UNIVERSITY EXAMINATIONS

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RSK3701 (469788) May/June 2013

RISK FINANCING AND INSURANCE

Duration 2 Hours

70 Marks

EXAMINERS
FIRST   MS CJ DE SWARDT
SECOND   MR J VAN HUYSSTEEN
EXTERNAL   PROF RW VIVIAN

Use of a non-programmable pocket calculator is permissible

Closed book examination

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This paper consists of 20 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 **469788** 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 18

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Please note

1   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
3   Pages for rough work have been provided (see pages 19 and 20) 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

An insurance agent

1   sells insurance as his/her main occupation
2   is subject to the FAIS Act
3   need not register with the Registrar of Financial Service Providers
4   are not allowed to sell other products such as property on a commission basis

Question 2

Indicate the **correct** statement

1   Risk management focuses on insurable losses
2   Pooling of risk is a NOT a prerequisite for insurance
3   Organisational charts are useful in identifying financial risk in an organisation
4   Wearing of safety equipment while working on a roof of a building is an example of a post-loss minimisation technique

Question 3

Multi peril policies

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

Question 4

Indicate the **correct** statement

1   A Houseowners policy covers the content of a private dwelling
2   Multi peril policies are more expensive to issue
3   A Householders policy covers the building of a private dwelling
4   Asset All Risk policies are policies of exclusions

Question 5

Indicate the **correct** statement

1   Litigation can only be used to resolve problems of quantum
2   Ex gratia payments are compensation payments
3   Ex gratia payments might affect future claim payments
4   Contribution and subrogation applies to ex gratia payments

[TURN OVER]

Question 6

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   irrecoverable debts due to destruction of records
b   money transported from a business to a bank
c   fraud 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 7

Insurable interest

1   must exist when a marine loss occurs
2   must exist at the time a life insurance policy claim is submitted
3   is 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)

a   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 recital clause of a policy document contains the names of the parties to the contract
c   Insurance contracts are based on the premise of *caveat emptor*
d   The reasonable man test is generally applied to test the validity of insurance contacts

Choose the correct combination

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

Question 9

Nuclear war is an example of a (n)   risk

1   insurable
2   fundamental
3   particular
4   speculative

Question 10

In terms of the Short Term Insurance Act 1973, an annual statement of liabilities must be submitted by all registered short term insurers This statement must include

a   the rand value amount of outstanding claims
b   an estimated liability for taxation
c   commission rates for intermediaries
d   a reserve of the claims incurred but not reported

Choose the correct combination:

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

Question 11

Annual policies are

a   quoted annually but paid in monthly instalments
b   reviewed on a monthly basis
c   immediately affected by changes in the underwriting philosophy of insurer
d   most common to the commercial markets

Choose the correct combination:

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

Question 12

Indicate the **correct** statement

1   The principle of indemnity applies to personal accident policies
2   Proof of insurable interest must be submitted when taking out a life insurance policy on another person's life
3   Personal Accident policies are life insurance policies
4   Insurable interest enforces the principle of indemnity

Question 13

A proposal form

a   is an offer by the insurer to the insured to do business
b   can be used to advertise other products available from the insurer
c   elicits a quotation
d   establishes a warranty

Choose the correct combination.

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

Question 14

Indicate the **incorrect** statement.

1   Collusion or theft by employees is normally covered under most accident policies
2   Exceptions to a policy can be deleted and the peril covered for an extra premium
3   Exceptions to policies cannot be deleted and always apply
4   Shoplifting is an exclusion to a theft policy

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

Question 16

In terms of a surplus 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
4   only the amount of excess of the cedant's normal capacity for a particular risk is ceded to the reinsurers

[TURN OVER]

Question 17

An underwriter is requested to underwrite a tyre manufacturing plant The sums insured are
Fire   R40 000 000
Loss of profits   R10 000 000

The underwriter has a net line of R4 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 R54 000 000
2   the total net line is R4 000 000
3   facultative reinsurance of R4 000 000 will have to be placed
4   no facultative reinsurance is required

Question 18

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   c,d

Question 19

A farmer insures his crop for R80 000 The value of the crop is R125 000 A loss of R50 000 is sustained If the principle of special condition applies, an amount of   will be payable by the insurer

1   R50 000
2   R30 000
3   R32 000
4   No payment will be made

Question 20

Business interruption insurance

1   is also referred to as profit and loss insurance
2   was developed to meet additional cost incurred to keep the business in operation
3   provides cover for bad debts
4   has an unlimited indemnity period

[TURN OVER]

Question 21

An excessive claim reserve will result in

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

Question 22

In terms of the COID Act (130 of 1993)

1   employees can sue their employers for injuries following an accident at work
2   employers have a lesser need for Employer's Liability cover
3   domestic workers and contractors have the right to compensation from the government for injuries following an accident at work
4   Permanent Force members do not have the right to compensation from the government for injuries following an accident at work

Question 23

Indicate the **correct** statement.

1   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 24

The following items are covered in terms of a Householders 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

The following items will most likely be covered by an All Risk Insurance policy

a   An engagement ring lost on the beach during a holiday in Mauritius
b   A cricket bat stolen from a locker at school
c   A camera stolen from an unlocked motor vehicle in a shopping mall parking
d   A computer stolen during a burglary at home

Choose the correct combination.

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

Question 26

Indicate the **correct** statement

1   Fidelity guarantee insurance only provides cover against theft of money by employees
2   Fidelity guarantee insurance is always issued on a blanket basis
3   The premium of Fidelity guarantee insurance is based on the sum insured and the number of
        employees
4   The level of hazard under Fidelity guarantee insurance is judged by the levels of control and
        the salaries and wages paid in a business

Question 27

Adverse selection

1   can result in lower losses than expected
2   are reduced by introducing clauses such as a suicide clause
3   refer to the tendency that people with lower probability of loss than the average seek
        insurance
4   are increased by introducing compulsory medical examinations when applying for policies

Question 28

Motor traders external policies

a   cover only vehicles damaged at the premises of the insured
b   covers the insured's own vehicles and vehicles in his/her custody against accidental damage
c   are rated on a trade plate basis
d   cover vehicles temporarily garaged in the course of a journey

Choose the correct combination

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

[TURN OVER]

Question 29

An insurer enters into a quota share arrangement with the ceding insurer retaining 60% of any loss
How much will the reinsurer pay if the loss amounts to R40 000 under a R80 000 policy?

1   R16 000
2   R40 000
3   R24 000
4   R32 000

Question 30

Indicate the **correct** statements

a   Insurance contracts indemnify the insured in terms of money, services or both
b   Pooling changes the nature of risk and improves predictions
c   Production flow charts are useful in identifying supplier risk
d   Driver training is an example of pre-loss minimisation technique

Choose the correct combination

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

[30 X 1 = 30]

[TURN OVER]

SECTION B: PARAGRAPH QUESTIONS

ANSWER ALL 4 QUESTIONS IN THE SPACES PROVIDED.

Question 1 (10 marks)

1 1   Explain what a **deductible** is and highlight the **value** of these self-funding alternatives   6

1 2   Use an example to illustrate the difference between a **straight** and **aggregate** deductible   5

Question 2 (10 marks)

2 1   Highlight the **main reasons** why businesses consider self-funding as an alternative method to
       finance particular loss exposures   6

2 2   Outline the most important features of **Finite insurance**   4

Question 3 (10 marks)

Mr Khumalo was a participant/member of a group life scheme in terms of which he applied for and was granted cover on his own life, his spouse and his children

The definition of 'spouse' in terms of the group life contract read

'Spouse means the legal husband/wife of the member, or such other person residing with the member who would normally be regarded by the community as the husband/wife of the member, provided the spouse is the person indicated in the prescribed application form '

Mr Khumalo and his wife were divorced after the commencement of the group life contract The custody of their children was awarded to the member's spouse and he duly paid maintenance for them When she died, he felt obliged to cover the cost of her funeral

Mr Khumalo duly claimed the benefits, but the insurer declined a death claim in respect of her death on the grounds that cover, in respect of the spouse, ceased on divorce According to the insurer the divorce terminated any insurable interest that had existed between the member and his former spouse In the absence of an insurable interest, so it was contended, the insurer was no longer obligated to pay the promised benefits

Mr Khumalo approached you to advise him on whether he had insurable interest and if he should pursue the claim further with the insurance company

Required·

Compile a response to Mr Kumalo In your response you should

- point out the differences between insurable interest as applied to indemnity and non-indemnity insurance   5
- argue whether Mr Khumalo had an insurable interest at the beginning of the contract   3
- advise Mr Khumalo whether he should pursue the claim with the insurance company Provide a proper motivation for the advice given   2

Question 4 (10 marks)

4 1   **Explain the following concepts.**
- Defined contribution pension fund   1
- Defined benefit pension fund   1

4 2   Discuss the differences between a **defined contribution** and **defined benefit** pension fund 5

4 3   A small private company, ABC (Pty) Ltd, is considering introducing a pension fund for its
         permanent employees The managing director requested you to **argue the advantages and
         disadvantages, both from the perspective of the employer and employee should ABC
         (Pty) Ltd decide to establish a defined benefit pension fund.**   3

                                                                                        [4X10]
                                                                              TOTAL MARKS: 70

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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EXAMINATION MARK READING SHEET EKSAMEN-MERKLEESBLAD

PART 1 (GENERAL/ALGEMEEN) DEEL 1

STUDY UNIT e g PSY100 X
STUDIE EENHEID bv PSY100-X ❶

INITIALS AND SURNAME ❸
VOORLETTERS EN VAN

PAPER NUMBER ❷
VRAESTELNOMMER

DATE OF EXAMINATION ❹
DATUM VAN EKSAMEN

EXAMINATION CENTRE (E G PRETORIA) ❺
EKSAMENSENTRUM (BV PRETORIA)

STUDENT NUMBER
STUDENTENOMMER ❻

UNIQUE PAPER NO
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For use by examination invigilator

Vir gebruik deur eksamenopsiener

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IMPORTANT

1 USE ONLY AN HB PENCIL TO COMPLETE THIS SHEET
2 MARK LIKE THIS ━■━
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

BELANGRIK

1 GEBRUIK SLEGS N HB POTLOOD OM HIERDIE BLAD TE VOLTOOI
2 MERK AS VOLG ━■━
3 KONTROLEER DAT U VOORLETTERS EN VAN REG INGEVUL IS
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6 KONTROLEER DAT DIE UNIEKE NOMMER REG INGEVUL IS
7 MAAK SEKER DAT NET EEN ALTERNATIEF PER VRAAG GEMERK IS
8 MOENIE VOU NIE

PART 2 (ANSWERS/ANTWOORDE) DEEL 2

1 c1c c2c c3c c4c c5c	36 c1c c2c c3c c4c c5c	71 c1c c2c c3c c4c c5c	106 c1c c2c c3c c4c c5c
2 c1c c2c c3c c4c c5c	37 c1c c2c c3c c4c c5c	72 c1c c2c c3c c4c c5c	107 c1c c2c c3c c4c c5c
3 c1c c2c c3c c4c c5c ❿	38 c1c c2c c3c c4c c5c	73 c1c c2c c3c c4c c5c	108 c1c c2c c3c c4c c5c
4 c1c c2c c3c c4c c5c	39 c1c c2c c3c c4c c5c	74 c1c c2c c3c c4c c5c	109 c1c c2c c3c c4c c5c
5 c1c c2c c3c c4c c5c	40 c1c c2c c3c c4c c5c	75 c1c c2c c3c c4c c5c	110 c1c c2c c3c c4c c5c
6 c1c c2c c3c c4c c5c	41 c1c c2c c3c c4c c5c	76 c1c c2c c3c c4c c5c	111 c1c c2c c3c c4c c5c
7 c1c c2c c3c c4c c5c	42 c1c c2c c3c c4c c5c	77 c1c c2c c3c c4c c5c	112 c1c c2c c3c c4c c5c
8 c1c c2c c3c c4c c5c	43 c1c c2c c3c c4c c5c	78 c1c c2c c3c c4c c5c	113 c1c c2c c3c c4c c5c
9 c1c c2c c3c c4c c5c	44 c1c c2c c3c c4c c5c	79 c1c c2c c3c c4c c5c	114 c1c c2c c3c c4c c5c
10 c1c c2c c3c c4c c5c	45 c1c c2c c3c c4c c5c	80 c1c c2c c3c c4c c5c	115 c1c c2c c3c c4c c5c
11 c1c c2c c3c c4c c5c	46 c1c c2c c3c c4c c5c	81 c1c c2c c3c c4c c5c	116 c1c c2c c3c c4c c5c
12 c1c c2c c3c c4c c5c	47 c1c c2c c3c c4c c5c	82 c1c c2c c3c c4c c5c	117 c1c c2c c3c c4c c5c
13 c1c c2c c3c c4c c5c	48 c1c c2c c3c c4c c5c	83 c1c c2c c3c c4c c5c	c1c c2c c3c c4c c5c
14 c1c c2c c3c c4c c5c	49 c1c c2c c3c c4c c5c	84 c1c c2c c3c c4c c5c	c1c c2c c3c c4c c5c
15 c1c c2c c3c c4c c5c	50 c1c c2c c3c c4c c5c	85 c1c c2c c3c c4c c5c	c1c c2c c3c c4c c5c
16 c1c c2c c3c c4c c5c	51 c1c c2c c3c c4c c5c	c2c c3c c4c c5c	121 c1c c2c c3c c4c c5c
17 c1c c2c c3c c4c c5c	52 c1c c2c c3c c4c c5c	c2c c3c c4c c5c	122 c1c c2c c3c c4c c5c
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19 c1c c2c c3c c4c c5c	54 c1c c2c c3c c4c c5c	89 c1c c2c c3c c4c c5c	124 c1c c2c c3c c4c c5c
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22 c1c c2c c3c c4c c5c	57 c1c c2c c3c c4c c5c	92 c1c c2c c3c c4c c5c	127 c1c c2c c3c c4c c5c
23 c1c c2c c3c c4c c5c	58 c1c c2c c3c c4c c5c	93 c1c c2c c3c c4c c5c	128 c1c c2c c3c c4c c5c
24 c1c c2c c3c c4c c5c	59 c1c c2c c3c c4c c5c	94 c1c c2c c3c c4c c5c	129 c1c c2c c3c c4c c5c
25 c1c c2c c3c c4c c5c	60 c1c c2c c3c c4c c5c	95 c1c c2c c3c c4c c5c	130 c1c c2c c3c c4c c5c
26 c1c c2c c3c c4c c5c	61 c1c c2c c3c c4c c5c	96 c1c c2c c3c c4c c5c	131 c1c c2c c3c c4c c5c
27 c1c c2c c3c c4c c5c	62 c1c c2c c3c c4c c5c	97 c1c c2c c3c c4c c5c	132 c1c c2c c3c c4c c5c
28 c1c c2c c3c c4c c5c	63 c1c c2c c3c c4c c5c	98 c1c c2c c3c c4c c5c	133 c1c c2c c3c c4c c5c
29 c1c c2c c3c c4c c5c	64 c1c c2c c3c c4c c5c	99 c1c c2c c3c c4c c5c	134 c1c c2c c3c c4c c5c
30 c1c c2c c3c c4c c5c	65 c1c c2c c3c c4c c5c	100 c1c c2c c3c c4c c5c	135 c1c c2c c3c c4c c5c
31 c1c c2c c3c c4c c5c	66 c1c c2c c3c c4c c5c	101 c1c c2c c3c c4c c5c	136 c1c c2c c3c c4c c5c
32 c1c c2c c3c c4c c5c	67 c1c c2c c3c c4c c5c	102 c1c c2c c3c c4c c5c	137 c1c c2c c3c c4c c5c
33 c1c c2c c3c c4c c5c	68 c1c c2c c3c c4c c5c	103 c1c c2c c3c c4c c5c	138 c1c c2c c3c c4c c5c
34 c1c c2c c3c c4c c5c	69 c1c c2c c3c c4c c5c	104 c1c c2c c3c c4c c5c	139 c1c c2c c3c c4c c5c
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Specimen only