS AND SURNAME VOORLETTERS EN VAN DATE OF EXAMINATION

DATUM VAN EKSAMEN

PAPER NUMBER VRAESTELNOMMER

EXAMINATION CENTRE (E.G. PRETORIA) EKSAMENSENTRUM (BV PRETORIA) ---

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For use by examination invigilator Vir gebruik deur eksamenopsiener

IMPORTANT

- 1 USE ONLY AN HB PENCIL TO COMPLETE THIS SHEET
- 2. MARK LIKE THIS 1
- 3 CHECK THAT YOUR INITIALS AND SURNAME HAS BEEN FILLED IN CORRECTLY
- 4 ENTER YOUR STUDENT NUMBER FROM LEFT TO RIGHT
- 5 CHECK THAT YOUR STUDENT NUMBER HAS BEEN FILLED IN CORRECTLY
- 6 CHECK THAT THE UNIQUE NUMBER HAS BEEN FILLED IN CORRECTLY
- 7 CHECK THAT ONLY ONE ANSWER PER QUESTION HAS BEEN MARKED
- 8 DO NOT FOLD

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PART 2 (ANSWERS/ANTWOORDE) DEEL 2

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