**RSK3701**

(477055) October/November 2015

RISK FINANCING AND SHORT TERM INSURANCE

Duration 2 Hours

70 Marks

EXAMINERS

FIRST

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SECOND

MR NJ GODI

EXTERNAL

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PROF RW VIVIAN

Use of a non-programmable pocket calculator is permissible**Closed book examination****This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue**

This paper consists of 17 pages including 2 pages for rough work, plus instructions for completing a mark-reading sheet

This paper comprises THREE sections

Section A consists of TWENTY multiple choice questions of 1 mark each. The answers to these questions must be indicated on the mark reading sheet provided. Indicate your student number and the unique number **477055** on the mark reading sheet.

Section B comprises TEN True/False questions. These questions must be answered in the designated areas on the paper.

Section C comprises SIX paragraph questions. These questions must be answered in the designated areas on the paper.

Please note

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

[TURN OVER]

SECTION A: MULTIPLE-CHOICE QUESTIONS

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

Question 1

Choose the correct statement

- 1 Insurance agents sell insurance as their main occupation
- 2 Brokers may have an agency agreement with different insurers
- 3 Insurance agents are also sometimes called claims assessors
- 4 Loss adjusters are responsible for the settlement of claims

Question 2

Adverse selection

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

Question 3

A strike in the mining industry in South Africa is a typical example of a(n) risk

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

Question 4

Lloyds

- a have underwritten the voice of Bruce Springsteen
- b is not an insurance company
- c operate worldwide
- d invented the term *underwriting*

Choose the correct combination

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

[TURN OVER]

Question 5

A proposal form

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

Choose the correct combination

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

Question 6

Consideration in terms of insurance policies

- 1 defines the conditions of a policy
- 2 is not essential for concluding a contract
- 3 refers to the terms and conditions in the policy
- 4 refers to the extensions of the policy

Question 7

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

- 1 A man injured when picking up a heavy box
- 2 A women dying two years after being injured in a car accident
- 3 A worker sustaining lung cancer as a result of working in an asbestos plant
- 4 A man murdered by thugs on his way home from work

Question 8

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

- a Liability arising from conduct of business for reward
- b Liability for the death of the policyholder
- c Liability arising from the negligent use of a firearm
- d Liability arising from the consequences of a bad slice at golf

Choose the correct combination

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

[TURN OVER]

Question 9

Under motor cycle insurance

- 1 there is no cover for the motor cycle if a passenger is being carried on the motor cycle
- 2 full cover for the motor cycle and passenger liability can be provided by adding a pillion passenger extension to the policy
- 3 cover for theft of accessories and spare parts of the motor cycle is provided
- 4 the driver of a motor cycle is covered when driving his own as well as another motor cycle

Question 10

Glass insurance

- 1 provides no cover for plate glass shop counters
- 2 provides no cover for mirrors
- 3 is not subject to average
- 4 covers the cost of boarding up windows after a loss

Question 11

Hull insurance

- 1 is only available to completed vessels
- 2 covers the vessel but not associated machinery
- 3 only covers perils on sea
- 4 covers collision liability

Question 12

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

- 1 general conditions
- 2 operative clause
- 3 specific extensions
- 4 recital clause

Question 13

In terms of a quota share treaty

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

[TURN OVER]

Question 14

Indicate the **correct** statements

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

Choose the correct combination

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

Question 15

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

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

Choose the correct combination:

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

Question 16

In terms of Business interruption insurance the gross profit sum insured can be calculated on the following basis

- 1 Net profit less standing charges
- 2 Turnover plus closing stock, minus opening stock
- 3 Turnover plus standing charges
- 4 Net profit plus standing charges

Question 17

An excessive claim reserve will result in

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

[TURN OVER]

Question 18

Indicate the correct statement.

- 1 Under third party only cover, no cover is provided for the insured's vehicle
- 2 Damage to the insured's recovered stolen vehicle will not be covered under a Third party, Fire and Theft policy
- 3 The first amount payable under motor insurance is cumulative in the case of windscreen excess
- 4 In terms of the "pillion passenger extension" liability cover is provided for injuries to passengers carried in a side-car of a motor cycle

Question 19

Motor traders internal policies

- a only cover vehicles damaged at the premises of the insured
- b covers the insured's own vehicles and vehicles in his/her custody
- c can be rated on a wage basis
- d cover vehicles temporarily garaged in the course of a journey

Choose the correct combination

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

Question 20

An insurer enters into a quota share arrangement with the ceding insurer retaining 60% of any loss. How much will the reinsurer pay if the loss amounts to R80 000 under a R100 000 policy?

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

[20 x 1 =20]

[TURN OVER]

SECTION B: TRUE/FALSE QUESTIONS

THIS SECTION COMPRISES TEN QUESTIONS AND MUST BE ANSWERED IN THE SPACES PROVIDED. ALL THE QUESTIONS MUST BE ANSWERED.

INDICATE WHETHER A STATEMENT IS TRUE OR FALSE AND PROVIDE A MOTIVATION FOR YOUR ANSWER. NO MARKS WILL BE AWARDED FOR AN ANSWER WITHOUT A PROPER MOTIVATION.

Question 1

1 1 Reinsurance is significant to the buyers of insurance because it spreads risk and assures that all insurers will charge the same premium for the same risk

True/False

1 2 A farmer insures his crop for R100 000 The value of the crop is R125 000 A loss of R50 000 is sustained If the principle of special condition applies, R40 000,00 will be payable by the insurer

True/False

1 3 The principle of contribution applies to policies of compensation

True/False

1 4 Pooling is not a prerequisite for insurance

True/False

[TURN OVER]

1 5 In the case of life insurance, insurable interest must be present at the time the contract is taken out and when a claim is lodged

True/False

1 6 A jacket torn while passing a gate on your way to work will be covered under All Risks insurance

True/False

1 7 An insured has a policy with a R10 000 deductible and a recapture factor of 5% Should a loss of R50 000 be sustained, the insured will pay a deductible of R8 000

True/False

1 8 An underwriter is requested to underwrite a tyre manufacturing plant The sums insured are

Fire R80 000 000
Loss of profits R40 000 000

The underwriter has a net line of R4 000 000 and can take an additional 50% if the risk involves Fire and Loss of profit The underwriter has a nine line surplus treaty The underwriter will need no facultative reinsurance in this case

True/False

[TURN OVER]

1 9 Mr Nel pays the premium of his short-term policy every month to his broker, Mr Hugo. Mr Hugo experienced a cash flow problem in April and failed to pay over the premiums to the insurer. During April Mr Nel was involved in an accident. Mr Nel will not be able to claim from the insurer as his premium for April was not paid over by the broker.

True/False

1 10 Mr Naidoo had a Personal Accident Policy. He worked in a mine as a shaft manager. During the past year he was diagnosed with lung cancer which caused his death. His widow was listed as the beneficiary of the personal accident policy and she will be entitled to claim from the insurer.

True/False

[10 x 2 = 20]

[TURN OVER]

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

{TURN OVER}

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

PART 1 (GENERAL/ALGEMEEN) DEEL 1

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

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PAPER NUMBER
VRAESTELNOMMER

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STUDENT NUMBER
STUDENTENOMMER

e0	e1	e2	e3	e4	e5	e6	e7	e8	e9	e0	e1	e2	e3	e4	e5	e6	e7	e8	e9

INITIALS AND SURNAME
VOORLETTERS EN VAN

DATE OF EXAMINATION
DATUM VAN EKSAMEN

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


UNIQUE PAPER NO
UNIEKE VRAESTEL NR

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e0	e1	e2	e3	e4	e5	e6	e7	e8	e9
e0	e1	e2	e3	e4	e5	e6	e7	e8	e9

For use by examination invigilator
Vir gebruik deur eksamenopsiener

IMPORTANT

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

BELANGRIK

- GEBRUIK SLEGS N HB POTLOOD OM HIERDIE BLAD TE VOLTOOI
- MERK AS VOLG 
- KONTROLEER DAT U VOORLETTERS EN VAN REG INGEVUL IS
- VUL U STUDENTENOMMER VAN LINKS NA REGS IN
- KONTROLEER DAT U DIE KORREKTE STUDENTENOMMER VERSTREK HET
- KONTROLEER DAT DIE UNIEKE NOMMER REG INGEVUL IS
- MAAK SEKER DAT NET EEN ALTERNATIEF PER VRAAG GEMERK IS
- MOENIE VOU NIE

PART 2 (ANSWERS/ANTWOORDE) DEEL 2

1 e1 e2 e3 e4 e5	36 e1 e2 e3 e4 e5	71 e1 e2 e3 e4 e5	106 e1 e2 e3 e4 e5
2 e1 e2 e3 e4 e5	37 e1 e2 e3 e4 e5	72 e1 e2 e3 e4 e5	107 e1 e2 e3 e4 e5
3 e1 e2 e3 e4 e5	38 e1 e2 e3 e4 e5	73 e1 e2 e3 e4 e5	108 e1 e2 e3 e4 e5
4 e1 e2 e3 e4 e5	39 e1 e2 e3 e4 e5	74 e1 e2 e3 e4 e5	109 e1 e2 e3 e4 e5
5 e1 e2 e3 e4 e5	40 e1 e2 e3 e4 e5	75 e1 e2 e3 e4 e5	110 e1 e2 e3 e4 e5
6 e1 e2 e3 e4 e5	41 e1 e2 e3 e4 e5	76 e1 e2 e3 e4 e5	111 e1 e2 e3 e4 e5
7 e1 e2 e3 e4 e5	42 e1 e2 e3 e4 e5	77 e1 e2 e3 e4 e5	112 e1 e2 e3 e4 e5
8 e1 e2 e3 e4 e5	43 e1 e2 e3 e4 e5	78 e1 e2 e3 e4 e5	113 e1 e2 e3 e4 e5
9 e1 e2 e3 e4 e5	44 e1 e2 e3 e4 e5	79 e1 e2 e3 e4 e5	114 e1 e2 e3 e4 e5
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11 e1 e2 e3 e4 e5	46 e1 e2 e3 e4 e5	81 e1 e2 e3 e4 e5	116 e1 e2 e3 e4 e5
12 e1 e2 e3 e4 e5	47 e1 e2 e3 e4 e5	82 e1 e2 e3 e4 e5	117 e1 e2 e3 e4 e5
13 e1 e2 e3 e4 e5	48 e1 e2 e3 e4 e5	83 e1 e2 e3 e4 e5	118 e1 e2 e3 e4 e5
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15 e1 e2 e3 e4 e5	50 e1 e2 e3 e4 e5	85 e1 e2 e3 e4 e5	120 e1 e2 e3 e4 e5
16 e1 e2 e3 e4 e5	51 e1 e2 e3 e4 e5	86 e1 e2 e3 e4 e5	121 e1 e2 e3 e4 e5
17 e1 e2 e3 e4 e5	52 e1 e2 e3 e4 e5	87 e1 e2 e3 e4 e5	122 e1 e2 e3 e4 e5
18 e1 e2 e3 e4 e5	53 e1 e2 e3 e4 e5	88 e1 e2 e3 e4 e5	123 e1 e2 e3 e4 e5
19 e1 e2 e3 e4 e5	54 e1 e2 e3 e4 e5	89 e1 e2 e3 e4 e5	124 e1 e2 e3 e4 e5
20 e1 e2 e3 e4 e5	55 e1 e2 e3 e4 e5	90 e1 e2 e3 e4 e5	125 e1 e2 e3 e4 e5
21 e1 e2 e3 e4 e5	56 e1 e2 e3 e4 e5	91 e1 e2 e3 e4 e5	126 e1 e2 e3 e4 e5
22 e1 e2 e3 e4 e5	57 e1 e2 e3 e4 e5	92 e1 e2 e3 e4 e5	127 e1 e2 e3 e4 e5
23 e1 e2 e3 e4 e5	58 e1 e2 e3 e4 e5	93 e1 e2 e3 e4 e5	128 e1 e2 e3 e4 e5
24 e1 e2 e3 e4 e5	59 e1 e2 e3 e4 e5	94 e1 e2 e3 e4 e5	129 e1 e2 e3 e4 e5
25 e1 e2 e3 e4 e5	60 e1 e2 e3 e4 e5	95 e1 e2 e3 e4 e5	130 e1 e2 e3 e4 e5
26 e1 e2 e3 e4 e5	61 e1 e2 e3 e4 e5	96 e1 e2 e3 e4 e5	131 e1 e2 e3 e4 e5
27 e1 e2 e3 e4 e5	62 e1 e2 e3 e4 e5	97 e1 e2 e3 e4 e5	132 e1 e2 e3 e4 e5
28 e1 e2 e3 e4 e5	63 e1 e2 e3 e4 e5	98 e1 e2 e3 e4 e5	133 e1 e2 e3 e4 e5
29 e1 e2 e3 e4 e5	64 e1 e2 e3 e4 e5	99 e1 e2 e3 e4 e5	134 e1 e2 e3 e4 e5
30 e1 e2 e3 e4 e5	65 e1 e2 e3 e4 e5	100 e1 e2 e3 e4 e5	135 e1 e2 e3 e4 e5
31 e1 e2 e3 e4 e5	66 e1 e2 e3 e4 e5	101 e1 e2 e3 e4 e5	136 e1 e2 e3 e4 e5
32 e1 e2 e3 e4 e5	67 e1 e2 e3 e4 e5	102 e1 e2 e3 e4 e5	137 e1 e2 e3 e4 e5
33 e1 e2 e3 e4 e5	68 e1 e2 e3 e4 e5	103 e1 e2 e3 e4 e5	138 e1 e2 e3 e4 e5
34 e1 e2 e3 e4 e5	69 e1 e2 e3 e4 e5	104 e1 e2 e3 e4 e5	139 e1 e2 e3 e4 e5
35 e1 e2 e3 e4 e5	70 e1 e2 e3 e4 e5	105 e1 e2 e3 e4 e5	140 e1 e2 e3 e4 e5

Specimen only