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RSK3701(489674)

MAY/JUNE 2014

RISK FINANCING AND SHORT TERM INSURANCE

| STUDENT NUMBER | | | | | | | | | |
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| Question No | Marks | | | | | |
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| | 1 | 2 | 3 | 4 | 5 | 6 |
| Section A | | | | | | |
| MCQ | | | | | | |
| Section B | | | | | | |
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| Section C | | | | | | |
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Subject

Number of paper

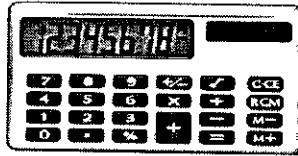
Date of examination

Examination centre

WARNING

- 1 A candidate who without authorisation takes into the examination venue any book, document or object which could assist him in the examination, and does not hand over such material to the invigilator before the official commencement of the examination, will be guilty of infringing the University's examination regulations and will be liable to punishment as determined by Council
- 2 Rough work may be done only on the examination question paper and must be labelled as such
- 3 No notes may be made on any part of the body, such as the hands, or on any garment
- 4 This page/paper is the property of the University and under no circumstances may the candidate retain it or take it out of the examination venue

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**RSK3701**

(489674)

May/June 2014

RISK FINANCING AND SHORT TERM INSURANCE

Duration 2 Hours

70 Marks

 EXAMINERS
 FIRST
 SECOND
 EXTERNAL

 MS CJ DE SWARDT
 MR J VAN HUYSSTEEN
 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 23 pages including 2 pages for rough work, plus instructions for completing a mark-reading sheet

This paper comprises four sections, A, B, C and D **Sections A and B must be answered by all the students. Section C must be answered by supplementary students only. Section D must be answered by students who are registered for this module in 2014.**

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 **489674** on the mark reading sheet

Section B,C and D comprises paragraph/calculation type questions. These questions must be answered in the designated areas on the paper

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,C and D 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 at the end of the paper. No rough work will be marked.

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SECTION A: MULTIPLE-CHOICE QUESTIONS

Indicate the correct answer to each question on the mark-reading sheet as well as on the examination paper.

Question 1

For a loss to be insurable it should be

- 1 inevitable
- 2 catastrophic
- 3 quantifiable
- 4 unique

Question 2

Indicate the **correct** statement

- 1 Risk management focuses on fundamental risks
- 2 Pooling of risk is a not a prerequisite for insurance
- 3 Risk management is a subset of insurance management
- 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 similar limits of indemnity for the different sections of the policy
- 2 cover different 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 have different renewal dates for each of the different sections of the policy

Question 4

Indicate the **correct** statement

- 1 A Houseowners policy covers the building 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 extensions

Question 5

Ex gratia payments

- 1 are not subjected to subrogation
- 2 are indemnity payments
- 3 might affect future claim payments
- 4 are subjected to contribution

[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 fraud by employees
- b money transported from a business to a bank
- c shoplifting
- 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 must exist

- 1 when a marine policy is issued
- 2 at the time a life insurance policy claim is submitted
- 3 only at the time of issuing of a motor policy
- 4 when a life policy is issued

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 first amount payable is reflected in the schedule of a policy document
- 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 contracts

Choose the correct combination:

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

Question 9

An explosion caused by a chemical reaction in a production plant is an example of a (n) risk

- 1 uninsurable
- 2 fundamental
- 3 particular
- 4 speculative

[TURN OVER]

Question 10

In terms of the Short Term Insurance Act 1973, intermediaries

- a must have at least a verbal agreement with an insurer to handle premiums
- b must pay over premiums received within 15 days after the end of the month in which they were received
- c must provide a monthly statement of premiums received and commissions due
- d may deduct commission and any refunds and pay the insurer net of commission

Choose the correct combination:

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

Question 11

Monthly 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 personal lines 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

[TURN OVER]

Question 13

A proposal form

- a is an offer by the insured to the insurer 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 **correct** 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 an offer
- 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 R3 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 R45 000 000
- 2 The total net line is R3 000 000
- 3 Facultative reinsurance of R20 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,b
- 3 b,c
- 4 c,d

Question 19

A farmer insures his crop for R100 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 the needs of the business until the business operations are restored
- 3 provides cover for bad debts
- 4 has a limited indemnity period

[TURN OVER]

Question 21

An excessive claim reserve will result in

- 1 the loss ratio of the insurer appearing higher 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 lower 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 Military 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 if discovered within 14 days of its happening
- 2 The breakage of mirrors in a fitting room of a retailer is excluded from glass insurance cover
- 3 Money transported to and from the bank is covered under Fidelity 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 Durban
- b A cricket bat broken during a practice session
- c A camera stolen from an unlocked motor vehicle in a shopping mall parking
- d A laptop computer stolen from a hotel room

Choose the correct combination.

- 1 a,b,c,d
- 2 a,d
- 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 levels of remuneration in a business

Question 27

Adverse selection

- 1 can result in lower losses than expected
- 2 are reduced by introducing clauses such as an average 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
- 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,c,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 insurer 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]

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SECTION C: PARAGRAPH QUESTIONS ON LIFE INSURANCE

**THIS SECTION MUST ONLY BE ANSWERED BY STUDENTS WHO WERE GRANTED A SUPPLEMENTARY OR SPECIAL EXAM FOR RSK3701 IN 2013.
THIS SECTION COMPRISES TWO QUESTIONS AND MUST BE ANSWERED IN THE SPACES PROVIDED. BOTH QUESTIONS MUST BE ANSWERED.**

Question 3 (10 marks)

Explain how a **preservation fund** works Highlight the **advantages and disadvantages** in transferring the withdrawal amount from a pension fund to a preservation fund as opposed to purchasing a lump sum retirement annuity with the amount

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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.**

PART 1 (GENERAL/ALGEMEEN) DEEL 1

STUDY UNIT e.g. PSY100-X
 STUDIE EENHEID by PSY100 X

1

PAPER NUMBER
 VRAESTELNOMMER

2

INITIALS AND SURNAME
 VOORLETTERS EN VAN

3

DATE OF EXAMINATION
 DATUM VAN EKSAMEN

4

EXAMINATION CENTRE (E.G. PRETORIA)
 EKSAMENSENTRUM (BY PRETORIA)

5

STUDENT NUMBER
 STUDENTENOMMER

6

7

8

9

UNIQUE PAPER NO
 UNIEKE VRAESTEL NR

8

9

For use by examination invigilator
 Vir gebruik deur eksamenopsiener

IMPORTANT

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

BELANGRIK

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PART 2 (ANSWERS/ANTWOORDE) DEEL 2

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| 20 | c1) c2) c3) c4) c5) | 55 | c1) c2) c3) c4) c5) | 90 | c1) c2) c3) c4) c5) | 125 | c1) c2) c3) c4) c5) |
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Specimen only