RSK3702 Notes

In life Insurance companies, intermediaries and employees may find it uncomfortable when assessing risk-based judgement, risks are assessed in terms of …

a. mortality in permanent health insurance.

b. occupation and medical condition in personal accident insurance.

c. morbidity in life insurance.

d. medical condition and medical history in hospital and major medical insurance.

Choose the correct combination.

1. a,b,c,d

2. a,b,c

3. b,d

4. c,d

Risk are assessed mainly on the basis of:

- mortality in life insurance;
- morbidity in disability insurance;
- occupation and medical condition in personal accident insurance;
- medical condition and medical history in hospital and major medical insurance.

Restrictions to new policies that are issued in accordance to Part 4 of the Regulations to the Long Term Insurance Act include:

1. The minimum policy term must be 10 years.

2. Increases in premiums are limited to a maximum of 20% per annum.

3. It is not possible to have more than one life insured on a policy.

4. Policy holders are not allowed a loan against the policy in the first 5 years of the policy.

1. The minimum policy term must be 5 years (restriction period). Where a policy contradicts one of the roles explained here the minimum term to maturity must start again.

2. Life cover is not necessary. It is possible formed an insurer to issue pure endowment policies. Where the policy is a company owned policy it is not even necessary to nominate a token life insured.
3. It is possible to have more than one life insured on a policy. The policy may provide for the payment of benefits only on the death of the last dying.
4. One may substitute a life insured on a contract and delete the original life insured completely.
5. Policy owners are permitted 1 partial Surrender or loan against the policy during the first five years.
6. Increases in premiums are limited to a maximum of 20% per annum.
7. Payments of benefits other than as a result of a claim during the 5-year restriction period Are limited to the greater of the surrender value on a refund of contributions plus 5% interest.
8. Where a policy is fully surrendered during the restriction period the policy owner May only receive the total value of the policy if it does not exceed the value set out in point 7 above by more than R2500.
9. Benefits in terms of new policies can be paid during the restriction period if the claim is:
    a. A death claim
    b. Payment due on the birth of a child of the life insured;
    c. A disability claim; or
    d. A claim in terms of a health insurance policy.

10. The rules do not apply to any policy used to underwrite benefits available from:
    a. A pension provident or retirement annuity fund;
    b. a friendly society; or
    c. A benefit fund;

Provided that is the benefits stay in the fund and I'm not ceded to a member. Benefits can be ceded to another fund similar to the one that the funds are currently invested in

11. There is a definition of an annuity included in the legislation and provided the definition is abided by the rules do not apply to an annuity. The definition means:
    a. Payment must be made at intervals not exceeding 12 months
    b. At least one of the payment must be made in the 31 days before to the end of the restriction period; and
    c. Payments in 112 month period may not differ from the payments in the 12 months he immediately preceding by more than 20% unless as a result of fluctuations within a linked investment portfolio.

12. The Minister of Finance May amend at any time by regulations published in the Government Gazette:

    a. The interest rate of 5%

    b. The minimum period of five years

    c. The escalation factor of 20%; or

the number of loans or surrenders permitted in the restriction period which currently is 1 only.

Choose the **correct** statement

1. Policy loans approved by a life insurer are paid from the investment account of the policy.

2. The value of a policy loan granted will be limited to a percentage of the cash value of the policy.

3. No interest is charged on policy loans where the policy has a surrender value.

4. Policy loans are paid out with money retained in the reserve account of the life insurer.

A loan given by a life insurer is not taken directly out of the investment account of the policy that belongs to the policy owner. The life insurer will want the policy to be able to continue its growth and, in order to do so, the policy investment account needs to remain an integral part of the policy. The loan is, therefore, paid by the insurer from money retained in its reserve account. The surrender value of the policy is only used as security for the life insurer.

The following persons are disqualified from receiving a benefit from the will of the testator:

a. A person that attests and sign the will as witness.

b. The spouse of a person who signs the will on behalf of the testator.

c. The spouse of a person who writes the will in his/her own handwriting.

d. A person generally disqualified but declared by a court competent to receive a benefit.

Choose the correct combination:

1. a,b,c,d

2. a,b

3. a,b,c

4. a,c

The following persons shall be disqualified from receiving any benefit from the will.

a. Any person who attests and signs the will as a witness.

b. Any person who signs the will on behalf of the testator.

c. Any person who writes out the will (or any part thereof) in his own handwriting.

d. Any person who is the spouse of such person as mentioned in a, b or c above.

Indicate the **correct** statement:

1. A risk class as applies to life insurance is a group of insureds who present similar morbidity risk to the insurance company.

2. The standard life insurance risk class includes individuals with impairments that can be expected to shorten their life span.

3. Proper underwriting helps guard against anti-selection in life insurance.

4. The preferred life insurance risk class includes individuals whose anticipated mortality is regarded as average.

In addition to classifying individuals selected for insurance coverage according to the different degrees of risk they present to the insurer, underwriting helps guard against anti-selection. Anti-selection, or selection against the insurer, is the tendency of people who have a greater than average likelihood of loss, to be interested in obtaining or continuing life or health cover to a greater extent than others.

Mr A and Mr B are equal partners in a business. One of their concerns is the area of control over the interest or share in the business should one of them pass away. They both realise that it would be to their advantage to make arrangements for the continuation of the business while they both are still able to do so. One of the options they might consider is to …

1. establish a sinking fund.

2. enter into a buy and sell agreement.

3. purchase contingent liability insurance.

4. arrange key-person insurance.

Unless adequate provisions are made within a business entity, the death of any one of the parties involved creates major areas of concern for the survivors. The primary concern is in the area of the control over the deceased's interest or share in the enterprise.

It would be far simpler for all concerned if the sole proprietor, partners, members in the close corporation, or shareholders in a private company arranged for the continuity of their business entity while they were still able to do so. The most effective way of doing this is through a buy-and-sell agreement. In the case of a sole proprietor, the agreement can be with a valued employee, or even a competitor, as is sometimes found amongst pharmacists.

The most efficient way of funding any agreement reached, is to use life insurance policies on the lives of the people who are party to the agreement.

Enock took out a life policy while married to Ingreed. Enock nominated Ingreed as sole beneficiary of the policy. After ten (10) years of their marriage and three years of the inception of the policy they divorced. After the divorce Enock got married to Mahlako. Three years after marrying Mahlako, Enock died in a car accident. Enock's last will leaves his estate, including the life policy, to Mahlako. Enock forgot to change the beneficiary in the life policy.

Choose the correct statement

1. Ingreed will be able to claim the proceeds of the policy despite the conditions of the will.

2. Mahlako will be able to claim everything the proceeds of the estate and the proceeds of the life policy.

3. Ingreed will be able to claim proceeds from the estate in terms of the Surviving Spouses Act 27 of 1990.

4. Ingreed will not be able to claim from the estate or policy proceeds

Under what category would you classify credit life Insurance?

1. Whole life.

2. Term insurance.

3. Endowment insurance.

4. Universal life.

Decreasing term insurance is sometime sold under the name of “credit life insurance”.

The difference between medical schemes and health insurance is that:

1. Contributions to health insurance products plans are not taxable while contributions to medical aid schemes are all taxable.

2. Health insurance products pay the hospital for all the medical expenses while medical schemes pay the member.

3. Health insurance products are only for accidents sustained at work while medical schemes cover natural illnesses.

4. Health insurance products are underwritten on the applicants passed and current medical history, and the cover may be declined while Medical Schemes have very little scope to underwrite an applicant, and acceptance is compulsory.

Indicate the **correct** statement.

1. Where a polygamous man dies intestate, the first wife will inherit the estate.

2. A minor or mentally ill descendant is able to renounce his/her right to inherit.

3. Adopted children have a claim against the intestate estate of their natural parents.

4. The adopted parent has a claim against the intestate estate of his/her adopted child.

In a situation where an adopted child can only inherit from the intestate estate of an adopted parent, the adopted parent will also be considered to be an ancestor of the child and will be in a position to inherit from the intestate estate of an adopted child should that child die first.

A person whom the deceased has left a specific item or sum of money, as a specific mention in his/her will, is referred to as a ...

1. heir.

2. legatee.

3. testator.

4. descendant.

A **legatee** is a person to whom the deceased has left a specific item or items, or a sum of money, as a specific mention in his will.

Indicate the **incorrect** statement regarding contingent liability.

1. It is a personal surety that may be required to sign.

2. It is an alternative collateral security acceptable to the creditors.

3. It is a written agreement between the business and the director.

4. It is a plan which can only safeguard the estate of deceased director.

If an individual is worried about the possibility of a loss of earning ability and wants a policy that will supply him with a regular income until she/he reaches retirement age, which policy would you recommend?

1. Endowment.

2. Capital disability.

3. Income protection.

4. Dread disease cover.

The main purpose of doing an actuarial valuation of a life insurance company is to …

1. test the solvency of the life office.

2. determine the mix of premiums and products.

3. test the accuracy of the mortality tables used.

4. determine the profits of a life insurance company.

Another function of the actuarial department is the regular valuation of the company's assets and liabilities in order to test the solvency of the insurer. The official valuation performed in accordance with the provisions of the Long Term Insurance Act is seen as a test of an insurer's financial strength and ensures that the interests of its policyholders are safe-guarded.

Mqwathi wants to buy a life policy and is not certain whether or not to also buy the supplementary or risk benefits as part of the policy. Mqwathi is currently forty (40) years old and has been working as a truck driver for the last fifteen (15) years and is intending to retire at age sixty (60).

Explain five (5) supplementary benefits suitable for Mqwathi. (10 marks)

1. Accident benefits

2. Disability or health insurance benefits

(i) Capital disability benefits

(ii) Major medical expenses

(iii) Waiver of premium

(iv) Dread disease or critical illness

(v) Terminal illness benefits

(vi) Long-term care

(vii) Disability income benefits

3. Guaranteed insurability benefits

Mvundle has terminated a contract of employment and will be leaving next month. Mvundle heard that one can preserve the pension benefit until one reaches the time of retirement.

Explain the advantages which are enjoyed by a person who transfers from a pension or provident fund to an equivalent preservation fund. (10 marks)

- No tax liability on transfer
- one withdrawal from the preservation fund is permitted - either partially or total - prior to retirement age. A member transferring his benefits from a pension or provident fund to an equivalent preservation fund must, however, understand that the total value of benefits due must be transferred. A member who elects to withdraw from a retirement fund and take the benefits as a cash amount, will be able to receive a portion of any withdrawal benefit tax-free, although the sum is limited to an overall ceiling amount from all withdrawals. This tax free concession is currently R35 000. Members have taken advantage of this concession, and instructed the funds from which they have withdrawn that a lump sum amount should be paid to them and the balance transferred to a preservation fund. The revenue authorities

have indicated that this will be considered the one withdrawal from the preservation fund, and that no further withdrawal will be allowed;

- the cash withdrawals allowed in terms of Section 37D will be treated by the Receiver of Revenue as the one withdrawal and the member of the preservation fund will therefore not be allowed to make a further withdrawal until retirement. Where a sum is transferred to a non-member ex-spouse under a divorce agreement, the amount will not count as the member's one withdrawal.

Pure endowment policies…

1. are not suitable to persons who are uninsurable for health issues.

2. are issued on a with profit or without profit basis.

3. include life cover if the policy holder dies before the maturity date of the policy.

4. do not make provision for any investment growth.

Pure endowments are issued for a fixed period to provide a stipulated sum (with or without profits) on a certain date in the future (the maturity date) if the policyholder is still living on that date. The policy does not include life cover as such and, if the policyholder dies before the maturity date, the beneficiary will receive:

- A return of the premiums paid plus the value of any investment growth there might have been; or
- A fixed rate of interest on the premiums paid.

With an assistance business group life insurance scheme …

a. individual persons are the policy holders.

b. individual underwriting is done.

c. the policy has term cover only.

d. the policy may be cancelled by either party to the policy.

Choose the correct combination:

1. a,b,c,d

2. a,b,c

3. a,c,d

4. b,c

An assistance Business Group scheme means the provision of policy benefits under an assistance policy to a group where:

- Individual person's of the policyholders
- No individual underwriting takes place
- The individual person whose life is insured is directly or indirectly paying premiums
- The policy may be cancelled by either party to the policy; and
- The policy has term cover only

Morbidity tables ……..

1. refer to a person's death or chances of dying.

2. are used to calculate premiums for disability benefits the proposer might want.

3. used by life insurers are based on census statistics.

4. are not impacted by HIV/AIDS.

Morbidity is about a person's chances of being disabled. In the same way that the actuaries that work for or with life insurance companies have mortality tables that they can use to tell them what the chances are that a person of a certain age will die during the year, they also have morbidity tables that will tell them what that same person's chances are of being disabled. These morbidity tables can then be used to work out the premiums for any disability benefits that the proposer might want.

Under a defined benefit pension fund …

1. an open-ended contribution liability is carried by the employers.

2. the contributions of both the employer and employee are fixed in terms of the rules of the pension fund.

3. the employee bears the investment risk and administrative cost of the pension fund.

4. there is more flexibility about retirement ages.

Some of the important differences between defined contribution and defined benefit funds are that:

- defined contribution funds have an easily calculated member share of the fund;
- defined benefit funds allocate resources according to need. This leads to cross-subsidisation between the members, dependent on their ages;
- the accumulation of the value in savings account (defined contribution), is more easily appreciated than benefits based on concepts, which are more difficult to understand (defined benefit);
- defined contribution funds can be more flexible about retirement ages without the imposition of early retirement service penalties, since the method automatically has a penalty in that there is less time for benefits to accumulate;
- defined contribution funds tend to provide a stable contribution liability for employers, whereas defined benefit funds usually present an open-ended contribution liability to employers.

Choose the **correct** statement:

1. Any annuity arranged or paid by a pension fund is a compulsory annuity.

2. The gender of a person applying for a compulsory annuity will have no impact on the annuity the insurer is prepared to guarantee.

3. With an annuity certain, the annuity will cease if the annuitant dies within the stipulated period.

4. Indexed annuities are normally issued with a maximum annual interest to protect the investor against stock market crashes.

Defined contribution funds …

1. Are less flexible about retirement ages when compared to defined benefit funds.

2. Usually present an open-ended contribution liability to employers.

3. Have an easily calculated member share of the fund.

4. Lead to cross-subsidisation between members, dependent on their ages.

Some of the important differences between defined contribution and defined benefit funds are that:

- defined contribution funds have an easily calculated member share of the fund;
- defined benefit funds allocate resources according to need. This leads to cross-subsidisation between the members, dependent on their ages;

- the accumulation of the value in savings account (defined contribution), is more easily appreciated than benefits based on concepts, which are more difficult to understand (defined benefit);
- defined contribution funds can be more flexible about retirement ages without the imposition of early retirement service penalties, since the method automatically has a penalty in that there is less time for benefits to accumulate;
- defined contribution funds tend to provide a stable contribution liability for employers, whereas defined benefit funds usually present an open-ended contribution liability to employers.

Upon processing a death claim, the insurance company finds that the age had been misstated and never confirmed during the duration of the policy. Identify the action the insurer is likely to take.

1. Adjust the sum insured to the level supported by the premium and the real age.

2. Cancel the policy ab initio.

3. Refund all premiums received, together with a reasonable rate of interest.

4. Declare the policy void.

In common law stating an incorrect age in a proposal form would be a breach of warranty and would entitle the insurer to cancel the policy. The Long-Term Insurance Act, however, rules that the insurer can only adjust the sum insured and any other benefits to the level that can be supported by the premium when this is recalculated using the correct age of the insured.

Which of the following applies to Term Insurance:

1. The policy does not include life cover as such.

2. When the policy holder dies before the maturity date the premiums paid during the term of the policy while be returned plus a fixed rate of interest paid on the premiums paid.

3. The sum insured is only payable if death occurs within the specified term of the contract.

4. These policies have increased in popularity due to their investment value.

Term insurance is the simplest type of life insurance policy issued. The period of the policy is limited to a definite term and the sum insured is payable only if death occurs within that term. In a term contract there is no element of investment and the premium covers only current insurance protection and expenses.

Mortality tables are used to calculate the premium rates and indicate the…

1. probability of insured lives not surviving a given age.

2. number of people who will die this year.

3. chance of insured lives becoming ill.

4. number of people who have attained a given age.

The probability of when death will happen is set out in the mortality tables that the life insurers use, and forms the basis of the calculation of life premiums.

Indicate the **correct** statement.

1. The cash value of the policy is the current value of the investment account of the policy.

2. Where aggregated charging for expenses is used by a life insurer, there will be little difference between the cash and surrender value of the policy.

3. The cash value of the policy is the amount of money the policy holder will receive if he/she decides to cancel the policy.

4. Where expenses are upfront recovered by a life insurer, there will be quite a large difference between the cash and surrender value of the policy.

The cash value of the policy is the current value of the investment account of the policy. The policy holder will receive the surrender value if he/she decides to cancel the policy. The cash value is not a guaranteed amount. Where expenses are upfront recovered by a life insurer, there will be little difference between the cash and surrender value of the policy compared to where an aggregated charging for expenses is used where there will be quite a large difference between the cash and surrender value of the policy.

Most life insurers incorporate a "suicide clause" in the policy. This clause applies when …

1. the cause of death is AIDS.

2. the policy lapsed and has been reinstated.

3. the policy is an assistance insurance policy.

4. a claim occurs during the first two years of a policy.

Most life insurers incorporate a 'suicide clause' in the policy. This clause applies when the policy lapsed and has been reinstated. It normally applies when a claim occurs during the first one or two years of a policy. The suicide clause does not apply to an assistance insurance policy.

The guaranteed insurability benefit …

1. allows the purchase of additional insurance at all ages.

2. allows the purchase of unlimited supplemental insurance.

3. allows purchase of additional insurance without proof of insurability.

4. generally requires a physical examination before the policyholder is allowed to purchase additional insurance.

The guaranteed insurability benefit allow allows purchase of additional insurance without proof of insurability.

Indicate the **incorrect** statement regarding hospital cash plans exclusion.

1. Hospitalisation caused by the abuse of drugs or alcohol.

2. Hospital cash plans exclude any sexual transmitted diseases.

3. They normally apply where the period of hospitalisation is less than three days.

4. Pre-existing medical conditions will usually not be covered for two years after the commencement date

Indicate incorrect statement regarding Hospital cash plans exclusion the normally applies where the period of hospitalization is less than three days.

Indicate the **incorrect** statement.

1. The retirement annuity fund does not involve the employer.

2. A provident fund may pay the total value of the accumulated benefits out as a lump sum.

3. A pension fund may pay the total value of the accumulated benefits due to the member as a single lump sum.

4. A pension fund is usually set up by means of an agreement between an employer and employees.

An incorrect statement: a pension fund may pay the total value of the accumulated benefits due to the member as a single lump sum.

In terms of universal life policies

a. The investment account belongs to the insurer
b. The insurer recovers the cost of life, disability and trauma cover from the investment account on an annual basis
c. After the breakthrough point of the policy is reached, the cash value of the policy decreases more rapidly
d. The insured is allowed to change the life cover element of the policy at will

Choose the correct option:

1. A, b, c, d
2. B, d
3. A, b, d
4. B, c, d

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A member who is earning a salary of R18 000 per month and has 23 years' service is retiring at the age 60. The defined benefit fund allows 2% for every year of service. Should the member decide to take the maximum amount permitted as a lump sum on retirement his pension will be

1. R6304
2. R7630
3. R8280
4. R9200

Indicate the correct statement

1. Any annuity arranged or paid by a pension fund is a compulsory annuity
2. The gender of a person applying for a compulsory annuity will have no impact on the annuity the insurer is prepared to guarantee
3. With an annuity certain, the annuity will cease if the annuitant dies within the stipulated period
4. Indexed annuities are normally issued with a maximum annual interest to protect the investor against stock crashed

Restrictions to new policies that are issued is accordance to Part 4 of the Regulations to the Long Term Insurance Act include

a. The minimum policy term must be 5 years
b. Increases in premiums are limited to a maximum of 20% per annum
c. It is not allowed to have more than a one life insured on a policy
d. Policy holders are not allowed a loan against the policy in the first 5 years of the policy

Choose the correct combination

1. A, b, c, d
2. B, c, d
3. B, c
4. A, d

5. The minimum policy term must be 5 years (restriction period). Where a policy contradicts one of the roles explained here the minimum term to maturity must start again.
6. Life cover is not necessary. It is possible formed an insurer to issue pure endowment policies. Where the policy is a company owned policy it is not even necessary to nominate a token life insured.
7. It is possible to have more than one life insured on a policy. The policy may provide for the payment of benefits only on the death of the last dying.
8. One may substitute a life insured on a contract and delete the original life insured completely.
9. Policy owners are permitted 1 partial Surrender or loan against the policy during the first five years.
10. Increases in premiums are limited to a maximum of 20% per annum.
11. Payments of benefits other than as a result of a claim during the 5-year restriction period Are limited to the greater of the surrender value on a refund of contributions plus 5% interest.
12. Where a policy is fully surrendered during the restriction period the policy owner May only receive the total value of the policy if it does not exceed the value set out in point 7 above by more than R2500.
13. Benefits in terms of new policies can be paid during the restriction period if the claim is:
    a. A death claim
    b. Payment due on the birth of a child of the life insured;
    c. A disability claim; or
    d. A claim in terms of a health insurance policy.

14. The rules do not apply to any policy used to underwrite benefits available from:
    a. A pension provident or retirement annuity fund;
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Provided that is the benefits stay in the fund and I'm not ceded to a member. Benefits can be ceded to another fund similar to the one that the funds are currently invested in

15. There is a definition of an annuity included in the legislation and provided the definition is abided by the rules do not apply to an annuity. The definition means:
    a. Payment must be made at intervals not exceeding 12 months
    b. At least one of the payment must be made in the 31 days before to the end of the restriction period; and
    c. Payments in 112 month period may not differ from the payments in the 12 months he immediately preceding by more than 20% unless as a result of fluctuations within a linked investment portfolio.
16. The Minister of Finance May amend at any time by regulations published in the Government Gazette:
    a. The interest rate of 5%
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the number of loans or surrenders permitted in the restriction period which currently is 1 only.

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2. The standard life insurance risk class includes individuals with impairments that can be expected to shorten their life span
3. Proper underwriting helps guard against anti-selection in life insurance
4. The preferred life insurance risk class includes individuals whose anticipated mortality is regarded as average.

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Indicate the **correct** statement

1. Policy loans approved by a life insurer are paid from the investment account of the policy
2. The value of a policy loan granted will be limited to a percentage of the cash value of the policy
3. No interest is charged on policy loans where the policy has a surrender value
4. Policy loans are paid out with money retained in the reserve account of the life insurer

A loan given by a life insurer is not taken directly out of the investment account of the policy that belongs to the policy owner. The life insurer will want the policy to be able to continue its growth and, in order to do so, the policy investment account needs to remain an integral part of the policy. The loan is, therefore, paid by the insurer from money retained in its reserve account. The surrender value of the policy is only used as security for the life insurer.

Under a defined benefit pension fund

1. An open-ended contribution liability is carried by the employers
2. The contributions of both the employer and employee are fixed in terms of the rules of the pension fund
3. The employee bears the investment risk and administrative cost of the pension fund
4. Are more flexible about retirement ages

Mr Phulong and Phin B are equal partners in a business. One of their concerns is the area of control over the interest of shares in the business should one of them pass away. They both realise that it would be to their advantage to make arrangements for the continuation of the business while they both are still able to do so. One of the options they might consider is to

1. Establish a sinking fund
2. Enter into a buy and sell agreement
3. Purchase contingent liability insurance
4. Arrange key-person insurance

Unless adequate provisions are made within a business entity, the death of any one of the parties involved creates major areas of concern for the survivors. The primary concern is in the area of the control over the deceased’s interest or share in the enterprise.

It would be far simpler for all concerned if the sole proprietor, partners, members in the close corporation, or shareholders in a private company arranged for the continuity of their business entity while they were still able to do so. The most effective way of doing this is through a buy-and-sell agreement. In the case of a sole proprietor, the agreement can be with a valued employee, or even a competitor, as is sometimes found amongst pharmacists.

The most efficient way of funding any agreement reached, is to use life insurance policies on the lives of the people who are party to the agreement.

A person cannot be held liable in South Africa if he/she encourages another to kill him/herself

- True/False
- True - In South Africa suicide is not a crime. A person can also not be held liable if he encourages another to kill himself. However, the idea of suicide or the encouragement to commit suicide is against public policy. There is there for quite a lot of support for a limited suicide exclusion clause under a life policy.

Ubemma Fides is used to determine the validity of insurance contracts in South Africa

- True/False
- False - In the case of Commercial Insurance Co vs. Kern the court decided that- "The fundamental principle is that once the insured is deprived of his insurable interest in the insured car the policies is to have any validity".

The surrender value of a policy will be the current value of the investment account of the policy

- True/False
- False - The cash value of a policy will be the current value of the investment accounts of the policy. The surrender value of a policy is that amount of money that a policy owner will receive out of the investment account if he decides to cancel the policy

A pension fund may pay the total value of the accumulated benefits due to the member as single lump sum

- True/False
- False - A provident fund may pay the total value of the accumulated benefits due to the member as a single lump sum

In terms of the Term Insurance Act, claims occurring during the days of grace will have to be paid by the insurer

- True/False
- False - . Should the overdue premium be paid during the Days of Grace the insurer must continue the contract. If a claim occurs during these days of grace the insurer is entitled to deduct the unpaid premium from the claim amount. (Section 52(1)).

An insurer is not obliged to pay a life insurance claim when the insured is convicted of a crime for which he/she is executed

- True/False
- True - If the insurance policy is legally obtained but the insured is later convicted of a crime for which he is executed the insurer does not have to pay the claim.

Morbidity refers to the number of people who will die in the year of assessment

- True/False

False. Mortality refers to a person's death or chances of dying.

To include a third person as beneficiary in a policy the *stipu alten* is used to create a contract between the insurer and the third person

- True/False
- False - To include a third person as beneficiary and a policy we use the legal Maxim *stipulatio alteri*. The Proposal and the insurer agree with each other to pay the benefits of the policy to a third person. The *stipulatio alteri* itself creates no contract between the insurer and the third person until such time as the third person accepts the nomination as beneficiary.

Where there is a difference between the stipulations in a will and the nomination of a beneficiary on a life policy, the courts will favour the beneficiary nominated on the long term policy

- True/False
- True – where there is a difference between the stipulations of a will and the nomination of a beneficiary of a life policy, the courts will favour the beneficiary nomination of a Long-term policy

In terms of universal life policies, the investment account belongs to the insured

- True/False
- False - investment account belongs to the policy owner

Policy servicing in a life office involves a variety of functions and aspects. Briefly discuss the following issues. (10 marks)

1. Cash values
2. Surrender values
3. Automatic premium loans
4. Revival conditions
5. Policy loans

1. Cash values
    a. A policy owner can ask the life insurer at any time what the cash value of his/her policy is. The cash value will be the current value of the investment account of the policy.√
2. Surrender values

    a. The surrender value of a policy is that amount of money that a policy owner will receive out of the investment account if s/he decides to cancel the policy.√
3. 3. Automatic premium loans
    a. Where a policy has acquired a surrender value, the insurer will use this to keep the benefits going for as long as possible if the premiums are unpaid.√ (This is known as an Automatic Policy Loan [APL] or a Non-Forfeiture Allocation [NFA].) This will help the policy owner as s/he will be able to submit a claim even if the premiums are in arrears. √ However, when the surrender value of the policy "runs out" the policy will lapse and all benefits will be lost.
4. Revival conditions
    a. If the policy has lapsed the policy owner will have to re-apply for the insurance cover. Any medical evidence that the underwriters might ask for will have to be given to them by the life insured. Conditions such as the suicide clause will recommence from the date of revival. The life insurer also has the right to refuse to renew the policy.√
5. Policy Loans
    a. To help policy owners through tough times insurers offer loans against the security of most policies. The value of the loan will be limited to a percentage between 80% and 95% of the surrender value of the policy. √The loan and any interest that has been added to its value will be subtracted from the value of any claim that is due when the policy matures or becomes a claim.√

Mr Masufi applied for a life insurance policy on 1 April 2015. He signed and submitted all documents to his broker and submitted a cash premium with the proposal. He requested the inception data of the policy to be 1 May 2015. On 10 April 2015 on his way from Centurion Mr Masufi was killed in a motorcar accident. At the time of the accident the policy document was still in the procession of the broker.

In terms of the aforementioned scenario discuss five circumstances under which a claim will be considered for Masufi. (5 marks)

- all documents were already in the life insurer's possession. For this purpose documentation in the hands of a marketer or broker will also be considered as being in the hands of the life insurer; and
- the risk would have been accepted based on the information in the proposal documentation; or
- the proposer or insured accepted the terms expressly or by implication, for example, by paying an extra amount for an increased premium, or by permission for a loading before terms were known, if the risk was acceptable in terms other than ordinary rates;
- a cash premium was submitted with the proposal, and there was no request for the inception date to be later than the first of the following month;
- death occurred during the month preceding the inception date; or
- premiums were to be paid by debit order or stop-order, and the ability to pay can be established beyond reasonable doubt.

Mr Lennie 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. Mr Lennie and his wife (Martie) 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 Lennie 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 divorced terminated any insurable interest that had existed between the member and his former spouse. In the presence of an insurable interest, the insurer will be liable to pay as insurable interest did exist at the commencement of the contract and need not to be proven at claims stage.

Briefly discuss eight (8) examples of insurable interest considered by Lennie as a member of a group life scheme. (15 marks)

1. On the insured own life

2. On the life of the spouse

3. On the life of the fiancée.

4. On the life of a relative

5. Creditor on the live of debtor

2.2.2

In order to qualify for social grants by government, the applicant must pass a means test. As part of the means test all the applicant's assets, excluding his/her house, is taken into account at market value. Money earned from growing crops and /or livestock is also taken into account when calculating whether a person is entitled to a full or partial grant. Money earned from any kind of work, after contributions to unemployment insurance, medical aid, a staff retirement fund and tax is take off, will also be taken into account. Where the income of the applicant's spouse is a pension or other grant, that pension or grant will not be counted as income received by the applicant.

Describe five (5) special grants payable under the Social Assistance Act 1992. (10 marks)

(a) Old age grants

Payable to men and women who are 60 years of age and older, all whom will be subject to the means test before their grants are approved. (R1 500 per month as from 2016 - add R20 for persons over 75.)

(b) Grant-in-aid allowance

If the physical or mental condition of a person who is getting a social grant is so bad that he needs to be looked after all the time an additional amount per month may be paid. When this extra allowance is applied for a medical certificate must be sent with the application. R350 per month as from 2016)

(c) War veterans

Anyone who was in any military, naval or air service during the wars that South Africans have fought in can apply for a war veteran grant when they reach the age of 60 years or older if they are unable to maintain themselves because of a mental or physical disability caused by the wars.

All people that apply will have to qualify with the means test. The war veteran's grant is slightly larger than the amount received as a normal social grant. War veterans applying for their grant must submit their discharge certificates. (R1 520 per month as from 2016)

(d) Disabled persons

The grants are paid to people who are 18 and older, who are disabled for six months and more who cannot support themselves because of the nature of their disability. R1 500 per month as from 2016)

(e) Foster child

Persons who act as foster parents for children who have been taken away from their parents for their own safety or children who have been orphaned and need special care that cannot be provided by an orphanage (for example, new-born babies) can claim a special social grant for every child in their foster care. The appointment as a foster parent must be ratified in court and the foster parent will have to qualify for the grant in terms of the means test. (R890 per month as from 2016)

(f) Child support

A primary caregiver who cares for a child or children (up to a maximum of six children) who are under the age of eighteen can apply for a special child-support grant. (R350 per month as from 2016)

(g) Care dependency grant

For persons who take care of a child who has a severe disability and is in need of full-time and special care. The care dependency grant covers disabled children from birth until they turn 18. (R1 500 per month as from 2016)

The risks are assessed in terms of

a. Morbidity in life insurance

b. Mortality in permanent health insurance
c. Occupation and medical condition in personal accident insurance
d. Medical condition and medical history in hospital and medical insurance

Choose the **correct** combination

1. B, d
2. C, d
3. A, b, c
4. A, b, c, d

Risk are assessed mainly on the basis of:

- mortality in life insurance;
- morbidity in disability insurance;
- occupation and medical condition in personal accident insurance; and
- medical condition and medical history in hospital and major medical insurance.

Indicate the **correct** statement

1. The main reason of reinsurance is to stabilise financial results through the reduction of fluctuations in claims
2. Facultative reinsurer **agree** to accept, all amount in excess of a certain retention limit
3. Reinsurer does not protect an accumulation of claims from one source
4. Treaty reinsurance is obliged (reinsure) in the event where there is no automatic cover provided by the reinsurer

The main reasons for reinsurance are:

- protection against large losses which may be unaffordable, or at least highly unattractive;
- Stabilisation of financial results through the reduction of fluctuations in claims;
- protection against an accumulation of claims from one source, or a series of related sources;
- to assist with the financing of new business strain;
- to allow the pooling of certain classes of risk from around the market, which may allow such risks to be more favourably underwritten than if they were left to the individual direct insurers; and
- other specialist services offered by the reinsurers.

A non-fatal heart attack, requiring heart surgery but with a “full” recover will constitute a high claim in terms of the supplementary benefit of a life insurance policy if that benefit is a __________ benefit.

1. Dread disease
2. Double accident
3. Capital disability
4. Waiver of premium

Also known as “Critical Illness Benefits”, “Trauma Benefits”, “Special Drawing Rights” or “Living Benefits”, these policies provide for the payment of a lump sum in the event of an insured suffering a disabling health event as defined in the policy. Here, disability is not defined in the traditional “Own”, “Own and Similar” or “Any” way. It is defined as having occurred if the insured suffers for example, heart attack, stroke, cardiovascular disease, cancer or other debilitating experience, whether or not such experience causes permanent or temporary disability. In most cases, dread disease benefits are sold as supplemental to a basic term, endowment or whole life policy and provide for a portion of the sum insured under such basic policy to be “accelerated” and paid on the occurrence of the defined event, such accelerated amount being deducted from the sum insured in the event of any future death or maturity claim.

In terms of the Association of Saving and Investment of South Africa (ASISA) Human Immunodeficiency Virus (HIV) testing protocol

1. Testing is only compulsory for life cover above R200 000
2. All applicants for life insurance must undergo HIV testing
3. An HIV test is not compulsory for life insurance applicants
4. Positive results must not be recorded in the ASISA registry

Question 13 assignment 1

Competition is an important aspect to be considered by the underwriter. Completion will ensure that the policy

a. Is equitable
b. Delivery is prompt
c. Provides benefits that meets the needs of the buyer
d. Premium is much lower than that of the competition

Choose the **correct** combination

1. A, b, c, d
2. A, b
3. A, b, c
4. A, c

Waiting for references (6.3 textbook)

An absolute cession of a life insurance policy is used under which one of the following circumstances?

1. In a partnership buy and sell agreement
2. When taking a bond for a house with a bank
3. When an education policy is taken out
4. When wife needs protection against insolvency of her spouse

Need to find reference

Indicate the **correct** statement

1. Proper underwriting helps guard against anti-selection in life insurance
2. The preferred life insurance risk class includes individuals whose anticipated mortality is regarded as average.
3. The standard life insurance risk class includes individuals with impairments that can be expected to shorten their lifespan
4. A risk class as it applies to life insurance is a group of insureds who present similar morbidity risk to the insurance company

In addition to classifying individuals selected for insurance coverage according to the different degrees of risk they present to the insurer, underwriting helps guard against anti-selection. Anti-selection, or selection against the insurer, is the tendency of people who have a greater than average likelihood of loss, to be interested in obtaining or continuing life or health cover to a greater extent than others.

Mr Enock is married tin Ingrid, he took out a life insurance policy where he nominated Ingrid as the sole beneficiary of the policy. They divorced after four years and he (Enock) remarried Mahlako. Three years after the marriage Mr Enock died in a car accident. In his last will he left his estate, including the life policy to Mahlako. However, he neglected to change the beneficiary of his life policy.

Indicate the **correct** statement

1. Ingrid will not be able to claim from the estate or policy proceeds
2. Ingrid will be able to claim the proceeds of the policy despite the conditions of the will
3. Mahlako will be able to claim the proceeds of the estate, including the proceeds of the life policy.
4. Ingrid will be able to claim proceeds from the estate in terms of the Surviving Spouses Act 27 of 1990

The following persons are disqualified from receiving a benefit form the will of the testator

a. A person that attests and signs the will as a witness
b. A person who writes the will in his/her own handwriting
c. The spouse of the person who signs the will on behalf of the testator

d. A person generally disqualified but declared by a court competent to receive a benefit

Choose the **correct** combination

1. B, c, d
2. A, b, c
3. A, b, c, d
4. A, c

The following persons shall be disqualified from receiving any benefit from the will.

e. Any person who attests and signs the will as a witness.

f. Any person who signs the will on behalf of the testator.

g. Any person who writes out the will (or any part thereof) in his own handwriting.

h. Any person who is the spouse of such person as mentioned in a, b or c above.

Lenny and Miranda advised as follows from their financial advisor. They have decided (Lenny and Miranda) to make a lump sum investment on the life of their first child (Busi). At the age of 5, Busi suffers from a rare disease and dies. The investment has grown to R60 000 over the five years. Initial premium was R25 000. What is the maximum amount claimable at this stage?

1. R10 000
2. R30 000
3. R35 000
4. R60 000

Andrew was married to two wives (Mavis and Nnana) in South Africa. He recently died in a car accident on his way from work. As a polygamous dies intestate, Mavis will inherit the estate as the first wife

- True/False
- False – where a man in a polygamous marriage dies intestate, each of his wives will inherit an equal shares

Aggregate recovery of initial costs is when the insurer settles his costs first before paying premiums into the investment account of the policyholder

- True/False
- False - The premium charged on a term insurance policy are worked out in such a way that the life insurer will only be fully repaid when the policy ends. This means that there will, in fact, never be any extra money to pay into an investment account. This is one of the reasons why term insurance policies do not build up any cash values.

A person cannot be held liable in South Africa if he/she encourages another to kill him/herself

- True/False
- True - In South Africa suicide is not a crime. A person can also not be held liable if he encourages another to kill himself. However, the idea of suicide or the encouragement to commit suicide is against public policy. There is there for quite a lot of support for a limited suicide exclusion clause under a life policy.

Risk Classes used by life insurers can be grouped as standard, substandard, preferred and non-smoker

- True/False
- True - The different risk classes used by life insurance companies can generally be grouped as the standard, substandard, preferred and non-smoker classes.

In terms of Part 4 of the Regulations to the Long Term Insurance Act, the minimum policy term must be two years and it is possible to have more than one life insured on a policy

- True/False
- False - The minimum policy term must be 5 years (restriction period). Where a policy contradicts one of the roles explained here the minimum term to maturity must start again

An insurer is not obliged to pay a life insurance claim when the insured is convicted of a crime for which he/she is executed

- True/False
- True - If the insurance policy is illegally obtained but the insured is later convicted of a crime for which he is executed the insurer does not have to pay the claim.

Under an revocable nomination of the beneficiaries, the beneficiary requires full rights the moment nomination is accepted in writing

- True/False
- False – 2.9.3

A legatee is a person to whom a deceased has left a certain item or sum of money, as specifically mentioned in his/her will

- True/False
- True - A legatee is a person to whom the deceased has left a specific item or items, or a sum of money, as a specific mention in his will.

A pension fund may pay the total value of the accumulated benefits due to the member as single lump sum

- True/False
- False - A provident fund may pay the total value of the accumulated benefits due to the member as a single lump sum.

The reasonable man test is used in life insurance to test the materiality of a fact

- True/False
- False - The principle of '*uberrima fides'* (utmost good faith) applies to any proposal for insurance, but the test of the validity of the contract will be determined by the 'reasonable man test'. The test is not what the reasonable man would regard as a reasonable fact, but whether the reasonable man would believe that the information should have been disclosed.

Eric Mashilo was a resident of South Africa. He applied for life insurance, and based on his contract, duration should begin on the commencement date as reflected in his policy. Eric paid the first premium as the normal deduction was made. However, he was accidently shot and killed at his house during a robbery and died on his way to hospital. Discuss what circumstances should be considered for Eric's policy to come into effect (force). (10 marks)

- all documents were already in the life insurer's possession. For this purpose documentation in the hands of a marketer or broker will also be considered as being in the hands of the life insurer; and
- the risk would have been accepted based on the information in the proposal documentation; or
- the proposer or insured accepted the terms expressly or by implication, for example, by paying an extra amount for an increased premium, or by permission for a loading before terms were known, if the risk was acceptable in terms other than ordinary rates;
- a cash premium was submitted with the proposal, and there was no request for the inception date to be later than the first of the following month;
- death occurred during the month preceding the inception date; or

- premiums were to be paid by debit order or stop-order, and the ability to pay can be established beyond reasonable doubt.

There are “big four” severe illnesses (cancer, coronary artery graft (CABG), heart attack and stroke) which account for up to 90% of all dread disease claims in South Africa and internationally. Cross-subsidisation under medical schemes is a common field used to overcome the problem of escalating costs.

1. Describe what cross-subsidisation is, and discuss four main components used to eliminate (reduce) cross-subsidisation. (5 marks)

Cross-subsidisation is the practice of charging higher prices to one group of consumers to subsidize lower prices for another group.

There are four main components of the move to reduce cross-subsidisation. They are:

- using underwriting to equate the premium and the risk more closely;
- adopting a structure which allows for class groupings - by age, sex, occupation;
- making use of medical savings accounts or similar devices to curtail the overall fund’s share of some risks; and
- allowing a drift of good lives into low-priced schemes and others into schemes priced according to risk profile.

2. Describe what pre-funding is and discuss the importance of pre-funding before or/and after retirements. (5 marks)

The rapid escalation of healthcare costs, after normal retirement due to the increased usage as well as the medical cost inflation rate, has resulted in several attempts at creating funding mechanisms to cover these costs through contributions made during the working years.

The importance of pre funding will before retirement is to link medical service during working years for.

Mrs Shirley knows that the new machinery that she has recently bought will need to be replaced in five years’ time. She has asked you for a solution to raise the required capital. Explain the option of a sinking fund and how it works to your client by giving examples. (5 marks)

It is accounting policy to depreciate capital asset at a fixed a fixed amount each year for their lifespan, to ensure that enough funds are available to replace these assets, cash amounts equal to the dep. charges must be invested in a sinking fund

The annual depreciation charge is matched with an annual payment into a pure endowment policy for a term of at least 5 years. Because there is not life cover on a pure endowment the company will not be able to deduct the premiums and therefore the proceeds will be tax free eh received by the company at maturity.

In accordance with the condition stipulated in Part 4 of the Regulations to the Long Term Insurance Act, there is also no need for a policy to have a life insured if there is no life cover included in the policy. The company, therefore, owns the policy as an asset, and no outside influences, like the death of the nominated life insured under a historic policy, will affect the date of maturity.

Sinking funds, in addition to replacing capital assets, are the ideal way for a company to save for employee bonus schemes. Duly authorised body corporates can also make use of sinking funds to fund repair and maintenance costs.

The risk classes can be established, using available statistics on mortality, a life company actuary will be able to establish a number of different categories or risk classes to accommodate the varying degree of risk presented by groups of individual applicants. Briefly discuss four different risk classes used by life insurance companies. (5 marks)

The different risk classes used by life insurance companies can generally be grouped as the standard, substandard, preferred and non-smoker classes.

- The standard class includes individuals whose anticipated mortality is regarded as average.
- There are usually several substandard classes that include individuals with impairments, any aspect of their health, occupation, avocation or lifestyle that can be expected to shorten their lifespan.
- The non-smoker class uses only one factor - whether an individual smokes, usually cigarettes, to determine whether that individual is a better-than-average mortality risk.
- The preferred class, on the other hand, is based on many factors in addition to whether the applicant smokes.

Distinguish five differences between a defined contribution and a defined benefits fund by using the table below. (10 marks)

Defined Contribution	**Defined benefits**

Some of the important differences between defined contribution and defined benefit funds are that:

- defined contribution funds have an easily calculated member share of the fund;
- defined benefit funds allocate resources according to need. This leads to cross-subsidisation between the members, dependent on their ages;
- the accumulation of the value in savings account (defined contribution), is more easily appreciated than benefits based on concepts, which are more difficult to understand (defined benefit);
- defined contribution funds can be more flexible about retirement ages without the imposition of early retirement service penalties, since the method automatically has a penalty in that there is less time for benefits to accumulate;
- defined contribution funds tend to provide a stable contribution liability for employers, whereas defined benefit funds usually present an open-ended contribution liability to employers.

In terms of a voluntary-purchase annuity

a. The value of the annuity can be obtained from the insurer
b. There is no need for annuity to be permanent
c. It has one very important implication for the annuitant as it must be for the rest of his life
d. Subject to certain conditions, the capital repayment portion of the annuity will be tax-exempt

Choose the **correct** combination

1. A, b, c, d
2. B, d
3. A, b, d
4. B, c, d

There are some implications that differ with a voluntary purchase annuity:

- there is no need for the annuity to be permanent; and
- subject to certain conditions, the capital repayment portion of the annuity will be tax exempt.

Jan is employed permanently by Ramosedi Holdings and is entitled to a salary of R500 000 per year. Jan takes out life cover for R1 000 000 on the life of Ramosedi (employer). The cover is equivalent to the value of the three years contact that he has with Ramosedi. From an insurable interest point of view, this policy is valid

1. On Jan's own life
2. On the life of Jan

3. On the life of Ramosedi
4. Creditor on the life of a debtor

Employees on their employers

An employee who has a contract for a fixed number of years at an agreed salary has an insurable interest in the life of his employer equal to the value of his future salary.

Which one of the following benefits provide for the regular payment or release of a portion of the total sum insured where long-term treatment or care is required to take place in a registered nursing home or equivalent?

1. Terminal illness benefits
2. Dread-disease benefits
3. Disability income benefits
4. Long-term care (LTC) or frail-care benefits

Long Term Care (LTC) or Frail Care Benefits

Usually provide for the regular payment or release of a portion of the total sum insured where long term treatment or care is required to take place in a registered nursing home or equivalent.

Lobisa is a single man and will turn 26 this year. He does not have any dependents and group coverage. He drives a polo vivo to work every day. Which one of the following supplementary benefits should be added to his current individual insurance plan?

1. Accidental death and dismemberment
2. Accidental death and waiver of premium
3. Disability insurance benefits and guaranteed annuity
4. Term insurance and waiver of premium

An insurer is not obliged to pay a life insurance claim when the insured

1. Commits suicide
2. Is murdered
3. Is killed while performing military service
4. Is convicted of a crime for which he or she is executed

The following persons are disqualified from receiving a benefit from the will of the testator

a. A person that attests and signs the will as a witness

b. The spouse of the person who signs the will on behalf of the testator
c. A person who writes the will in his/her own handwriting
d. A person generally disqualified but declared by a court competent to receive a benefit

Choose the **correct** combination

1. B, c, d
2. A, b, c
3. A, b, c, d
4. A, c

The following persons shall be disqualified from receiving any benefit from the will.

a. Any person who attests and signs the will as a witness.
b. Any person who signs the will on behalf of the testator.
c. Any person who writes out the will (or any part thereof) in his own handwriting.
d. Any person who is the spouse of such person as mentioned in a, b or c above.

Sean is a smoker and travels frequently in South Africa for athletics. In the past two years he has been arrested for speeding. He drinks a glass of wine per week at social events. Sean is looking to buy life insurance. It is important to consider selection process to accept the principle of life insured, to contribute his fair share toward the risk involved. Which one of the following risk classes is applicable to Sean's policy?

1. Travel risk classes
2. Preferred classes
3. Substandard classes
4. Non-smoker classes

- There are usually several substandard classes that include individuals with impairments, any aspect of their health, occupation, avocation or lifestyle that can be expected to shorten their lifespan.

The principle of *ubemma fides* (utmost good faith) applies to any proposal for insurance whereas the test for the validity of the contract is determined by the reasonable-man test. This includes the divulgence of material facts/information. In life insurance material facts would include the

1. Lapse of a previous policy due to non-payment of premiums
2. Rejection of a policy application by another life insurer
3. Retrenchment by a former employer
4. Fact that he/she is going bald

The principle of '*uberrima fides'* (utmost good faith) applies to any proposal for insurance, but the test of the validity of the contract will be determined by the 'reasonable man test'. This includes the divulgence of material facts/information. In life insurance material facts would include, amongst others, the declinature of a policy application by another life insurer. The lapsing of a previous policy due to non-payment of premiums, retrenchment by a former employer and the fact that the proposer is going bald are not considered material facts.

The difference between medical schemes and hospital insurance is that

1. Contributions to hospital cash plans are taxable whereas contribution to medical schemes are not
2. Hospital cash plans pay the hospital for all medical expenses whereas medical schemes pay the member
3. Hospital cash plans are only for accidents sustained at work whereas medical schemes cover natural illnesses
4. Medical schemes fall under the Medical Schemes Act whereas hospital cash plans fall under the Short-Term Insurance Act

Check 103

Upon processing a death claim, the insurance company finds that the age had been misstated and never confirmed during the duration of the policy. The insurer is entitled to declare the policy void on the basis of misstatement of information and to refund all premiums received, together with a reasonable rate of interest.

- True/False
- False - In common law stating an incorrect age in a proposal form would be a breach of warranty and would entitle the insurer to cancel the policy. The Long-Term Insurance Act, however, rules that the insurer can only adjust the sum insured and any other benefits to the level that can be supported by the premium when this is recalculated using the correct age of the insured.

Under a universal life policy, the cost of the life cover has to be calculated monthly because the mortality tables that are used give monthly probabilities.

- True/False
- False

3.2.1

The validity of a life insurance contract is based on the principle of *caveat emptor*

- True/False
- False - for there to be a basis for the establishment of a valid life insurance contract between the proposer and the insurer there are a number of areas where agreement must have been reached. The proposer and the insurer must have agreed on:
    - the proven identity of the insured person;
    - the risk that has been insured against such as life cover only or with supplementary benefits;
    - the amount for which the insurer will be at risk or sum insured;
    - the value of the premium due by the policy owner in terms of the contract; and
    - the period of the insurance or the term of the contract
    - Caveat emptor means “let the buyer beware”. The terms and conditions offered by the seller are either queried when you buy, or else you accept that they are true and correct. There can be no comeback, unless the seller gives you some form of warranty. (when you buy chips at a shop for example)

Underwriting manuals are considered the absolute authority on medical underwriting.

- True/False
- False

Although the underwriting manual has a significant place in the underwriting function, the manual should not be used as an absolute authority for several reasons:

- when the underwriters are faced with a combination of different impairment, they must have a sound medical knowledge in order to be able to determine whether the combination of risk factors greatly increases the risk, such as smoking and cancer, as cigarettes are known to be carcinogenic. However with the combination of cancer and obesity, obesity does not have a direct impact on cancer;
- the task of keeping an underwriting manual up to date is formidable and time consuming, especially in light of the rapid pace of medical advances, and information in such manuals if often dated and, reflects the experience from risks accepted at least five years;
- manuals generally reflect the anticipated extra mortality for age 25 or 30 through to 55 or 60. Therefore, to assess a risk on either side of these age limits requires some modification of the manual’s suggested ratings.

Simon has a R500 000 whole life insurance policy that includes R100 000 dread disease benefit. He recently suffered a stroke that has left him almost fully paralysed. Provided that he survived at least 30 days following the stroke, he can apply to receive the dread disease benefit of R100 000

- True/False
- True – In most cases, dread disease benefits are sold as supplemental to a basic term, endowment or whole life policy and provide for a portion of the sum insured under such basic policy to be “accelerated” and paid on the occurrence of the defined event, such accelerated amount being deducted from the sum insured in the event of any further death or maturity claim

Under a revocable nomination of the beneficiaries, the beneficiary requires full rights the moment nomination is accepted in writing

- True/False
- False – Under an **irrecoverable** beneficiary clause, your beneficiary acquires full rights the moment he/she accepts the nomination in writing.

If at claims stage an insurer discovers that a person who was a financial manager died while working as a miner, the insurer will be justified to repudiate a claim on the basis that this was a material fact that required disclosure.

- True/False
- True - An insurer has the right to repudiate a claim if the proposer misrepresented or failed to mention a material fact. It is assumed that the proposer is in possession of all the facts on which the insurer’s liability will be based. In general, failure to provide all relevant information and applying the principle of the utmost good faith enables the prejudiced party to repudiate the validity of the contract.

Tom just submitted a death claim for both his father’s individual universal life and group life policies. He would like to know if the death benefits are taxable. The death benefit for an individual is always tax-free. If the employer paid the group life premium portion, the premium would not be added to Tom’s income and the death benefit is tax-free too.

- True/False
- False - The policy is owned by the employer paid for by the employer is to receive the benefit. If there is a collateral (security) cession on the policy then the premiums May still be claimed as a deduction unless the cession is in favour of the life insured, his relatives or dependents.

Most South African life policies have a suicide clause which states that a death claim as a result of suicide during the first 12 months of the contract will be repudiated.

- True/False
- False - Most SA life policies have a suicide clause which states that a death claim as a result of suicide during the first 24 months of the contact will be repudiated. Special consideration should therefore be given to claims where it appears that the cause of death is suicide.

Paul took out a life insurance policy while married to Cynthia. He nominated her as sole beneficiary of the policy. They divorced and he remarried Nelly. Three years into his second marriage Paul dies in a car accident. In his last will he leaves his estate, including the life policy, to Nelly. However, he neglected to change the beneficiary of his life policy. In this scenario Cynthia will be able to claim the proceeds of the policy despite the conditions of the will. Where there is a difference between the stipulations of a will and the nomination of a beneficiary in a life policy, the court will favour the beneficiary nomination of a long-term policy

1. In light of the above-mentioned scenario, describe the beneficiaries applicable to the scenario and also indicate whether you agree or disagree with the statement. Give reasons for your decision. (5 marks)
    a. Agree
        i. In South African law one person in a contract can promise the other person that he will award some benefit to a third person who is not part of the contract. √
        ii. The contract between the insurer and insured does not give any rights to the third person, she gets those rights only by accepting the benefit when it is offered to her. √
        iii. The beneficiary under life policy is only nominated to receive the proceeds of the policy when they become due. √
        iv. Rodgers may be either the insured himself or his estate, or third person who was not included in the insured's contract with the insurer. √
        v. We cannot presume that married person who takes out a policy, intends to benefit his spouse and/or children, where there is no nomination of the beneficiary, the proceeds will not be paid to a surviving spouse and/or child. The proceeds will have to go into the estate. √
        vi. The insured is alive a policy payable to himself or to his estate is an asset owned by him, it is his right to dispose of it as a legacy in his will. √
        vii. The policy can be taken by creditors and will become the property of his trustees if he were to declare insolvent. √

2. How are contributions to a medical scheme treated relative to income tax? (5 marks)

Properly structured and registered medical schemes fell into the category of benefit funds and contributions to a medical aid or a medical scheme specifically set up and registered as a medical aid in accordance with the Medical Schemes Act, were (and still are) tax deductible.

In accordance with Section 18 of the Income Tax Act:

1. Any taxpayer, who is a natural person, is allowed to deduct from his income expenses of a medical nature

Moses is a member of life insured aged 28 and married to Salome. After three years they got divorced. Since the divorce, papers have been issued. Moses has been living with this pain after his wife left two months after the divorce. After a period of three months of divorce Moses was found dead in his car with a gunshot wound. The investigation reveals that he planned the time and place for a suicide several times after divorce, stated that he cannot live anymore with his emotional plan. Moses has been sober until the suicide committed.

1. Describe the general policy applicable to Moses' claims as the insured member. (5 mark)
2. Explain whether a claim will be considered 20 months after the reinstatement of a policy if the cause of death was suicide. (5 marks)

When more life insurance is required, it has become common practice to alter a universal policy rather than contracting a new policy. Explain how the universal concept allows this trend to continue and expand. (10 marks)

The significant difference between the investment linked whole life or endowment contracts and the so-called Universal Life contract lies in the fact that the Universal Life policy owner may "unbundle" the component parts of the product (i.e. the allocation amounts and decreasing term insurance). A policy owner May select his own mix thereof as a proportion of the total premium paid. this mix can be changed such as the example, once the need for life cover has reduced after a dependence have become self-supporting, the proportion of life cover in the contract can be reduced in favour of an increase in the investment allocation amount. This would have the effect of increasing the cash value that will accrue to the policy owner on later maturity or encashment of the contract.

Universal Life contracts are therefore similar to traditional linked whole life and endowment products in their construction and operation, save that the advent of computers, it has become possible for every contract issued by the insurer to be individually tailored, administered and changed in light of the changing needs of each person injured.

In order to facilitate this flexibility, Universal Life products usually do not maintain a fixed rate of decrease in the decreasing term insurance component of the product. Instead, the amount of decreasing term insurance required to make up the difference between the total net value of the funds held (I.e. allocation amount plus growth to date) and the selected sum insured is purchased by the insurer every month. As will be clear from the illustration below, the amount of term insurance purchased by each period can both reduce and increase according to the Investment performance.

Universal Life contracts usually also maintain a separate" memorandum-type" account in which a record is kept of the expenditures and killed in terms of the contract as it progresses overtime. These expenditures are accumulated with interest and are set off against the value of the allocation amounts and growth thereon until fully expunged. An example of the next result as shown in the illustration Below and produces a similar results to traditional length whole life and endowment contracts but with the possibility of greater administrative flexibility. However, in many cases this greater flexibility create a less certain to him for the insured as Universal Life contracts often include provisions that permits the insurer to review its premium rates and benefits in the light of the actual expense, mortality and investment experience of this product class.

Life insurance companies assess risks in terms of

a. Mortality is permanent health insurance
b. Occupation and medical condition in personal accident insurance
c. Morbidity in life insurance
d. Medical condition and medical history in hospital and medical insurance

Choose the correct combination

1. A, b, c, d
2. A, b, c
3. B, d
4. C, d

Risk are assessed mainly on the basis of:

- mortality in life insurance;
- morbidity in disability insurance;
- occupation and medical condition in personal accident insurance;
- medical condition and medical history in hospital and major medical insurance.

In which category would you classify credit life insurance?

1. Whole life

2. Term
3. Endowment
4. Universal life

Decreasing term insurance is sometime sold under the name of “credit life insurance”.

The difference between medical schemes and health insurance is that

1. Contribution to hospital cash plans are taxable while contributions to medical schemes are not
2. Hospital cash plans pay the hospital for all the medical expenses while medical schemes pay the member
3. Hospital cash plans are only for accidents sustained at work while medical schemes cover natural illnesses
4. Medical schemes fall under the Medical Schemes Act while hospital cash plans fall under the Long- and Short-term Insurance Acts

Competition is an important aspect to be considered by the underwriter. Competition will ensure that the policy

a. is equitable
b. provides benefits that meets the need of the buyer
c. delivery is prompt
d. premium is much lower than that of the competition

Choose the **correct** combination

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

In making underwriting decisions and assigning proposed insureds to the appropriate risk classes, the underwriter’s objectives are to approve and issue a policy that is:

- equitable to the client;
- deliverable by the intermediary; and
- profitability to the company.

Indicate the correct statement

1. Any annuity arranged or paid by a pension fund is a voluntary annuity

2. The gender of a person applying for a compulsory annuity will have no impact on the annuity the insurer is prepared to guarantee
3. With an annuity certain, the annuity will cease if the annuitant dies within the stipulated period
4. Indexed annuities are normally issued with a minimum annual interest to protect the investor against stock crashed

With the exception of second-hand policy, persons do not need to declare the proceeds of life insurance policies for the purpose of the payment of capital gain tax

- True/False
- True - As a result of policies being taxed in the hands of insurers before they are paid out, persons need no declare the proceeds of insurance policies for the purposes of the payment of any capital gains tax.
  Note that this does not, however, apply in the case of a second-hand policy where the proceeds will have to be declared as a capital gain or a capital loss.

Where an insurer uses aggregated charging to charge for expenses, there is usually very little difference between the cash and surrender value of a policy, especially if the policy is still fairly new

- True/False
- False - Where expenses are upfront recovered by a life insurer, there will be little difference between the cash and surrender value of the policy compared to where an aggregated charging for expenses is used where there will be quite a large difference between the cash and surrender value of the policy.

Contingent liability insurance secures the personal estate of the deceased director who may have signed person sureties

- True/False
- True - Setting up a contingent liability plan can safeguard, not only the estate of a deceased director, or member of a close corporation, but also the business against financial hardship, should he personal guarantor pass away suddenly.

The nomination of a beneficiary is automatically revoked if the policy is ceded to a third party

- True/False

A foster child grant is provided to a primary care giver who cares for a child or children who are under the age of 18

- True/False
- False - Foster child -Persons who act as foster parents for children who have been taken away from their parents for their own safety or children who have been orphaned and need special care that cannot be provided by an orphanage (for example, new-born babies) can claim a special social grant for every child in their foster care. The appointment as a foster parent must be ratified in court and the foster parent will have to qualify for the grant in terms of the means test. (R890 per month as from 2016)

  Child support
  A primary caregiver who cares for a child or children (up to a maximum of six children) who are under the age of eighteen can apply for a special child-support grant. (R350 per month as from 2016)

Living benefits policies provide for the payment of a lump sum to an insured who is suffering a disabling health event as defined in the policy

- True/False
- True - Also known as “Critical Illness Benefits”, “Trauma Benefits”, “Special Drawing Rights” or “Living Benefits”, these policies provide for the payment of a lump sum in the event of an insured suffering a disabling health event as defined in the policy.

The reserve value of a policy is the amount which at any point in time is made up of the premiums and interest received to date, less expenses

- True/False
- True - the reserve value of a policy is the amount which at any point in time is made up of premiums and interest received to date, less claims and expenses, or the amount which is expected to cover the excess of claims and expenses over premiums and interest in the future.

Annuity investments are most certainly beneficial to the investor, especially with regard to short-term investments

- True/False
- False - Annuity Investments are most certainly beneficial to the investor especially with regard to long term investments so that during their working years the money keeps growing in a totally tax free environment and after retirement, the investor can avail of the benefit of periodic and definite income which can sustain his lifestyle and various other financial requirements to a great extent.

A pension fund may pay the total accumulated benefit to a member as a lump sum on retirement where the accumulated benefit is under the statutory minimum

- True/False
- True - A pension fund on the other hand, is not allowed to pay more than ⅓ rd of the accumulated value due to the member as a lump sum on retirement. It is only where the value of the accumulated benefit is under a statutory minimum that the lump sum may be paid out as a single amount.

It is the responsibility of the claims assessor to check if that insurable interest exists at the inception of the contract

- True/False
- False - It is the responsibility of the underwriter to check that insurable interest exists at the inception of the contract.

Discuss the various devices which are used to overcome the escalating costs of healthcare (14 marks)

Various devices have been tried to overcome escalating costs, due to over-servicing. Some of the main methods are outlined below.

Copayment

This is when the patient is held responsible for a set percentage of each medical bill. Studies in the USA by the Rand Corporation have shown that this system is pretty effective in limiting costs, while not having a serious impact on the quality of the healthcare through patients opting not to go for the appropriate attention.

Medical Savings Accounts

The individual contributes towards a fund from which medical expenses are paid but, as the fund is owned by the individual, there is a direct responsibility and motivation to limit the claims.

Experience has shown that this approach has much the same success rate as the co-payment scheme, although practically it is only used in conjunction with some form of full insurance of the more major medical entualities, which the personal fund could not pay.

Clinical guidelines and professional education

This method seeks to achieve to appropriate level of service through a combination of patient education, and service provider guidelines, which serve to create a more realistic level of understanding of the practical balance in the decision about treatment. It has been found to be more successful in situations where there is considerable variation in the quality of service providers.

Utilisation review

This is a method of control in which a qualified third party checks the level of service being applied either:

- before the service is actually provided; or
- as a form of case management during the overall treatment process; or
- as a retrospective control, partly in the form of an audit of the bill

Capitation

With the capitation system the service provider is contracted to provide the service for a flat fee and is hence encouraged to find the most suitable balance between cost saving and effectiveness - the latter will include the potential for a prolonged period before recovery is complete which would normally add to the overall costs.

The effect of the capitation system has been shown to be relatively successful and some schemes include some form of bonus or incentive scheme package to further control delivery decisions.

Service bundling

This is really compromise between full fee-for-service and capitation in that it bundles a range of services to be provided at a fee. A complication which arises in practice is where referrals are made to providers outside of the agreement, which result in added costs being incurred by the patient outside of the prepaid bundle.

Networks

In their extreme form, these are Mutual Health Organisations (MHO’s) or Preferred Providers Organisations (PPO’s), in that they work along the lines of a selection of various providers, restricting the member’s choice to boost volumes to the selected providers within the network in return for price advantages without sacrificing service levels. The capitation system of payment is sometimes used.

Discuss the general functions of the life insurance underwriter (10 marks)

The general function of an underwriter includes:

- the continuous acquisition, evaluation and indexing of information from various publications which could be of underwriting significance;
- the formulation and, where necessary, amendment of underwriting rules and the consistent enforcement of these;
- the design and/or adaption of application forms and other documents relating to ascertaining the applicant's state of health;
- the processing and examination of individual application for insurance in order to arrive at a sound underwriting decision;
- the establishment and maintenance of close contact with company management agency staff and the claims and actuarial departments.

Mr Tata is the chief executive officer of More Life Insurance Company, a newly formed life insurance office in South Africa. Mr Tata does not want the company to make underwriting losses and has informed the staff in underwriting, claims and accounting about the following loss preventing controls which are monitored on a weekly basis.

Control one

All policies with an outstanding premium should be cancelled immediately and the insured be informed accordingly within 25 days of such non-receipt

- **State whether you agree with this measure or not a provide a brief motivation for your answer** (7 marks)

I do not agree

When a debit order is in operation and a premium request is returned unpaid by the bank, the outstanding premium will usually be paid out of the investment account, and the policy will continue as if premiums had never been in arrears. Policy claims that arise during this period will be considered as usual.

Should a policy, however, reach a stage where no further funds are available in the investment account to pay the premium, the policy will enter a state of lapse and no claims will be considered. The lapse will, however, be dated from the date on which the last premium was paid.

This automatic non-forfeiture process will not apply to policies that have not yet built up sufficient funds in their investment accounts. Policy owners can determine whether their policies have funds in their investment account by establishing whether the policy has a surrender value or not. A surrender value is an indication that the policy's investment account has a positive balance.

Control two

Provide new clients with a two percent (2%) discount of premiums of the rate table submitted to the Registrar of Insurance

- **State whether you agree with this measure or not and provide a brief motivation for your answer** (6 marks)

Control three

Charge a thirty percent (30%) increase in premiums per annum

- **State whether you agree with this measure or not and provide a brief motivation for your answer** (3 marks)

Morbidity rates

1. refers to a person's death or chances of dying
2. are used to calculate premiums for disability benefits the proposer might want
3. used by life insurers are based on census statistics
4. are not impacted by HIV/AIDS

Mortality refers to a person's death or chances of dying.

Indicate the **correct** statement

1. Any annuity arranged or paid by a pension fund is a voluntary annuity
2. The gender of a person applying for a compulsory annuity will have no impact on the annuity the insurer is prepared to guarantee
3. With an annuity certain, the annuity will cease if the annuitant dies within the stipulated period
4. Indexed annuities are normally issued with a minimum annual interest to protect the investor against stock crashed

Where an insurer uses aggregated charging to charge for expenses there is usually very little difference between the cash and surrender value of a policy

- True/False
- False - . Where expenses are upfront recovered by a life insurer, there will be little difference between the cash and surrender value of the policy compared to where an aggregated charging for expenses is used where there will be quite a large difference between the cash and surrender value of the policy.

Retrospective underwriting is done at the reinstatement of a lapsed policy

- True/False

Mortality refers to the number of people who will die in the year of assessment

- True/False
- False – Mortality refers to a person's death or chances of dying

A legatee is a person whom a deceased has left a certain item or sum of money, as specific mentioned in his/her will

- True/False
- True – a legatee is a person to whom the deceased has left a specific item or items, or a sum of money, as a specific mention in his/her will.

The validity of a life insurance contract is based on the principle of *uberrima fides*

- True/False
- False - The principle of 'uberrima fides' (utmost good faith) applies to any proposal for insurance, but the test of the validity of the contract will be determined by the 'reasonable man test'.

Explain how sinking funds can be used to provide sufficient capital to replace old machinery. (5 marks)

Sinking funds (Capital asset replacement plan)

Unlike land and buildings, plant, machinery, motor vehicles, office equipment, are wasting assets with a limited time-span usage. Because of this, it is accounting policy to depreciate capital assets at a fixed amount each year for their expected life span.

The depreciation of these assets reflects the estimated annual cost of wear and tear, and is tax deductible in determining the company's taxable income which is gross income less deduction, upon which tax is assessed. In practice these assets may still be capable of functioning reasonably effectively. Although depreciation is a cost, the charging of it does not involve any cash outlay.

The ensure that enough funds are available to replace these assets, cash amounts equal to the depreciation charge must be invested in a sinking fund, usually provided through use of a pure endowment policy.

How is this done?

The annual depreciation charge is matched with an annual payment into a pure endowment policy for a term of at least 5 years. Because there is not life cover on a pure endowment the company will not be able to deduct the premiums and therefore the proceeds will be tax free eh received by the company at maturity.

In accordance with the condition stipulated in Part 4 of the Regulations to the Long Term Insurance Act, there is also no need for a policy to have a life insured if there is no life cover included in the policy. The company, therefore, owns the policy as an asset, and no outside influences, like the death of the nominated life insured under a historic policy, will affect the date of maturity.

Sinking funds, in addition to replacing capital assets, are the ideal way for a company to save for employee bonus schemes. Duly authorised body corporates can also make use of sinking funds to fund repair and maintenance costs.

List **five circumstances** under which a claim will be considered if the life insured dies before the date on which cover commences (5 marks)

If the life insured dies before the date on which cover commences, the claim will sometimes be considered if:

- all documents were already in the life insurer's possession. For this purpose documentation in the hands of a marketer or broker will also be considered as being in the hands of the life insurer; and
- the risk would have been accepted based on the information in the proposal documentation; or
- the proposer or insured accepted the terms expressly or by implication, for example, by paying an extra amount for an increased premium, or by permission for a loading before terms were known, if the risk was acceptable in terms other than ordinary rates;

- a cash premium was submitted with the proposal, and there was no request for the inception date to be later than the first of the following month;
- death occurred during the month preceding the inception date; or
- premiums were to be paid by debit order or stop-order, and the ability to pay can be established beyond reasonable doubt.

Explain whether a claim submitted 20 months after reinstatement of a policy will be considered if the **cause of death was suicide** (5 marks)

- The non-permanent suicide clause stipulate that no claim will be admitted if suicide is committed within the set period of months of the date of the letter in which notice is given that the policy has been accepted or reinstated. √
- Policies that are reinstated without proof of good health, with or without the exclusion of claims, will be subjected to the suicide clause only to the extent to which the original period still applies. √
- Policies that are reinstated with proof of good health, are again made subject to a suicide clause from the date of reinstatement (date later). √
- In order to ensure uniformity, most life offices work with calendar months, where a calendar month begins on the date of the above mentioned letter and ends on the same day on the day of the following month. (weekends, public holidays and leap years therefore do not affect the period of the month) √
- Most life insurers used to impose a suicide clause as a results of which a death claim as a results of suicide during the first 24 months of the contract will automatically be repudiated. √
- It is widely believed that it is a fundamental principle of insurance law that an insured cannot receive a benefit if, by his own deliberate act, he causes the event insured against.(supported by the Judgement of lord Atkin and Lord MacMillan in the leading case of Beresford vs. Royal Insurance Co. Ltd (1938). These judges considered that the ruler preventing payment was not that of public policy, but a fundamental implied term of the contract "a man cannot by his own act cause the event on which the insurance money is payable". √
- The above principle does not apply if the life insured commits suicide whilst insane, as it can be said he does not have the mental capacity to appreciate what s/he is doing. √
- If the policy contains a suicide clause then the position depends on the wording of the clause. Many offices include a clause such as:
  "If the suicide life insured shall commit suicide within twelve months from the date of the policy all benefits which otherwise have become payable shall be forfeited and belong to the insurer". √

List the three **Marital Regimes** in South African Law and **briefly explain any two of the three** (5 marks)

There are 3 different Marital Regimes in South African Law which are:

- marriages in community of property;
    - As a general rule it can be said that all marriages entered into in terms of common law, create communal property and are therefore in community of property. Unless the parties to a marriage specifically request an ante nuptial contract, they are married in community of property.
    - This means that on the termination of the marriage, either by death or divorce, the joint estate shared equally between the parties, irrespective of the value of their respective contributions to the estate.
- marriages with an ante nuptial contract - which are out of community of property; and
    - An Antenuptial Contract is a legal document which is drawn up and signed with an attorney and registered at the Deeds Office before two parties are named. If the parties intend not to be married in community or property, then this contract must be agreed before they marry.
- marriages with an antenuptial contract including an accrual.
    - The Matrimonial Property Act 88 of 1984 brought into being the accrual system which allows for the sharing of assets, but allowing each party in the marriage to retain their contractual independence and separate estate.
    - Under the accrual system, should the marriage dissolve, the value of the assets of both estates are combined and split between the parties as follows:
        - each party retains their own original estate; and
        - at dissolution each estate is calculated separately. The monetary value of the smaller estate is subtracted from the larger estate and the difference is split equally.

Describe the **factors** that need to be considered when an actuary does a valuation of a life insurer and supply **reasons** why the valuation needs to be done in the first place (10 marks)

To do a valuation, the actuarial department works out the value of the insurer's assets and liabilities. The official valuation that must be done regularly is a ruling of the Insurance Act. it is seen as a test of an insurer's financial strength and protection of the interests of the policy owners.

The results of the valuation (valuation report) must be sent to the Registrar of Insurance. The Registrar can ask for a valuation at any time. Life offices often carry out an internal valuation more frequently.

When doing a valuation the following play a special role:

- The rate of mortality that the insurer has experienced in the past and what it estimates will be experienced in the future; and
- The average rate of interest (investment returns) it has earned in the past on its assets, and what it estimates it will earn in future; and
- Expenses of running the business of the long term insurer.

Purpose of a valuation

Actuarial liabilities are defined as the policy reserves an insurer should have in order to hold the present value of future benefits it will be called upon to pay to its policyholders, when claims arise.

The main reasons for carrying out a valuation is to test the solvency of a life office - especially if there is any doubt about its financial standing. The official valuation performed in accordance with the provisions of the Long Term Insurance Act is a test of an insurer's financial strength. This, therefore, ensures that the interests of its policyholders are self-guarded.

The second reason for carrying out a valuation is to determine the amount of surplus funds available for:

- Distribution to policyholders by way of bonuses;
- To shareholders by way of dividends; or
- To the company's reserve funds to be held against future contingencies.

The value of assets are compared to the value of actuarial and other liabilities and the excess is the surplus available for distribution.

Thirdly, a valuation must be done if two or more insurers are planning to amalgamate or if any part of an insurer's business is to be transferred to another insurer. A valuation is necessary to settle the terms under which the merger or transfer is to be made. The valuation basis in this instance may well be different to that employed in either of the above circumstances.

Finally, a valuation must be done to test the effect of new premiums and products.

List and briefly explain the **information** the claims assessor must verify before the process of assessing the claim can be started (10 marks)

One of the first procedures to be followed by the claims staff upon receiving a claim against a policy, is to verify all information relevant to the policy contract. This includes calling up the file and checking the information provided at the inception of the contract with the information provided with the claims documentation.

This is not “underwriting at claims stage”. The aim and objective is merely to verify information and to check that no non-disclosure of a material fact that could have affected the assessment of the risk occurred.

8.1.1 Insurable interest

Insurable interest can be defined as the legal right to insure and means that the proposer must have an actual, recognised relationship with the person to be insured, as a result of which he would suffer a financial loss if the event being insured against occurs.

It is the responsibility of the underwriter to check that insurable interest exists at the inception of the contract.

Should it however, appear to the claims clerk when a claim arises that insurable interest was accepted during the proposal stage based on false information, the claim must be very carefully assessed. If it is found that the false information provided would have had a material influence on the decision to accept the proposal, or not to accept the proposal by the underwriter, the claims clerk should recommend to the claims committee that rejection of the claim be considered.

8.1.2 Personal particulars

Verification of personal particulars is only necessary in those areas where incorrect information provided at inception would have had a bearing on the underwriting of the proposal. Information such as name, postal address and nominated beneficiary, whilst important, would probably not have led to the underwriter imposing a loading or rejecting the proposal. The personal particulars dealt with below could well have led to such a decision.

Age and Gender

Where these have not been confirmed they need to be at claims stage.

Smoking habits

There is a significant difference in rates for smokers and non-smokers. It is therefore essential to check that anti-selection did not take place. Unfortunately it is very difficult to obtain proof that the information provided during proposal was incorrect, and only in cases where irrefutable evidence can be found, is it possible that the values be adjusted.

Occupation

Only in cases where conclusive proof is found that incorrect information was provided intentionally in order to obtain better benefits or rates, will recalculation be done or, in extreme cases, repudiation of the claim be recommended.

Part-time activities

The claims clerk should check to see whether incorrect information was provided internationally at the proposal stage in order to obtain better benefits or rates. Where this is the case it is likely that repudiation of the claim should be recommended.

Health aspects

Where a policy has been reinstated within the last 12 months it is imperative that all aspects of the insured's health be checked and verified. The reason for this is the possible non-disclosure of a deterioration of the health of the insured in the declaration of continued good health that was required at the time of reinstatement.

It is also advisable that the insured's health be checked and verified if the period before maturity of the policy is greater than the periods indicated here:

- for death claims - 5 years;
- for disability claims - 10 years;
- for dread disease claims - 10 years;
- for accident benefit claims - not required unless there is a suspicion that the insured may have suffered from some ailment that may have resulted in the accident, such as epilepsy.

The reason for this is that the claim has resulted in the insured falling outside the averages used by the actuaries in determining the premiums to be charged. As the norm is no longer applicable to the insured the reason for this should be established, where possible. This is not to say that the claim is invalid. The claims assessor does, however, owe it to the insurer and the other policyholders to investigate all situations that do not conform to expected standards.

The claims assessor should request a medical report from the insured's personal medical attendant (PMA) or any other doctor or institution that may possibly be in possession of information.

Where any claim results from unnatural causes, the medical report will not be necessary. It is however important to still check for false claims.

Should there be a suspicion that information has been concealed cases will be checked in the usual way.

Where a client's portfolio contains policies for which a medical report is not required, the finalisation of these claims will not be delayed.

If it comes to light that concealment was an issue under policies that have already been paid out, the benefits paid are very seldom reclaimed unless everything points to fraud being the sole intention. The decision to litigate on the repayment of the claim is a decision usually made by the executive committee of the life insurer. The investigation of the information provided at inception must be carefully checked to ensure that claims are fairly dealt with.

AIDS exclusion clauses

Life insurers will usually decline to accept a person who is already HIV positive. However, they will not decline a pay a claim where the life insured contracted AIDS after the policy was issued.

Note the earlier mention of the fact that no ASISA member office may use HIV/AIDS exclusion clauses for claims under new business, nor may they enforce any exclusion that may previously have been imposed in older policies for basic life and disability benefits. The claims assessor must always check for an HIV-positive status if any risk benefits were subject to AIDS clauses.

There are a few specially designed policies in the market which can be sold to HIV positive people, the rates being suitably loaded to cope with the reduced lifespan expectations. AIDS is also sometimes listed as a dread disease for policies with this kind of cover.

Where a policy has been in force for longer than 10 years and information regarding AIDS cannot be obtained from the available medical documentation, the PMA report is usually waived if this is the only way of obtaining this information. The benefits of the doubts is then granted to the insured, and the claim is paid on the assumption that the deceased was HIV-positive at claims stage but not at application stage.

Themba was married to Ntombie for 15 years. As part of their financial planning, they both took life insurance cover on each other for R5 Million. In the passage of time, they divorced Themba decided to move on with life and remarried. Ten years later, Themba passed away. Assuming that Ntobmie has continued with the premium payments on the policy for Themb's life, state whether Ntombie would successfully claim from the life insurer.

1. No, she cannot since she no longer has insurable interest in Themba's life
2. Yes, because she continued paying premiums consistently over the policy period
3. Yes, since she has insurable interest when the policy commenced
4. No, since Themba had a new wife who was entitled to the benefits of the policy

Following advice from their financial advisor, Dumi and Sarah decided to take a lump sum investment on the life of their child (Noble). At age 5 Noble suffers from a rare disease and dies. The investment had grown to R60 000 over the five years. Initial premium was R25 000. The maximum amount claimable is

1. R30 000
2. R10 000
3. R25 000
4. R60 000

Indicate the **correct** statement regarding annuities

1. Any annuity arranged or paid by a pension fund or retirement annuity fund is voluntary
2. Gender does not affect the compulsory annuity that the insurer is prepared to guarantee
3. With an annuity certain, the annuity will cease if the annuitant dies within the stipulated period
4. Indexed annuities are normally issued with a minimum annual interest to protect the investor.

The difference between medical schemes and hospital insurance lies in that

1. Contributions to hospital cash plans are taxable while contributions to medical schemes are not
2. Hospital cash plans pay the hospital for all the medical expenses while medical schemes pay the member
3. Hospital cash plans are only for accidents sustained at work while medical schemes cover natural illnesses
4. Medical schemes fall under the Medical Schemes Act while hospital cash plans fall under the Short Term insurance Act

In terms of the ASISA HIV testing protocol….

1. all applicants for life insurance must undergo HIV testing
2. it is not compulsory for life insurance applicants to test for HIV
3. testing is only compulsory for life cover above R200 000
4. positive results must not be recorded in the ASISA registry

Mr G and Mr Z are equal partners in a business. One of their concerns is the area of control over the interest or share in the business should one of them pass away. They both realise that it would be to their advantage to make arrangements for the continuation of the business while they both are still able to do so. One of the options they might consider is to

1. establish a sinking fund
2. enter into a buy and sell agreement
3. purchase contingent liability insurance
4. arrange key-person insurance

Unless adequate provisions are made within a business entity, the death of any one of the parties involved creates major areas of concern for the survivors. The primary concern is in the area of the control over the deceased's interest or share in the enterprise.

It would be far simpler for all concerned if the sole proprietor, partners, members in the close corporation, or shareholders in a private company arranged for the continuity of their business entity while they were still able to do so. The most effective way of doing this is through a buy-and-sell agreement. In the case of a sole proprietor, the agreement can be with a valued employee, or even a competitor, as is sometimes found amongst pharmacists.

The most efficient way of funding any agreement reached, is to use life insurance policies on the lives of the people who are party to the agreement.

Anti-selection is a tendency by those that are exposed to higher risk like smokers, to take life insurance cover

- True/False
- False - Anti-selection, or selection against the insurer, is the tendency of people who have a greater than average likelihood of loss, to be interested in obtaining or continuing life or health cover to a greater extent than others.

Where a polygamous man dies intestate, the first wife will inherit the estate

- True/False
- False - Where a polygamous man dies intestate, each of his wives would be able to inherit.

An inter-vivos trust is created through a will and only exists after the death of the owner of an estate

- True/False
- False - The creation of an inter-vivos trust occurs during the lifetime of the planner. The planner (creator of the trust) enters into a contract with the trustee/s whereby the creator donates, or sells, certain of his assets to the trust. The trust is set up in order to administer the assets for the benefit of any designated beneficiaries.

In terms of the long Term Insurance Act, claims occurring during the days of grace will not have to be paid by the insurer

- True/False
- Should the overdue premium be paid during the Days of Grace the insurer must continue the contract. If a claim occurs during these days of grace the insurer is entitled to deduct the unpaid premium from the claim amount. (Section 52(1)).

Mandy is employed by Tony and is entitled to a salary of R500 000 per year. Mandy takes out life cover for R1 000 000 on the life of Tony. The cover is equivalent to the value of the two year contract that she has with Tony. This policy is valid from an insurable interest point of view

- True/False
- True - An employee who has a contract for a fixed number of years at an agreed salary has an insurable interest in the life of his employer equal to the value of his future salary.

The Financial Intelligence Centre Act exempts the long term insurers from complying with the Act.

- True/False
- False - The DOC Act defines certain organisations that should be registered as “accountable institutions”. These definitions include:

  A person who carries a long-term insurance business as defined in the Long-Term Insurance Act; and

A person who carries on the business of a financial services provider FSP requiring authorisation in terms of the financial advisory and intermediary services Act 2002 to provide advice and intermediary services in respect of the investment of any financial product but excluding short-term insurance and health service benefits.

How are contributions to a medical scheme treated in terms of income tax? (5 marks)

Contributions to medical schemes

Members of a medical scheme can make contributions to the medical scheme themselves, their employers can make the contributions or contributions can be split between an employee and the employer. In the past, the employer's contribution qualified for preferential tax treatment, no taxable value was placed on the employer contribution to the extent that it did not exceed ⅔'s of the total contribution. The member making medical scheme contributions out of his own pocket was not entitled to the same preferential tax treatment for such contributions. In terms of the new legislation, all (i.e. 100% of) contributions qualify for preferential tax treatment, irrespective of who makes the contribution. This preferential tax treatment is limited to a monetary amount of R286 for the individual and first beneficiary and R192 for each additional beneficiary, applicable in the 2016/2017 tax year.

List and discuss the objective of the underwriter in life insurance (5 mark)

In making underwriting decisions and assigning proposed insureds to the appropriate risk classes, the underwriter's objectives are to approve and issue a policy that is:

- equitable to the client;
- deliverable by the intermediary; and
- profitability to the company.

Explain the guaranteed insurability benefit under a life insurance policy. State the reasons why a person would opt for such cover (5 marks)

The addition of GIB to a policy means that the insured may exercise an option at given intervals (usually every third policy anniversary) to increase the sum insured without having to provide evidence of continued insurability (i.e. Health, occupation or recreation). Premiums for the optional additional sums insured are charged at the standard rate applicable to healthy lives of the same age for the same policy at the date on which the option is exercised. A modern permutation of this policy is the addition of an automatic annual upgrade (also known as "update" or "inflation adjustment") of the sum insured by means of a pre-agreed percentage increase in the premium. (The Consumer Price Index is often used for this purpose.)

Whether sold as GIB or automatic upgrades, the applicable premiums for this benefit will be affected by the insurers' estimate of the cost of effectively guaranteeing the future insurability of lives insured at standard rates.

Explain the operation of policy loans. (Clearly show circumstances that may give rise to a need for such loans and explain the operation in detail). (10 marks)

There are many reasons why a policy owner may decide to stop paying the premiums on his policy. From time to time, many people go through tough periods where money is tight. Since insurance policies are meant to give ongoing protection and benefits the cancelling of a policy just to cover a short term cash flow problems is not a good idea. To help policyowners through tough times, insurers offer loans against the security of most endowment and whole life policies.

Insurers are usually happy to grant the policyowner a loan if a policy has a surrender value. The value of the loan will be limited to a percentage of the surrender value of the policy.

Depending on the life insurer, the loan value will be between 80% and 95% of the surrender value of the policy.

A loan given by a life insurer is not taken directly out of the investment account of the policy that belongs to the policy owner. The life insurer will want the policy to be able to continue its growth and, in order to do so, the policy investment account needs to remain an integral part of the policy. The loan is, therefore, paid by the insurer from money retained in its reserve account. The surrender value of the policy is only used as security for the life insurer.

Because of the way that the loan is structured by the insurer, there are some conditions that the policy owner must agree:

- interest will be charged on the loan at a rate set by the life insurer. The money belongs to the life insurer's shareholders or mutual policy owners and so they will want to see some return on their investment. The loan will come out of the life insurer's corporate funds where shareholder and excess policy owner moneys called reserves are invested; and
- the policy owner does not have to pay the loan back by having to pay higher premiums but this is one of his options. The loan can be repaid as a lump sum when the policy owner has money or can be deducted from the subsequent proceeds of a claim.

Explain the operation of a universal life insurance policy. State the benefits of this policy as well. (10 marks)

The significant difference between the investments linked whole life or endowment contracts and the so-called Universal Life contract lies in the fact that the Universal Life policy owner may "unbundle" the component parts of the product (i.e. the allocation amounts and decreasing term insurance). A policy owner May select his own mix thereof as a proportion of the total premium paid. this mix can be changed such as the example, once the need for life cover has reduced after a dependence have become self-supporting, the proportion of life cover in the contract can be reduced in favour of an increase in the investment allocation amount. This would have the effect of increasing the cash value that will accrue to the policy owner on later maturity or encashment of the contract.

Universal Life contracts are therefore similar to traditional linked whole life and endowment products in their construction and operation, save that the advent of computers, it has become possible for every contract issued by the insurer to be individually tailored, administered and changed in light of the changing needs of each person injured.

In order to facilitate this flexibility, Universal Life products usually do not maintain a fixed rate of decrease in the decreasing term insurance component of the product. Instead, the amount of decreasing term insurance required to make up the difference between the total net value of the funds held (I.e. allocation amount plus growth to date) and the selected sum insured is purchased by the insurer every month. As will be clear from the illustration below, the amount of term insurance purchased by each period can both reduce and increase according to the Investment performance.

Universal Life contracts usually also maintain a separate" memorandum-type" account in which a record is kept of the expenditures and killed in terms of the contract as it progresses overtime. These expenditures are accumulated with interest and are set off against the value of the allocation amounts and growth thereon until fully expunged. An example of the next result as shown in the illustration Below and produces a similar results to traditional length whole life and endowment contracts but with the possibility of greater administrative flexibility. However, in many cases this greater flexibility create a less certain to him for the insured as Universal Life contracts often include provisions that permits the insurer to review its premium rates and benefits in the light of the actual expense, mortality and investment experience of this product class.

Which is the correct statement if Mr X wants to buy a life policy for his spouse, three children and his neighbour's son?

1. Mr X can proceed and buy the life policies for the five persons without any restrictions
2. Mr X will be required to provide tangible evidence, if called upon to do so, that he stands to suffer a financial loss in the event of the insured event happening to the five persons he wants to insure
3. Mr X will be required to provide tangible evidence, if called upon to do so, that he stands to suffer a financial loss in the event of the insured event happening to his neighbour's son
4. Mr X cannot be allowed to insure his neighbour's son.

For insurable interest to be present the person taking out the insurance policy must be able to provide tangible evidence if called upon to do so that he will suffer a financial loss in the event of the insured event happening.

A pension fund is allowed to pay more than a third of the accumulated value due to the member as a lump sum on retirement

- True/False
- False - A provident fund may pay the total value of the accumulated benefits due to the member as a single lump sum. A pension fund on the other hand, is not allowed to pay more than ⅓ rd of the accumulated value due to the member as a lump sum on retirement.

Upon processing a death claim, the insurance company finds that the age had been misstated and never confirmed during the duration of the policy. Identify the action the insurer is allowed to take.

1. Declare the policy void
2. Cancel the policy *ab initio*
3. Refund all premiums received, together with a reasonable rate of interest
4. Adjust the sum insured to the level supported by the premium and the real age

In common law stating an incorrect age in a proposal form would be a breach of warranty and would entitle the insurer to cancel the policy. The Long-Term Insurance Act, however, rules that the insurer can only adjust the sum insured and any other benefits to the level that can be supported by the premium when this is recalculated using the correct age of the insured.

The whole life policy differs from a term policy in that …

1. The premium on a whole life policy increases each year
2. No premiums are required when the insured turns age 65
3. A whole life policy accumulates cash value, whereas a term policy does not
4. The rate on a whole life policy is always lower than that charged on a term policy

Following advice from their financial advisor, Tshepo and Rebotile decided to make a lump sum investment on the life of their child (Lesego). At age five Lesego suffers from a rare disease and dies. The investment had grown to R60 000 over the five years. Initial premium was R25 000. The maximum amount claimable.

1. R10 000
2. R25 000
3. R30 000

4. R60 000

An absolute cession of a life insurance policy is used under which one of the following circumstances?

1. When an education policy is taken out
2. When in a partnership buy and sell agreement
3. When taking a bond for a house with a bank
4. When a wife needs protection against insolvency of her spouse

Which of the following is benefits that an insurer will pay out if the insured become permanently disabled or permanently unable to earn an income?

1. Life income option
2. Fixed period option
3. Fixed income option
4. Lump sum payment

Which of the following is **incorrect** regarding whole life insurance.

1. The main objective is to protect in one form or another
2. Policy loans are paid out with money retained in the reserve account of the life insurer.
3. The annual premium in the early years was more than enough to cover the year-to-year risk and expenses
4. The policy is constituted a protection for spouses and children which cannot be claimed by creditors in the event of insolvency

Indicate the **correct** statement:

1. In terms of universal life policies, the investment account belongs to the insurer
2. The Financial Intelligence Centre Act exempts the long-term insurers from complying with the Act
3. An *intervivos* trust is created through a will and only exists after the death of the owner of an estate.
4. Anti-selection is a tendency by those that are exposed to higher risk like smokers, to take life insurance cover

Mahlobo paid the first premium as the normal deduction was made. However, he was accidently shot and killed at his house during a robbery and after being hospitalised for a year, he became disabled permanently.

In terms of social grants by government in South Africa, which one of the following grants are applicable to Mahlobo.

1. Discuss two social grants which are applicable to Mahlobo. (5 marks)

Disabled persons

The grants are paid to people who are 18 and older, who are disabled for six months and more who cannot support themselves because of the nature of their disability.

Grant-in-aid allowance

If the physical or mental condition of a person who is getting a social grant is so bad that he needs to be looked after all the time an additional amount per month may be paid. When this extra allowance is applied for a medical certificate must be sent with the application.

2. Explain the guaranteed insurability benefit under a life insurance policy. State the reasons why a person would option for such cover. (15 marks)

The addition of GIB to a policy means that the insured may exercise an option at given intervals (usually every third policy anniversary) to increase the sum insured without having to provide evidence of continued insurability (i.e. Health, occupation or recreation). Premiums for the optional additional sums insured are charged at the standard rate applicable to healthy lives of the same age for the same policy at the date on which the option is exercised. A modern permutation of this policy is the addition of an automatic annual upgrade (also known as “update” or “inflation adjustment”) of the sum insured by means of a pre-agreed percentage increase in the premium. (The Consumer Price Index is often used for this purpose.)

Whether sold as GIB or automatic upgrades, the applicable premiums for this benefit will be affected by the insurers’ estimate of the cost of effectively guaranteeing the future insurability of lives insured at standard rates.

Because you never know how your health or life may change. For example, a prolonged illness or sudden disability in the future could substantially increase your life insurance rates, or worse, make you uninsurable. So if you need additional life insurance in the future (such as with a new marriage or birth/adoption of a child) a guaranteed insurability rider will ensure that you have the option to cover your needs.

Mr Mapaleng applied for a life insurance policy on 1 April 2016. He signed and submitted all documents to his broker and submitted a cash premium with the proposal. He requested the inception date of the policy to be 1 May 2016. On 10 April 2016 on his way from Centurion, Mr Mapaleng was killed in a motorcar accident. At the time of the accident the policy document was still in the possession of the broker.

1. In terms of the aforementioned scenario: discuss five circumstances under which a claim will be considered for Mapaleng. (5 marks)

If the life insured dies before the date on which cover commences, the claim will sometimes be considered if:

- all documents were already in the life insurer's possession. For this purpose documentation in the hands of a marketer or broker will also be considered as being in the hands of the life insurer; and
- the risk would have been accepted based on the information in the proposal documentation; or
- the proposer or insured accepted the terms expressly or by implication, for example, by paying an extra amount for an increased premium, or by permission for a loading before terms were known, if the risk was acceptable in terms other than ordinary rates;
- a cash premium was submitted with the proposal, and there was no request for the inception date to be later than the first of the following month;
- death occurred during the month preceding the inception date; or
- premiums were to be paid by debit order or stop-order, and the ability to pay can be established beyond reasonable doubt.

2. Explain the operation of a universal life insurance policy (5 marks)

Various devices have been designed and implemented in an attempt to curb the escalating cost of health care, such as …

a. Capitation
b. Co-payments
c. Service unbundling
d. Medical savings accounts

Choose the **correct** combination:

1. A, c, d
2. B, c, d
3. A, b, d
4. A, b, c, d

Various devices have been designed and implemented in an attempt to curb the escalating cost of health care, such as medical savings accounts, capitation, service bundling and co-payments.

Indication the **correct** statement

1. Where a polygamous man dies intestate, the first wife will inherit the estate
2. A minor or mentally ill descendant is able to renounce his/her right to inherit.

3. Adopted children have a claim against the intestate estate of their natural parents.
4. The adopted parent has a claim against the intestate estate of his/her adopted child.

Adopted children have no claim against the intestate estate of their natural parents. An adopted parent will be considered to be an ancestor of the child he adopted and will be in a position to inherit from the intestate estate of the adopted child. Where a polygamous man dies intestate, each of his wives would be able to inherit. A minor or mentally ill descendant is not able to renounce his/her right to inherit.

Mr Calvin applied for a life policy on 1 January 2015. The policy included a suicide clause excluding death by suicide within one year of inception of the policy. On 1 June 2015 the policy lapsed due to non-payment of premiums. Mr Calvin applied for the reinstatement of the policy and it was reinstated on 1 February 2016, with proof of good health. Mr Calvin died on 6 October 2016 as a result of an overdose of prescribed sleeping pills. Suicide is expected.

With reference to the aforementioned facts, indicate the **correct** statement:

1. The beneficiaries to Mr Calvin's policy will be entitled to claim the benefits of the policy.
2. The suicide exclusion no longer applies as the policy has been in force for a period exceeding the stipulated one-year period
3. The burden of proofing the death was not caused by suicide lies with the beneficiaries of the policy.
4. If suicide is proven, the insurer will not be liable for any claims as the suicide clause is still in force

Mr Calvin applied for a life policy on 1 January 2015. The policy included a suicide clause excluding death by suicide within one year of inception of the policy. On 1 June 2015 the policy lapsed due to non-payment of premiums. Mr Calvin applied for the reinstatement of the policy and it was reinstated on 1 February 2016, with proof of good health. Mr Calvin died on 6 October 2016 as a result of an overdose of prescribed sleeping pills. Suicide is expected.

In order to qualify for social grants by government, the applicant must pass a means test. As part of the means test the following is considered:

a. money earned from growing crops and /or livestock
b. money earned from any kind of work, before any deductions, is taken into account.
c. all the applicants assets, excluding his/her house, is taken into account at market value.
d. where the spouse of the applicant is receiving pension or any other grant, a quarter of the amount received is taken into account as income of the applicant.

Choose the **correct** combination:

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

In order to qualify for social grants by government, the applicant must pass a means test. As part of the means test all the applicants' assets, excluding his/her house, is taken into account at market value. Money earned from growing crops and /or livestock is also taken into account when calculating whether a person is entitled to a full or partial grant. Money earned from any kind of work, after contributions to unemployment insurance, medical aid, a staff retirement fund and tax is taken off, will also be taken into account. Where the income of the applicant's spouse is a pension or other grant, that pension or grant will not be counted as income received by the applicant.

Which of the factors that influence the assessment risk of life policy?

a. Contravention of the law
b. The family medical history
c. The proposer's physical condition
d. Driving while under the influence of alcohol

Choose the **correct** combination:

1. A, b, c, d
2. A, b
3. A, b, c
4. B, c

The factors that influence the assessment of the risk the proposer's age and gender; physical condition; medical history; family medical history; occupation and hobbies and leisure activities of a hazardous nature.

Indicate the **incorrect** statement regarding contingent liability

1. It is a personal surety that may be required to sign
2. It is an alternative collateral security acceptable to the creditors.
3. It is a written agreement between the business and the director.
4. It is a plan which can only safeguard the estate of deceased director.

Indicate the incorrect statement regarding contingent liability. It is a written agreement between the business and the director.

The main purpose of doing an actuarial valuation of a life insurance company is to …

1. test the solvency of the life office.
2. determine the mix of premiums and products
3. test the accuracy of the mortality tables used.
4. determine the profits of a life insurance company

The main purpose of doing an actuarial valuation of a life insurance company is to test the solvency of the life office. Other reasons are to:

- Determine the amount of surplus funds available for distribution in the forms of bonuses and dividends and reserve funds for contingencies.
- Test the effect of new premiums or products had on the profit of the insurer.
- Settle the terms under which a merger or transfer between two or more insurers should take place.

Indicate the **correct** statement.

1. The cash value of the policy is the current value of the investment account of the policy
2. Where aggregated charging for expenses is used by a life insurer, there will be little difference between the cash and surrender value of the policy.
3. The cash value of the policy is the amount of money the policy holder will receive if he/she decides to cancel the policy.
4. Where expenses are upfront recovered by a life insurer, there will be quite a large difference between the cash and surrender value of the policy.

The cash value of the policy is the current value of the investment account of the policy. The policy holder will receive the surrender value if he/she decides to cancel the policy. The cash value is not a guaranteed amount. Where expenses are upfront recovered by a life insurer, there will be little difference between the cash and surrender value of the policy compared to where an aggregated charging for expenses is used where there will be quite a large difference between the cash and surrender value of the policy.

Most life insurers incorporate a "suicide clause" in the policy. This clause applies when …

1. The cause of death is AIDS
2. The policy lapsed and has been reinstated
3. The policy is an assistance insurance policy
4. A claim occurs during the first three years of a policy

Most life insurers incorporate a 'suicide clause' in the policy. This clause applies when the policy lapsed and has been reinstated. It normally applies when a claim occurs during the first one or two years of a policy. The suicide clause does not apply to an assistance insurance policy.

The principle of *uberrima fides* (utmost good faith) applies to any proposal for insurance, but the test to the validity of the contract will be determined by the "reasonable man test". This includes the divulgence of material facts/information. In life insurance material facts would include the…

1. fact that he/she is going bald
2. retrenchment by a former employer.
3. declinature of a policy application by another life insurer
4. lapsing of a previous policy due to non-payment of premiums.

The principle of '*uberrima fides'* (utmost good faith) applies to any proposal for insurance, but the test of the validity of the contract will be determined by the 'reasonable man test'. This includes the divulgence of material facts/information. In life insurance material facts would include, amongst others, the declinature of a policy application by another life insurer. The lapsing of a previous policy due to non-payment of premiums, retrenchment by a former employer and the fact that the proposer is going bald are not considered material facts.

A waiver-of-premium on death clause …

1. waives the suicide clause
2. allow the person to purchase additional insurance at no extra costs
3. used where the premium payer is someone other than the principal life insured
4. the premium payment cease and the policy is maintained in force free of charge.

A waiver-of-premium clause the premium payment cease and the policy is maintained in force free of charge.

The guaranteed insurability benefit …

1. allows the purchase of additional insurance at all ages
2. allows the purchase of unlimited supplemental insurance.
3. allows purchase of additional insurance without proof of insurability
4. generally requires a physical examination before the policyholder is allowed to purchase additional insurance

The guaranteed insurability benefit allow allows purchase of additional insurance without proof of insurability.

Indicate the **incorrect** statement regarding hospital cash plans exclusion.

1. Hospitalisation caused by the abuse of drugs or alcohol.
2. Hospital cash plans exclude any sexual transmitted diseases.
3. The normally applies where the period of hospitalisation is less than three days.
4. Pre-existing medical conditions will usually not be covered for two years after the commencement date.

Indicate incorrect statement regarding Hospital cash plans exclusion the normally applies where the period of hospitalization is less than three days.

Indicate the **incorrect** statement

1. The retirement annuity fund does not involve the employer.
2. A provident fund may pay the total value of the accumulated benefits out as a lump sum.

3. A pension fund may pay the total value of the accumulated benefits due to the member as a single lump sum.
4. A retirement fund is usually set up by means of an agreement between an employer and employees

An incorrect statement: a pension fund may pay the total value of the accumulated benefits due to the member as a single lump sum.

Which of the following considered to be used under an absolute cession of a life policy?

a. A policy is given as security for a loan.
b. A policy is given as a gift to a family member.
c. A policy with a cash value is sold to an investor.
d. A policy ceded as part of an ante-nuptial agreement.

Choose the **correct** combination

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

An absolute cession of a life insurance policy is used where a policy with a cash value is sold to an investor. It is also used where a policy is given as a gift to a family member or where a policy ceded as part of an ante nuptial agreement. A security cession will apply where a policy is given as security for a loan.

Mr Rodgers took out a life insurance policy while married to his wife, Mercy. He nominated her as sole beneficiary of the policy. They divorced and he remarries wife Noko. Three years after the marriage he dies in a car accident. In his last will he leaves his estate, including the life policy to his wife Noko. However, he neglected to change the beneficiary of his life policy. Under this scenario, his former wife Mercy will be able to claim the proceeds of the policy despite the conditions of the will.

1. In the light of the abovementioned scenario, describe the beneficiaries applicable and argue whether you agree or disagree with the statement and motivate why? (5 marks)
    a. Agree
        i. In South African law one person in a contract can promise the other person that he will award some benefit to a third person who is not part of the contract. √
        ii. The contract between the insurer and insured does not give any rights to the third person, she gets those rights only by accepting the benefit when it is offered to her. √
        iii. The beneficiary under life policy is only nominated to receive the proceeds of the policy when they become due. √
        iv. Rodgers may be either the insured himself or his estate, or third person who was not included in the insured’s contract with the insurer. √

v. We cannot presume that married person who takes out a policy, intends to benefit his spouse and/or children, where there is no nomination of the beneficiary, the proceeds will not be paid to a surviving spouse and/or child. The proceeds will have to go into the estate. √
vi. The insured is alive a policy payable to himself or to his estate is an asset owned by him, it is his right to dispose of it as a legacy in his will. √
vii. The policy can be taken by creditors and will become the property of his trustees if he were to declare insolvent. √

2. Based on the scenario, name the beneficiaries favoured by the court and argue why there may be differences between stipulation of a will and the nomination of the beneficiary and motivate? (5 marks)
    a. Mercy is a beneficiary favoured by court √
    b. In this situation, the court usually favoured the person (Mercy) who has been named as a beneficiary.√
    c. Where there is a difference between the stipulations of a will and the nomination of a beneficiary on a life policy, the courts will favour the beneficiary nomination on a long-term policy. √
    d. A nominated beneficiary (mercy) does not have to be clearly identified at the time that the nomination made √
    e. It is possible for a policy owner to simply nominate future children√
    f. In South African law one person in a contract can promise the other person that will award some benefit to a third party who is not part of the contract.√

Explain five points under the demarcation guidelines between health insurance and medical schemes (5 marks)

- Medical schemes indemnify individuals against incurred medical care expenses while health insurance provides indemnity against unforeseen health events. √√
- Medical schemes are before tax while hospital insurance is post tax. √ √
- Medical schemes fall under the Medical Schemes Act and the hospital insurance falls under the Long term and Short Term Insurance Acts. √ √
- If a policy assists in defraying medical expenses, then that policy falls under medical schemes. √ √
- Hospitalisation and or payment of medical costs will make a policy fall under the medical schemes. √ √
- Health insurer pays the insured directly and may not offer cessions to service providers. √ √
- Health Insurance cannot be offered on condition that the individual has medical aid cover. √ √
- Both parties will monitor the upholding of these demarcations. √

Argue whether a claim submitted 20 months after the reinstatement of a policy will be considered if the cause of death was suicide (5 marks)

- The non-permanent suicide clause stipulate that no claim will be admitted if suicide is committed within the set period of months of the date of the letter in which notice is given that the policy has been accepted or reinstated. √
- Policies that are reinstated without proof of good health, with or without the exclusion of claims, will be subjected to the suicide clause only to the extent to which the original period still applies. √
- Policies that are reinstated with proof of good health, are again made subject to a suicide clause from the date of reinstatement (date later). √
- In order to ensure uniformity, most life offices work with calendar months, where a calendar month begins on the date of the above mentioned letter and ends on the same day on the day of the following month. (weekends, public holidays and leap years therefore do not affect the period of the month) √
- Most life insurers used to impose a suicide clause as a results of which a death claim as a results of suicide during the first 24 months of the contract will automatically be repudiated. √
- It is widely believed that it is a fundamental principle of insurance law that an insured cannot receive a benefit if, by his own deliberate act, he causes the event insured against.(supported by the Judgement of lord Atkin and Lord MacMillan in the leading case of Beresford vs. Royal Insurance Co. Ltd (1938). These judges considered that the ruler preventing payment was not that of public policy, but a fundamental implied term of the contract "a man cannot by his own act cause the event on which the insurance money is payable". √
- The above principle does not apply if the life insured commits suicide whilst insane, as it can be said he does not have the mental capacity to appreciate what s/he is doing. √
- If the policy contains a suicide clause then the position depends on the wording of the clause. Many offices include a clause such as:
  "If the suicide life insured shall commit suicide within twelve months from the date of the policy all benefits which otherwise have become payable shall be forfeited and belong to the insurer". √

Discuss insurable interest, setting out the fundamental concept (definition) thereof, give the differences between the required presence of insurable interest under short-term and life insurance policies and also provide brief notes on at least three examples of insurable interest. (5 marks)

Briefly discuss the above statement and give the reasons for the above principles and explain how these are achieved. (5 marks)

For an insurable interest to be present the person taking out the policy must be able to provide tangible evidence that s/he will suffer a pecuniary loss in the event of the insured event happening.√ This evidence must be provided at the inception of the policy as well as at the claim stage for a short term insurance policy, but only at the inception of a life insurance policy.√

In the case of Commercial Insurance Co. vs. Kern the court decided that - "The fundamental principle is that once the insured is deprived of his insurable interest in the insured car, the policy ceases to have any validity". This means that in a claim under a short term contract the insurable interest must be established, both at the time that the contract is taken out and also at the claim stage. (√)

In the case of Rixom vs. Southern Life Association of Africa & Collins & Bain the court decided that - "Insurable interest must be in existence at the beginning of the contract". As this decision was about a life insurance policy it is now accepted as applying to all life policies. In a life insurance contract one must therefore prove insurable interest at commencement only. There is no need to prove insurable interest at the claim stage. (√)

Examples of insurable interest

Any three of the following x 1 mark:

On the insured's own life

- Everyone has an unlimited insurable interest in their own lives.

On the life of a spouse

- There is an unlimited insurable interest between spouses.

On the life of a fiancée/fiancé

- A person has some right to expect a financial advantage from the continued well-being of a fiancée/fiancé.

On the life of a relative

- A person has a legal right to claim support from a relative and so an insurable interest exists.

Creditor on the life of a debtor

- A creditor has an interest in the continued health of a person who owes him money.

Partners

- Partners create an insurable interest in each other's lives when they sign an agreement to pay money to the estate of a partner that dies.

Employers on their employees

- An employer has an insurable interest on the life of an employee if it can be established that the earnings of the company rely on the employee's skill or services.

Policy servicing in a life office involves a variety of functions and aspects. Briefly discuss the following issues:

1. Cash values (1)

2. Surrender values (1)

3. Automatic premium loans (1)

4. Revival conditions (1)

5. Policy loans (1)

1. Cash values
    a. A policy owner can ask the life insurer at any time what the cash value of his/her policy is. The cash value will be the current value of the investment account of the policy.√
2. Surrender values
    a. The surrender value of a policy is that amount of money that a policy owner will receive out of the investment account if s/he decides to cancel the policy.√
3. 3. Automatic premium loans
    a. Where a policy has acquired a surrender value, the insurer will use this to keep the benefits going for as long as possible if the premiums are unpaid.√ (This is known as an Automatic Policy Loan [APL] or a Non-Forfeiture Allocation [NFA].) This will help the policy owner as s/he will be able to submit a claim even if the premiums are in arrears. √ However, when the surrender value of the policy "runs out" the policy will lapse and all benefits will be lost.
4. Revival conditions
    a. If the policy has lapsed the policy owner will have to re-apply for the insurance cover. Any medical evidence that the underwriters might ask for will have to be given to them by the life insured. Conditions such as the suicide clause will recommence from the date of revival. The life insurer also has the right to refuse to renew the policy.√
5. Policy Loans
    a. To help policy owners through tough times insurers offer loans against the security of most policies. The value of the loan will be limited to a percentage between 80% and 95% of the surrender value of the policy. √The loan and any interest that has been added to its value will be subtracted from the value of any claim that is due when the policy matures or becomes a claim.√

It may happen that a person dies without having drawn up a will, while it is also possible that the Master of the Supreme Court may rule that certain conditions set out in a person's will do not conform to criteria acceptable to him and he can then declare the will (or part thereof) to be invalid. When this occurs the "deceased" is said to have died intestate and the Intestate Succession Act no 81 of 1987 (as amended) will determine who will inherit the estate, once the estate has been finally wound up.

Briefly set out the distribution basis of the estate under the following conditions, when the deceased is:

1 Survived by a spouse, but not by a descendant

2 Not survived by a spouse or a descendant, but by parents, or one parent

3 Survived by a spouse and three children

4 Only survived by an adopted child

5 A man who was in a polygamous (religious) marriage, with multiple wives

1. Survived by a spouse, but not by a descendant
    a. Where a person is survived by a spouse, but not by a descendant, the surviving spouse will inherit the entire estate. √√
2. Not survived by a spouse or a descendant, but by parents, or one parent
    a. Where a person is survived by both parents, the parents will inherit the intestate estate in equal shares. √Where a person is survived by one parent, the surviving parent will inherit one half of the intestate estate and the descendants of the deceased parent will share the other half of the estate. √Should the deceased parent not have any descendants, the surviving parent will inherit the entire estate.√
3. Survived by a spouse and three children
    a. Where a person is survived by a spouse and descendants, the spouse will inherit an amount equal to the greater of a child's share of the intestate estate or an amount which is fixed from time to time by the Minister of Justice in the Government Gazette. √Where more than 1 child is involved the value of the children's portions will be determined by dividing the monetary value of the estate by the number of children plus one. The plus one is for the surviving spouse's share. √ . Where the amount set down is greater than a child's share the descendant will inherit the residue, if any, of the intestate estate. √
4. Only survived by an adopted child
    a. An adopted child is deemed to be a descendant of his/her adopted parents.√. Where a person is survived by an adopted child and no spouse, the adopted child will inherit the entire estate. √
5. A man who was in a polygamous (religious) marriage, with multiple wives
    a. Where a man in a polygamous marriage dies intestate, each of his wives will inherit in equal shares√√.

Self-Assessment questions

Question 1

1.1 Upon processing a death claim, the insurance company finds that the age had been misstated and never confirmed during the duration of the policy. Identify the action the insurer is allowed to take.

1. Adjust the sum insured to the level supported by the premium and the real age.

2. Cancel the *policy ab initio.*

3. Refund all premiums received, together with a reasonable rate of interest.

4. Declare the policy void.

1.2 Which is the correct statement if Mr X wants to buy a life policy for his spouse, three children and his neighbour's son?

1. Mr X can proceed and buy the life policies for the five persons without any restrictions.

2. Mr X will be required to provide tangible evidence, if called upon to do so, that he stands to suffer a financial loss in the event of the insured event happening to the five persons he wants to insure.

3. Mr X will be required to provide tangible evidence, if called upon to do so, that he stands to suffer a financial loss in the event of the insured event happening to his neighbour's son.

4. Mr X cannot be allowed to insure his neighbour's son.

1.3 The following persons are disqualified from receiving a benefit from the will of a testator:

1. a person that attests and sign the will as a witness
2. the spouse of a person who signs the will on behalf of the testator
3. the spouse of a person who writes the will in his/her own handwriting
4. a person generally disqualified but declared by a court competent to receive a benefit

Choose the correct combination:

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

Section B

Question 2

A pension fund is allowed to pay more than a third of the accumulated value due to the member as a lump sum on retirement.

- True/False
- False – A provident fund may pay the total accumulated benefits to the member.

Question 3

If at claims stage an insurer discovers that a person who was a financial manager died while working as a miner, the insurer will be justified to repudiate a claim on the basis that this was a material fact that required disclosure.

- True/False
- True – Occupation is one of the factors which could influence the insurer's underwriting decisions.

Question 4

Most South African life policies have a suicide clause which states that a death claim as a result of suicide during the first 12 months of the contract will be repudiated.

- True/False
- False – Suicide period is usually 2 years

Question 5

In January 2015 Ms Y bought a life policy, disability policy and health insurance policy for herself and for each of her three family members, namely spouse (currently aged 38), firstborn child (currently aged 23) and lastborn child (currently aged 10). In June 2017, Ms Y separated from her spouse and surrendered the polices of her spouse. Early in January 2018, her firstborn was involved in a terrible work-related accident and was declared permanently disabled by medical professionals. In March 2018, the lastborn of Ms Y died because of food poisoning.

Supposing all the polices had accumulated cash values, answer the following questions:

5.1 What are the implications of the policy surrender? (3)

The surrender value of the policy will be paid to Ms Y.

5.2 Discuss the disability claim. (3)

Disability benefits will be paid in full for the claim of the first born.

5.3 Discuss the death claim. (3)

The life policy will pay the maximum amount of R30 000

Question 6

Ms K is the chief executive officer of a recently incorporated life insurance company. She wants to comply with all the requirements of the Protection of Personal Information (POPI) Act. Advise her by answering the following questions:

6.1 Define data subjects, operator and responsible parties. (2)

Data subjects means the person to who the personal information relates.

Operator: a third party which processes personal information for or on behalf of a responsible party.

Responsible parties: Mean a public or private body or any other person which alone or in conjunction with others, determines the purpose of and means for processing personal information.

6.2 What are the requirements of POPI with regard to security standards? (3)

The measures taken will be regarded as appropriate and reasonable if the responsible party:

- Identifies all reasonably foreseeable risks to personal information under its control;
- Establishes and maintains appropriate risks against the risks identified;
- Regularly verifies that the safeguards are effectively implemented; and
- Ensures that safeguards are continually updated where necessary.

6.3 What are the requirements of POPI with regard to data breaches? (3)

If there is a reasonable suspicion that a data breach has occurred, the responsible party must notify the Regulator and affected data subjects. The Regulator may direct responsible party to notify data subjects in a certain way, for example by publicising the data breach.

6.4 What is the most efficient way of complying with all the requirements of POPI? (3)

In regard to notification of data subjects, the most practical way to ensure compliance with his requirement is to have a privacy policy (on a website for example) to which data subjects are directed when their information is collected.