

Tutorial letter 101/3/2018

Risk Financing and Short Term Insurance

RSK3701

Semesters 1 & 2

Department of Finance, Risk Management and Banking

IMPORTANT INFORMATION:

Please register on *myUnisa*, activate your *myLife* e-mail addresses and make sure you have regular access to the *myUnisa* module site RSK3701-2018 S1 or S2.

Note: Please note that this module is offered online only. All material will be made available on *myUnisa* under “official study material” and/or under “study units”. However, in order to support you in your learning process, you will also receive some study materials in printed format.

BARCODE

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1 INTRODUCTION

Dear Student

Welcome to the module Risk Financing and Short Term Insurance (RSK3701). You have enrolled for an interesting yet challenging module. To be successful in this module, you will have to devote at least 120 hours to reading, summarizing and doing assignments.

Do not hesitate to contact me (on *myUnisa*, by email or by telephone) if you are experiencing problems with the content of this tutorial letter or any aspect of the module. I sincerely hope that you find this module, as well as your online learning experience interesting and rewarding and trust that you will complete the module successfully.

Please also provide Unisa with your cellular number because important announcements may be sent to you by sms. Also check your *myLife* email address regularly for announcements.

1.1 To get started...

Please note that this module is offered fully online and you therefore need to go online to see your study materials and complete the learning activities for this course. Go to the website here: <https://my.unisa.ac.za> and login with your student number and password. You will see the RSK3701-18-S1/S2 module site in the row of modules in the orange blocks across the top of the webpage. Remember to also check in the - more site - tab if you cannot find it in the orange blocks. Click on the module you want to open and read the **Welcome page**.

We wish you success on your journey!

2 MODULE FORMAT: RSK3701

2.1 Fully online module

All study material for this module will be available on *myUnisa*. It is thus very important that you register on *myUnisa* and access the module site on a regular basis. You must be registered on *myUnisa* to be able to access your learning material and assignment questions, submit your assignments, gain access to various learning resources, “chat” to your lecturer or fellow students about your studies and the challenges that you might encounter, and to participate in online discussion forums. Importantly, *myUnisa* contains the **Learning Units** tool from which you will only be able to access the study material for this module if you have registered and have access to *myUnisa*. The complete study guide for RSK3701 and this tutorial letter (TL101/3/2018) are also available on-line under Official Study Material. Please also go to “additional resources” and “announcements” for updates on the study material or other important messages. These are available online only.

2.2 Printed materials to support the online module

Because we want you to be successful in this online module, Unisa will also provide you with the **Learning Units or Study Guide** in printed format. This will allow you to read the study materials, even if you are not online. While these printed materials may sometimes appear slightly different from the online study materials, they are exactly the same and have been copied from the online *myUnisa* website.

Remember, the printed support materials are a back-up to everything that is found online, on *myUnisa* under the Learning Units and/or Official Study Material. All additional resources must be downloaded from *myUnisa*. **In other words, you should NOT wait for the printed support materials to arrive to start studying.**

Please consult with the *myStudies@Unisa* publication for more information on the activation of your *myLife* email address as well as obtaining access to the *myUnisa* module site.

3 LECTURERS AND TUTORS

3.1 Lecturers

Any enquiries of an academic nature concerning this module, such as an enquiry about a specific chapter in the prescribed book or study guide, may (during office hours) be directed to the following e-mail address:

dswarcj@unisa.ac.za

Lecturers involved in module:

Mrs C de Swardt: Tel. 012 429 4017

Mrs Z Yousuf: Tel. 012 429 6777

To contact the University, you should follow the instructions in the **myStudies@Unisa** brochure. Remember to have your student number available when you contact the University. When you contact the lecturer, please do not forget to always include your **student number** and **module code**. This will help the lecturer to assist you.

Availability of lecturers

The lecturers for this module will be available to take phone calls on academic matters and/or to attend to students who may prefer to visit personally for academic engagement. However, the days and times of lecturer's availability will be communicated in the module page on *myUnisa*. These days and times are subject to change from time to time in order to accommodate the lecturer's work schedule and other commitments. The changes on the days and times will be communicated by the lecturer in advance through the announcement option on *myUnisa* as and when this happen. Students are advised to check the module page on *myUnisa* before making phone calls or visiting the lecturer's office for academic enquiries/engagements.

3.2 Tutors

Unisa offers online tutorials (e-tutoring) to students registered for qualifying modules at NQF level 5, 6 and 7 which means first year, second year and third year modules. You will be informed if the RSK3701 module have been allocated e-tutors.

Once you have been registered for a **qualifying module**, you will be allocated to a group of students with whom you will be interacting during the tuition period as well as an e-tutor who will be your tutorial facilitator. Thereafter you will receive a sms informing you about your group, the name of your e-tutor and instructions on how to log onto *myUnisa* in order to receive further information on the e-tutoring process.

Online tutorials are conducted by qualified e-tutors who are appointed by Unisa and are offered free of charge. All you need to be able to participate in e-tutoring is a computer with internet connection. If you live close to a Unisa Regional Centre or a Telecenter contracted with Unisa, please feel free to visit any of these to access the internet. e-tutoring takes place on *myUnisa* where you are expected to connect with other students in your allocated group. It is the role of the e-tutor to guide you through your study material during this interaction process. For you to get the most out of online tutoring, you need to participate in the online discussions that the e-tutor will be facilitating.

There are modules which students have been found to repeatedly fail. These modules are allocated face-to-face tutors and tutorials for these modules take place at the Unisa Regional Centers. These tutorials are also offered free of charge, however, it is important for you to register at your nearest Unisa Regional Centre to secure attendance of these classes.

3.3 University

To contact the University follow the instructions in the brochure **Study @ Unisa**. Remember to have your student number available whenever you contact the University.

Whenever you write to a lecturer, please include your student number to enable the lecturer to help you more effectively.

4 MODULE RELATED RESOURCES

4.1 Prescribed books

The compulsory prescribed textbook for this module is:

Risk Financing and Short Term Insurance RSK3701. 2018. Published by and obtainable from the Insurance Institute of South Africa.

The prescribed book must be purchased from the Insurance Institute of South Africa in Johannesburg. Older versions of books **CANNOT** be used as the book was revised in 2017. Please note that the book is not available at any of the official bookstores of UNISA. The contact details of the Insurance Institute are as follows:

E-mail: info@iisa.co.za
Local Tel: 011 341 9480
Int Tel +27 11 341 9480
0861 01 4472

Street Address

Ground Floor, Block B
Investment Place
10th Road Off 2nd Road
Hyde Park
Sandton

Website: www.iisa.co.za
Fax: 011 325 0608

Int Fax +27 11 325 0606

Postal Address

PO Box 413264
CRAIGHALL
2024

The study guide supplied by UNISA serves as a guide for studying the prescribed book and it is also a source of additional information on South African conditions and phenomena, which are imperative background reading for any meaningful study of risk financing and insurance.

4.2 Joining myUnisa

If you have access to a computer that is linked to the internet, you can quickly access resources and information at the University. The myUnisa learning management system is the University's online campus that will help you communicate with your lecturers, with other students and with the administrative departments at Unisa – all through the computer and the internet.

You can start at the main Unisa website at <http://www.unisa.ac.za> and then click on the myUnisa orange block. This will take you to the myUnisa website. To go to the myUnisa website directly, go to <https://my.unisa.ac.za>. Click on the **Claim UNISA Login** on the right-hand side of the screen on the myUnisa website. You will then be prompted to give your student number in order to claim your initial myUnisa details as well as your myLife e-mail login details.

For more information on myUnisa, consult the brochure **Study @ Unisa**, which you received with your study material.

4.3 Other resources – printed support material

Because we want you to be successful in this online module, we also provide you with some of the study material in printed format. This will allow you to read the study material even if you are not online.

The printed study material will be sent to you at the beginning of the semester, but you do not have to wait for it before you start studying – you can go online as soon as you have registered and find all your study material there. The material we will send you is an **offline** copy of the formal content for the online module. Having an offline copy will enable you to study for this module WITHOUT having to use the internet or to

go to an internet café. It will save you time and money, and you will be able to read and re-read the material and start doing the activities.

It is very important that you log in to *myUnisa* regularly. We recommend that you log in at least once a week or every 10 days to do the following:

- **Check for new announcements.** You can also set your *myLife* e-mail account to receive the announcement e-mails on your cellphone.
- **Do the Discussion Forum activities.** When you do the activities for each unit, we want you to share your answers with the other people in your group. You can read the instructions and even prepare your answers offline, but you will need to go online to post your messages.
- **Do other online activities.** For some of the unit activities you will need to go through the **Self-Assessment** tool. Do not skip this activity because it will assist you in preparing for the examination.

We hope that by giving you extra ways to study the material and completing all of the activities, this system will help you succeed in the online module. To get the most out of the online course you **MUST** go online regularly to complete the activities and assignments on time.

Remember, the printed support material is back-up material for everything that is found online on *myUnisa*. It does not contain any extra information. **In other words, do NOT wait for the printed support material to arrive before you start studying.**

4.4 Library services and resource information

For brief information, go to www.unisa.ac.za/brochures/studies

For detailed information, go to <http://www.unisa.ac.za/library>. For research support and services of personal librarians, click on "Research support".

The Library has compiled numerous library guides:

- finding recommended reading in the print collection and e-reserves – <http://libguides.unisa.ac.za/request/undergrad>
- requesting material – <http://libguides.unisa.ac.za/request/request>
- postgraduate information services – <http://libguides.unisa.ac.za/request/postgrad>
- finding, obtaining and using library resources and tools to assist in research – http://libguides.unisa.ac.za/Research_Skills
- contacting the Library/finding us on social media/frequently asked questions – <http://libguides.unisa.ac.za/ask>

4.5 Predatory providers of classes and examination support

Please be aware of the existence of multiple fraudulent and predatory providers of classes and examination guidance to Unisa students. Please note that Unisa do not have agreements with any of these agencies/schools/colleges to provide tuition or support to our students. Unisa also do not provide these predators with study material, guidelines or your contact information.

These providers may not have the necessary expertise to assist you and often charge exorbitant fees. If you receive an invitation from any agency or College, it is best to confirm with your lecturer if the provider is a legitimate Unisa partner.

5 HOW TO STUDY ONLINE

5.1 What does it mean to study fully online?

Studying fully online modules differs completely from studying some of your other modules at Unisa.

- **All your study material and learning activities for online modules are designed to be delivered online on myUnisa.** Although we give you a printed copy to support your studies, the module is designed to be delivered online.
- **All of your assignments must be submitted online.** This means that you do all your activities and submit all your assignments on *myUnisa*. In other words, you may **NOT** post your assignments to Unisa using the South African Post Office.
- **All of the communication between you and the University happens online.** Lecturers will communicate to you by e-mail, and using the **Announcements**, the **Discussion Forums** and the **Questions and Answers** tools. You can also use all of these ways to ask questions and contact your lecturers.

6 ASSESSMENT

6.1 Assessment plan

Assignments are seen as part of the learning material for this module. As you do the assignments, study the reading texts, consult other resources, discuss the work with fellow students or do research, you are actively engaged in learning. Paying attention to the assessment criteria for each assignment will help you to understand what is required of you more clearly.

You may submit assignments either by post or electronically via myUnisa. Assignments may not be submitted by fax or e-mail. For detailed information and requirements as far as assignments are concerned, see the brochure **myStudies@Unisa** that is available on the Unisa web-site.

Compulsory assignments

There are two compulsory assignments per semester for this module. There are non-negotiable submission deadlines for each of the assignments of this module. The assignments contribute to your year mark. (see below)

Year marks

Your year mark, based on the marks obtained for the two compulsory assignments, contributes 20% towards your final mark, while your examination mark contributes 80%.

The combined weighted average of your year mark and examination mark must be 50% or higher for you to pass the module. However, you must obtain a minimum of 40% in the examination, regardless of your year mark. If you obtain less than 40% in the examination, your year mark will not be taken into account and you will fail.

For example:

Assignment 01 mark = 50% Assignment 02 mark = 90%. These marks each contribute 50% towards the final 20% year mark.

Assignment no	Mark	Weight	Total
Ass. 01	50%	50%	25
Ass. 02	90%	50%	45
			70 x 20% of final = 14

Assume an examination mark of 45%
80% of the examination mark is 36

Final mark = (20% of the average assignment marks) + (80% examination mark)
= 14 + 36
= 50%

The example demonstrates that your year mark can help you to pass the module. To pass the module you need a final mark of at least 50% and to qualify for a supplementary examination you will need a final mark of above 40%.

6.2 General assignment numbers

Assignments are numbered consecutively per module, starting from 01.

6.2.1 Unique assignment numbers

Each assignment has been allocated a unique number in order to identify it in the Unisa assessment plans. Please ensure you always indicate the correct unique number when submitting assignments.

6.2.2 Due dates for assignments

You should preferably submit your assignments at <https://my.unisa.ac.za>. Do not wait until the day just prior to the due date to submit your assignment. Technical problems with the computer servers of myUnisa may prevent you from submitting your assignment at the last minute.

Should you not be able to submit your assignments at myUnisa and need to mail us your assignments in hard copy format, please ensure that your assignments reach the Unisa main campus by the due dates. Requests for extension of due dates for assignments will not be granted. These due dates have been set to allow you sufficient time for the completion of other assignments and your preparation for the examination.

Information about whether Unisa has received your assignment and the mark attained for an assignment can be obtained from <https://my.unisa.ac.za>.

6.3 Submission of assignments

To submit an assignment **via myUnisa**:

- Go to myUnisa at <https://my.unisa.ac.za>
- Log in with your student number and password.
- Select the module.
- Click on assignments in the left-hand menu.
- Click on the assignment number you want to submit.
- Follow the instructions on the screen.

6.4 Feedback on assignments

The suggested solutions to the assignments will be posted on **myUnisa** after the due date of the respective assignments. The assignments form an important part of your learning experience and it is advisable to redo the assignment after you receive the feedback to make sure that you comprehend the learning outcomes and to prepare you for the examination.

Assignments are seen as part of the learning material for this module. As you do the assignment, study the reading texts, consult other resources, or do research (i.e. actively engage in learning), refer to the learning outcomes and assessment criteria given for each study unit in the study guide to determine what is required of you.

Refer to Annexures A, B and C for the assignment questions.

7 EXAMINATION

Examination admission will be granted to all students who submit their assignments before the due date. Students who do not submit at least one of the assignment will NOT be allowed to write the examination.

The provisional examination dates have been published at <https://my.unisa.ac.za>.

The examination for RSK3701 will be a 2-hour paper for 70 marks. Details of the composition of the examination will be provided in TL 201/202, which will be available on-line after the due dates of the assignments. A student must attain a mark of at least 40 per cent in order to qualify for admission to the supplementary examination. Details about the procedure and cost for the re-marking of examination scripts may be found on myUnisa (<https://my.unisa.ac.za>).

8 CONCLUSION

Do not hesitate to contact me by e-mail if you are experiencing problems with the content of this tutorial letter or with any academic aspect of the module.

I wish you a fascinating and satisfying journey through the learning material and trust that you will complete the module successfully.

Enjoy the journey!

Your lecturers

Mrs CJ de Swardt

Mrs Z Yousuf

DEPARTMENT OF FINANCE, RISK MANAGEMENT AND BANKING

ANNEXURE A: ASSIGNMENTS FOR SEMESTER 01

Please note: The compulsory assignments for semesters 01 and 02 differs.

ASSIGNMENT 01

Due date: 9 March 2018

Unique number: 853256

The purpose of this assignment is to test your knowledge and understanding of:

- Risk management
- The short-term insurance market
- The practice of underwriting
- Renewals
- Short term reinsurance practice
- Claims

Study the above chapters in the prescribed book together with the corresponding material in the Unisa study guide.

Answer the following questions and submit your assignment at <https://my.unisa.ac.za>

Question 1

Brokers ...

- 1 are considered to be professional insurance practitioners.
- 2 are paid a salary by the insurance companies they present.
- 3 are also sometimes called assessors.
- 4 are responsible for the settlement of claims.

Question 2

Adverse selection ...

- 1 can result in lower losses than expected.
- 2 is increased by introducing clauses such as a suicide clause.
- 3 refers to the tendency that people with lower probability of loss than the average seeking insurance.
- 4 is limited by introducing compulsory medical examinations when applying for policies.

Question 3

A motorcar accident is a typical example of a(n) ... risk.

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

Question 4

Lloyds ...

- a. has underwritten the voice of Bruce Springsteen.
- b. is an insurance company.
- c. operates worldwide.
- d. invented the term *underwriting*.

Choose the correct combination:

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

Question 5

A proposal form ...

- a. is an offer by the insurer to the insured.
- 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 b,c,d
- 2 a,c,d
- 3 a,b,d
- 4 a,b,c,d

Question 6

Consideration in terms of an insurance policy refers to the ...

- 1 payment of the insurance premium.
- 2 conditions of a policy.
- 3 terms and warranty specified in the policy.
- 4 extensions of the policy.

Question 7

In an insurance policy the cancellation clause will be reflected under the ...

- 1 policy schedule.
- 2 general conditions.
- 3 operative clause.
- 4 recital clause.

Question 8

In terms of a quota share treaty ...

- 1 risk is shared on a non-proportional basis between the cedant and reinsurer.
- 2 the share of the different parties involved in the agreement is expressed as a percentage.
- 3 only the amount of excess of the cedant's normal capacity for a particular risk is ceded to the reinsurers.
- 4 the cedant has a choice not to cede business and keep it for its own account.

Question 9

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 R80 000 under a R100 000 policy?

- 1 R60 000.
- 2 R80 000.
- 3 R32 000.
- 4 R48 000.

Question 10

In terms of an insurance policy ...

- 1 the operative clause in the insurance policy specifies the premium payable.
- 2 specific risks in each section are limited by the general conditions to the policy.
- 3 an insurer may repudiate a claim if a warranty contained in the policy has been breached.
- 4 the recital clause in the policy contains the name of the insurer and its head office address.

Question 11

An organisational chart may assist the risk manager in identifying ...

- 1 possible bottlenecks in the production process.
- 2 process type risks.
- 3 key staff members.
- 4 supplier risks.

Question 12

In terms of collective insurance ...

- a. only one policy document is issued.
- b. claims are handled by the lead insurer.
- c. the lead insurer is responsible to place cover elsewhere in cases where one of the companies that share in the policy is liquidated.
- d. a company who has a share on a collective policy may not quote against the lead insurer.

Choose the correct combination:

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

Question 13

A farmer insures his crop for R100 000. The value of the crop is R120 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 R 8 333,33
- 2 R 41 666,67
- 3 R100 000,00
- 4 R 50 000,00

Question 14

Examples of post-loss minimisation of losses include:

- a. Hiring of security guards to protect premises after a fire.
- b. Training in the use of dangerous substances.
- c. Activation of sprinkler systems with the outbreak of a fire.
- d. Fire drills.

Choose the correct combination:

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

Question 15

Indemnity in terms of insurance is enforced through the principles of:

- a. Subrogation.
- b. Average.
- c. Contribution.
- d. Insurable interest.

Choose the correct combination:

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

[15]

ASSIGNMENT 02 : SEMESTER 01

Due date: 23 March 2018

Unique number: 653133

The purpose of this assignment is to test your knowledge and understanding of:

- Risk management
- The short-term insurance market
- The practice of underwriting
- Renewals
- Short term reinsurance practice
- Claims procedures
- Regulation of the short term market
- Personal insurance policy
- Commercial insurance
- Motor insurance
- SASRIA, COID and miscellaneous covers
- Alternative Risk Financing

Study all the material in the study guide together with the corresponding material in the prescribed book.

Answer the following questions and submit your assignment at <https://my.unisa.ac.za>

This assignment contributes 50% towards your year mark.

Question 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 towards risk 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 A higher level of loss assumption based on working capital guidelines is possible.
- 2 The business is not in a good position to handle current liabilities.
- 3 The current ratio is indicative of an illiquid working capital position.
- 4 The ratios of the business are not favourable for a risk retention programme.

Question 2

Indicate the **correct** statements:

- a. The solvency margin of a company is the difference between assets and outstanding liabilities of a 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
- 2 a,b,c
- 3 a,c,d
- 4 a,b,c,d

Question 3

Under motor cycle insurance ...

- 1 cover for theft of accessories and spare parts of the motor cycle is provided if the motor cycle is stolen.
- 2 full cover for the motor cycle and passenger liability can be provided by adding a pillion passenger extension to the policy.
- 3 cover is provided for damages to the motor cycle if a passenger is being carried on the motor cycle.
- 4 the driver of a motor cycle is covered when driving his own as well as another motor cycle.

Question 4

Hull insurance ...

- 1 is only available to completed vessels.
- 2 covers vessels under navigation.
- 3 covers the vessel but not associated machinery.
- 4 excludes disbursements and collision liability.

Question 5

Business Asset All Risk policies ...

- 1 are normally standard wording policies.
- 2 are policies of exceptions.
- 3 are policies of exclusions.
- 4 provide limited cover.

Question 6

A Householders policy covers the content of a private dwelling but can also be extended to include ...

- a. cover for fire brigade charges.
- b. fixed sanitary ware against chipping and scratching.
- c. accidental damage to television sets and video cassette recorders.
- d. personal effects of guests.

Choose the correct combination:

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

Question 7

In terms of Business interruption insurance the additions basis to determine the annual gross profit of the insured is calculated as ...

- 1 net profit less standing charges.
- 2 turnover plus closing stock, less opening stock.
- 3 turnover plus standing charges.
- 4 net profit plus standing charges.

Question 8

Indicate the **correct** statement.

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

Question 9

Indicate the **correct** statement:

- 1 Limit of liability is used to indicate the amount of the financial loss covered by insurance where the amount of loss that could occur is known at the time the policy is issued.
- 2 In terms of marine insurance, the word average means to share the loss, and is used by insurers to combat underinsurance.
- 3 A special condition of average clause is used for fire insurance on stock where other policies may be in force, but covering more limited types of stock.
- 4 Sum insured is used to indicate the amount of the financial loss covered by insurance where the amount of loss that could occur is known at the time the policy is issued.

Question 10

In terms of Business Interruption Insurance standing charges ...

- 1 represents costs that will vary in accordance with the loss.
- 2 includes costs such as package and postage costs.
- 3 includes costs such as car leases and rent.
- 4 must be deducted from turnover when calculating the insured gross profit.

Question 11

Once the underwriting department has been notified that a claim has been settled, it could ...

- a. increase the no claim bonus.
- b. delete the lost item.
- c. reinstate the sum insured.
- d. conduct a post loss survey.

Choose the correct combination:

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

Question 12

Consider a policy with a R10 000 deductible and a recapture factor of 5%. Determine the amount of the deductible the insured would pay for a loss of R45 000.

- 1 R 8 250
- 2 R 2 250
- 3 R36 750
- 4 R10 000

Question 13

Finite risk insurance ...

- 1 is renewable on an annual basis.
- 2 has an aggregate limit of cover.
- 3 provides unlimited cover.
- 4 is less expensive than conventional insurance.

Question 14

Through Loss portfolio transfers ...

- a. loss portfolios can be ceded.
- b. mergers and acquisitions are complicated by old risks.
- c. costly and lengthy run-off activities pertaining to losses can be avoided.
- d. the balance sheet figures of the cedent can be improved.

Choose the correct combination:

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

Question 15

Capital market instruments include:

- a. Insurance derivatives
- b. Finite quota shares
- c. Retrospectively rated programmes
- d. Catastrophe bonds

Choose the correct combination:

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

[15]

ANNEXURE B: ASSIGNMENTS FOR SEMESTER 02

Please note: The compulsory assignments for semester 01 and 02 differs.

ASSIGNMENT 01

Due date: 31 July 2018

Unique number: 645059

The purpose of this assignment is to test your knowledge and understanding of:

- Risk management
- The short-term insurance market
- The practice of underwriting
- Renewals
- Short term reinsurance practice
- Claims

Study the above chapters in the prescribed book together with the corresponding material in the Module (MO001)

Answer the following questions and submit your assignment at <https://my.unisa.ac.za>

This assignment is compulsory for admission to the examination.

Question 1

An insurance agent ...

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

Question 2

A farmer insures his crop for R100 000. The value of the crop is R150 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 R 37 500,00
- 2 R 33 333,33
- 3 R 50 000,00
- 4 R100 000,00

Question 3

Indicate the **correct** statements.

- 1 Insurance contracts indemnify the insured in terms of money, services or both.
- 2 Pooling changes the nature of risk and hampers predictions.
- 3 Production flow charts are useful in identifying supplier risk.
- 4 Driver training is an example of post-loss minimisation technique.

Question 4

Self-insurance may result in ...

- a. a reduction in claims.
- b. premium discounts.
- c. less focused risk control programmes.
- d. a smaller statistical base for premium calculations.

Choose the correct combination:

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

Question 5

In terms of collective insurance ...

- a. only one policy document is issued.
- b. claims are handled by the lead insurer.
- c. the collective share of each insurer is reflected in the policy document.
- d. a company with a share in a collective policy may quote against the lead insurer.

Choose the correct combination:

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

Question 6

Indicate the **correct** statement.

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

Question 7

Indicate the **correct** statement:

- 1 The principle of indemnity applies to all insurance contracts.
- 2 Insurable interest enforces the principle of indemnity.
- 3 Insurance contracts are contracts of *uberrima fides*.
- 4 Insurable interest is not a requirement for taking out a life insurance policy on another person's life.

Question 8

Indicate the **correct** statement(s).

- a. Stamp duties are not payable on short term insurance policies.
- b. Consideration in terms of insurance policies is defined as the payment of the premium.
- c. The replacement of stolen assets with new assets is a violation of the principle of indemnity.
- d. Insurable interest is only required for short-term insurance policies.

Choose the correct combination:

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

Question 9

The policy schedule includes details of the:

- a. Period of the insurance.
- b. Special terms and conditions.
- c. First amount payable.
- d. Exceptions.

Choose the correct combination:

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

Question 10

Mr A insured his car 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. The value of the car at the time of the accident is R400 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 compensation payments.
- 2 Company X will be liable to pay R9 375 to Mr A.
- 3 Ex gratia payments may affect future claims payments.
- 4 The principle of contribution applies to ex gratia payments.

Question 11

Under a surplus reinsurance treaty ...

- 1 risk is shared on a proportional basis between the cedant and reinsurer.
- 2 the reinsurer is bound to accept a fixed proportion of every risk.
- 3 the share of the different parties involved in the agreement is expressed as a percentage.
- 4 the commission rate for the cedent is normally higher.

Question 12

Unemployment is an example of a (n) ... risk.

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

Question 13

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

Fire R20 000 000
 Loss of profits R20 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 facultative reinsurance of R20 000 000 will have to be placed.
- 2 the total net line is R2 000 000.
- 3 the gross retention is R30 000 000.
- 4 no facultative reinsurance is required.

Question 14

Insurable interest ...

- 1 must only exist at the time a life insurance policy claim is submitted.
- 2 is a requirement for wagering agreements.
- 3 must only exist at the time of issuing of a motor policy.
- 4 must exist at the time of a marine loss.

Question 15

Annual policies are ...

- 1 reviewed on a monthly basis.
- 2 immediately affected by changes in the underwriting philosophy of insurer.
- 3 most common to the personal lines markets.
- 4 quoted annually but paid in monthly instalments.

[15]

ASSIGNMENT 02 : SEMESTER 02

Due date: 14 August 2018

Unique number: 695378

The purpose of this assignment is to test your knowledge and understanding of:

- Risk management
- The short-term insurance market
- The practice of underwriting
- Renewals
- Short term reinsurance practice
- Claims procedures
- Regulation of the short term market
- Personal insurance policy
- Commercial insurance
- Motor insurance
- SASRIA, COID and miscellaneous covers
- Alternative Risk Financing

Study all the material in the study guide together with the corresponding material in the prescribed book.

Answer the following questions and submit your assignment at <https://my.unisa.ac.za>

This assignment contributes 50% towards your year mark.

Question 1

Proximate cause ...

- 1 refers to the final or last cause of a loss where more than one event contributes to the loss.
- 2 does not need to be an insured peril.
- 3 refers to the first or original cause of a loss where more than one cause/event contributes to the loss.
- 4 refers to the dominant cause of a loss.

Question 2

Indicate the **correct** statement:

- 1 Fidelity guarantee insurance only provides cover against theft of money by employees.
- 2 The premium of Fidelity guarantee insurance is based on the sum insured and the number of employees.
- 3 The level of hazard under Fidelity guarantee insurance is judged by the levels of control in a business.
- 4 Fidelity guarantee insurance is issued on a blanket basis, positions basis or named persons basis.

Question 3

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 All Risk insurance.
- 3 Money transported to and from the bank is covered under Money insurance.
- 4 Shoplifting is covered under theft insurance.

Question 4

Indicate the **correct** statement.

- 1 No age restrictions apply to Personal Accident cover.
- 2 Personal Accident policies provide cover for accidents and illnesses.
- 3 Temporary disablement due to an accident will not be covered under a Personal Accident policy.
- 4 Personal Accident policies are policies of compensation.

Question 5

A House Owners policy covers the buildings and outbuildings of a residence but can also be extended to include ...

- 1 swimming pool machinery against wear and tear.
- 2 fixed sanitary ware against chipping and scratching.
- 3 fixed television antennae against breakage.
- 4 accidental damage to television sets and video cassette recorders.

Question 6

Indicate the **correct** statement:

- 1 SASRIA cover risks in South Africa and Namibia.
- 2 The government is the sole shareholder of SASRIA.
- 3 The government has an unlimited liability towards SASRIA.
- 4 SASRIA is underwritten by the government.

Question 7

An excessive claim reserve will result in ...

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

Question 8

Indicate which of the following is likely to be covered in terms of Personal Accident policy.

- 1 A man murdered by thugs on his way home from work.
- 2 A man injured when picking up a heavy box.
- 3 A women dying six months after being diagnosed with malaria.
- 4 A worker sustaining lung cancer as a result of working in an asbestos plant.

Question 9

The following is/are exceptions in terms of liability covers in a domestic package:

- a Liability arising from conduct of business for reward.
- b Liability for the death of the policyholder.
- c Liability arising from the negligent use of a firearm.
- d Liability arising from the ownership of animals, other than domestic animals.

Choose the correct combination:

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

Question 10

Indicate the **correct** statement:

- 1 Litigation can only be used to resolve problems of quantum.
- 2 Ex gratia payments might affect future claim payments.
- 3 Contribution and subrogation do not apply to ex gratia payments.
- 4 Ex gratia payments are indemnity payments.

Question 11

A ship has an insurable value of R5 000 000 but is insured for only R4 000 000. The ship is damaged during a storm at sea. Damage amounts to R500 000. The insurer will be liable for ... of the loss.

- 1 no portion
- 2 R500 000
- 3 R250 000
- 4 R400 000

Question 12

Indicate the **correct** statement:

- 1 The cover provided by All Risk Insurance is also referred to as *property risks*.
- 2 A cricket bat broken during a match will not be covered under the All Risk section of a Personal Lines policy.
- 3 A radio system stolen from a locked motor vehicle will not 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 13

Motor traders internal policies ...

- 1 cover the insured's vehicles and vehicles in his/her custody against accidental damage.
- 2 provide cover for the insured's own vehicles against accidental damage.
- 3 are rated on a trade plate basis.
- 4 cover vehicles temporarily garaged in the course of a journey.

Question 14

Consider a policy with a R5000 straight deductible. Determine the amount that the insurer would pay for a loss of R12 000.

- 1 R7 000
- 2 R5 000
- 3 R12 000
- 4 The insurer will not be liable for any payment.

Question 15

Consider a policy with a R5000 deductible and a recapture factor of 5%. Determine the amount that the insurer would pay for a loss of R4 500.

- 1 R0
- 2 R4 500
- 3 R4 463
- 4 R4 250

ANNEXURE C: SELF-ASSESSMENT ASSIGNMENT

This assignment is for self-assessment purposes only and must not be submitted. Complete the assignment questions after studying all the material in the prescribed book and study guide. Pay special attention to the suggested solutions and guidelines to these questions that will be posted on the discussion form as the semester progresses. The solutions will also be included in Tutorial letter 202. Evaluate your answers using the guidelines provided. Keep in mind that written questions will contribute 30 marks in the examination.

The purpose of this assignment is to test your knowledge and understanding of:

- Risk management
- The short-term insurance market
- The practice of underwriting
- Renewals
- Short term reinsurance practice
- Claims procedures
- Regulation of the short term market
- Personal insurance policy
- Commercial insurance
- Motor insurance
- SASRIA, COID and miscellaneous covers
- Alternative Risk Financing

Question 1 (10 marks)

Indicate whether the following statements are true or false and provide a motivation for your answer.

- 1.1 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.
- 1.2 A company delivery goods overseas, will need marine insurance to cover possible losses of goods in transit.
- 1.3 In terms of a motor cycle insurance, the basic excess payable by the insured varies with the market value of the motor cycle.
- 1.4 Mr A insured his vehicle with ABC insurance company. Mr A is involved in a motor car accident caused by the negligence of a third party. The third party is not insured. In this case Mr A will be able to claim the amount of damages from his own insurer and the third party.
- 1.5 Under the personal liability section of his short-term policy, Mr A is insured against possible legal liability claims up to the value of R3 million. Mr A is found negligent after causing a motor car accident. The driver of the other car, who sustained serious injuries, sues Mr A and is awarded an amount of R3,2 million for damages and injuries sustained. In this case Mr A, in his personal capacity, will not be liable for any portion of the damages awarded to the third party.

Question 2 (5 marks)

Graphically illustrate the relationship between **severity and frequency** of losses and the **funding decision**.

Question 3 (5 marks)

You have insured your house for R2 000 000 with ABC Insurer. You transfer your bond to another bank and take out insurance on the house with DEF Insurer for R1 500 000. You do not cancel your insurance

with ABC Insurance Company. The actual value of your house is R2 000 000. A fire breaks out in your house causing damages of R500 000.

Determine the **amount payable** by each of the insurers. In your answer refer to the policy **condition(s)** that will apply to this particular claim.

Question 4 (5 marks)

Highlight the different **prescription periods** enforced in the handling of insurance claims.

Question 5 (5 marks)

Explain the impact of the **National Credit Act No 34 of 2005** on **insurance**.

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