**RSK3701**

(477498)

May/June 2016

RISK FINANCING AND SHORT TERM INSURANCE

Duration 2 Hours

70 Marks

EXAMINERS

FIRST

MS CJ DE SWARDT

SECOND

MR NJ GODI

EXTERNAL

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 **477498** 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

A business has a current ratio of 1,5 : 1 and an asset test ratio of 1 : 1. The average current ratio for similar businesses in the industry is 2 : 1 and 1,5 : 1 for the acid test ratio. The business has a risk seeking attitude towards risk and is considering a risk retention programme. With due consideration of these ratios and the intention of the business, indicate the correct statement below:

- 1 The ratios of the business are not favourable when compared to industry norms
- 2 A higher level of loss assumption based on working capital guidelines is possible
- 3 The business is not in a good position to handle current obligations
- 4 The ratios are indicative of a high level of mortgaged assets

Question 2

Indicate the correct statement(s)

- a The breaching of a warranty in an insurance contract by the insured may result in the repudiation of a claim by the insurer
- b The preamble of a policy document defines what is covered by the policy
- c Insurance contracts are based on the premise of *caveat emptor*
- d The expression "*uberrima fides*" (utmost good faith) forms part of South African Insurance law.

Choose the correct combination:

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

Question 3

An armed robbery at a bank in Johannesburg is a typical example of a(n) . risk

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

Question 4

Multi peril policies

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

[TURN OVER]

Question 5

An insured has a motor policy with a straight deductible of R5 000. The insured is involved in a minor car accident, sustaining damages of R4 000. The damages paid will ...

- 1 be covered in total by the insured
- 2 be split between the insured and the insurer on a rateable basis
- 3 be settled by the insurer in full
- 4 depend on the deductible level reached

Question 6

The least-cost rule is used in determining deductible levels. This rule .

- 1 takes the financial capacity of the business into account.
- 2 states that the selected deductible should be the one that provides the lowest total expected cost
- 3 proposes that the cost of pure risk of the business is equal to the insurance premium.
- 4 fails to judge the reasonableness of the premium discounts of each deductible.

Question 7

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 March and failed to pay over the premium to the insurer before the agreed payment date of 1 April. On 10 April Mr Nel was involved in an accident. Mr Nel will

- 1 not be able to claim from the insurer as his premium for April was not paid over by the broker
- 2 not be covered as there is no period of grace for short term policies
- 3 be covered if the broker was an accredited intermediary of the insurer
- 4 not be covered and will need to claim the money from the broker

Question 8

Finite insurance or reinsurance

- a. is classified as long-term insurance in the industry market.
- b. has an aggregate limit of cover
- c. compensates the insured for limitation of risk through control procedures
- d. takes expected investment income into account when calculating premiums

Choose the correct combination:

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

[TURN OVER]

Question 9

Under motor cycle insurance

- 1 the insured is covered while driving a motor cycle that does not belong to him, provided he has the permission of the owner
- 2 full cover for the motor cycle and passenger liability can be provided by adding a pillion passenger extension to the policy
- 3 accessories and spare parts of the motor cycle are covered when the motor cycle is stolen
- 4 there is no cover for theft of accessories and spare parts of motor vehicles, even when the motor cycle is stolen

Question 10

Commercial glass insurance policies provide cover for

- a sheet glass
- b glass thicker than 6mm
- c plate glass
- d mirrors

Choose the correct combination

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

Question 11

Hull insurance .

- 1 is only available to completed vessels
- 2 covers the vessel and associated machinery
- 3 only covers perils on sea
- 4 provides no cover for collision liability

Question 12

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

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

[TURN OVER]

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

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 lower solvency margins
- c. Higher solvency margins indicate a higher utilisation of resources
- d. Shareholders usually prefer lower solvency ratios

Choose the correct combination:

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

Question 15

A Homeowner's policy covers .

- 1 the content of a private dwelling
- 2 all moveable property.
- 3 business offices
- 4 immovable property

Question 16

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

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

[TURN OVER]

Question 17

In terms of marine insurance

- 1 the word average means "shared" loss.
- 2 average is qualified by the words "partial" and "general"
- 3 general average refers to a loss affecting one particular interest.
- 4 the word average means "partial" loss

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 external 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 insurer 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 Insurable interest enforces the principle of indemnity

True/False

1 2 A farmer insures his crop for R90 000. The value of the crop is R125 000. A loss of R50 000 is sustained. If the principle of special condition of average applies, R40 000,00 will be payable by the insurer

True/False

1.3 Arbitration can be used to resolve all types of claim disputes.

True/False

1 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

True/False

[TURN OVER]

1 5 Money transported to and from the bank is covered under Fidelity Guarantee insurance.

True/False

1 6 Ex gratia payments are compensation payments

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 the full deductible of R10 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 R5 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 Ndlovu is an electrician. Apart from the working tools he carries with him, he also carries wires and pipes and in many cases electrical equipment that needs to be fitted at a clients' premises. In terms of Goods in Transit insurance the working tools, pipes, wire and the electrical equipment that needs to be installed will all be covered.

True/False

1 10 Mr Naidoo had a Personal Accident Policy. He worked in a mine as a shaft manager. During one of the shifts he was killed in an explosion. His wife will be able to claim the benefit from the policy.

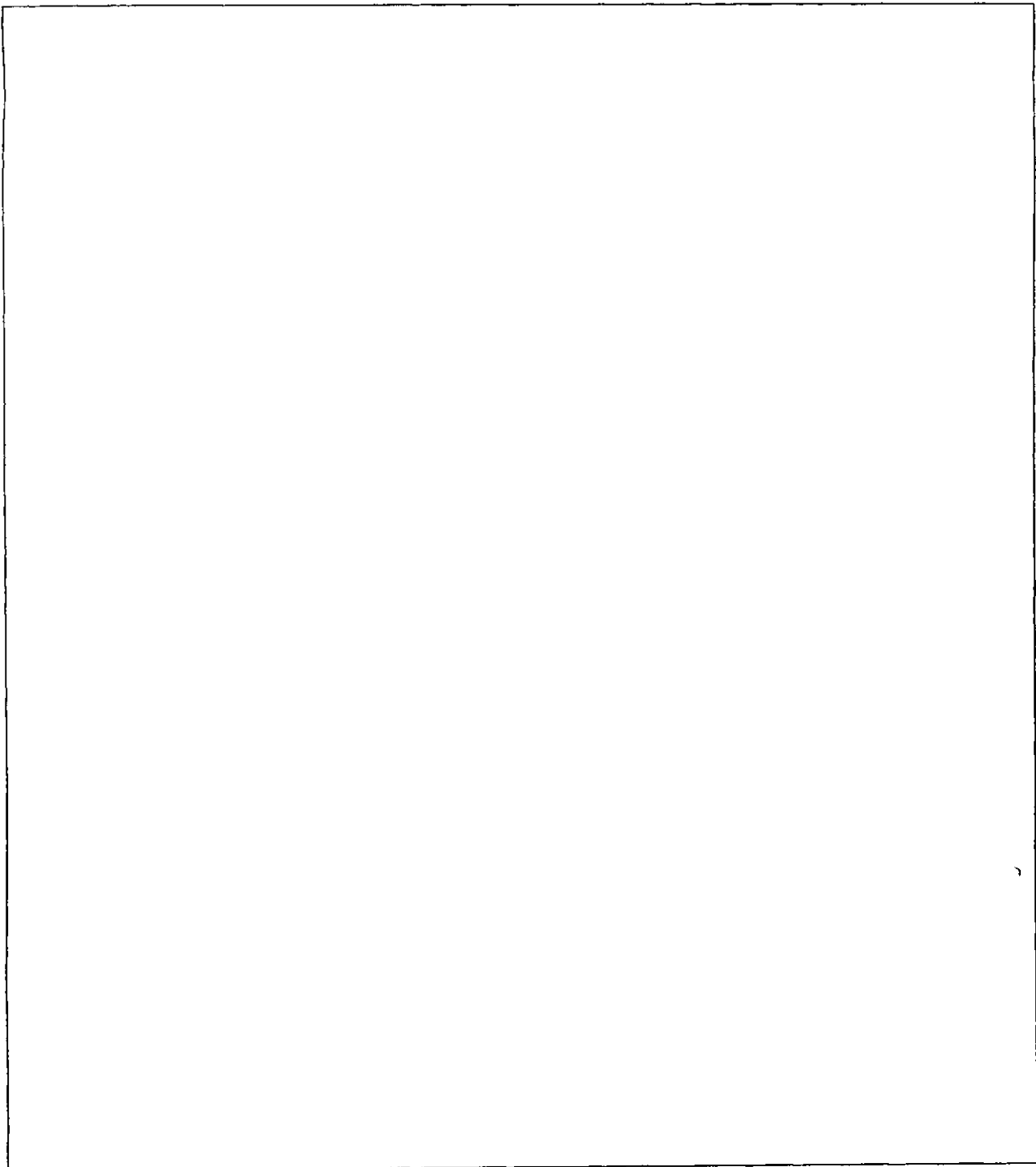
True/False

[10 x 2 = 20]

[TURN OVER]

Question 6 (5 marks)

Graphically present **three categories of losses** based on possible frequency and severity values
Indicate the funding strategy to be followed for each category on the graph

**[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		INITIALS AND SURNAME VOORLETTERS EN VAN	
PAPER NUMBER VRAESTELNOMMER		DATE OF EXAMINATION DATUM VAN EKSAMEN	
STUDENT NUMBER STUDENTENOMMER		EXAMINATION CENTRE (E.G. PRETORIA) EKSAMENSENTRUM (BY PRETORIA)	
UNIQUE PAPER NO. UNIEKE VRAESTEL NR.			

For use by examination invigilator
Vir gebruik deur eksamenopsiener

IMPORTANT

1. USE ONLY AN HB PENCIL TO COMPLETE THIS SHEET
2. MARK LIKE THIS ➡
3. CHECK THAT YOUR INITIALS AND SURNAME HAS BEEN FILLED IN CORRECTLY
4. ENTER YOUR STUDENT NUMBER FROM LEFT TO RIGHT
5. CHECK THAT YOUR STUDENT NUMBER HAS BEEN FILLED IN CORRECTLY
6. CHECK THAT THE UNIQUE NUMBER HAS BEEN FILLED IN CORRECTLY
7. CHECK THAT ONLY ONE ANSWER PER QUESTION HAS BEEN MARKED
8. DO NOT FOLD

BELANGRIK

1. GEBUIK SLEGS 'N HB-POTLOOD OM HIERDIE BLAD TE VOLTOOI
2. MERK AS VOLG ➡
3. KONTROLEER DAT U VOORLETTERS EN VAN REG INGEVUL IS.
4. VUL U STUDENTENOMMER VAN LINKS NA REGS IN.
5. KONTROLEER DAT U DIE KORREKTE STUDENTENOMMER VERSTREK HET
6. KONTROLEER DAT DIE UNIEKE NOMMER REG INGEVUL IS
7. MAAK SEKER DAT NET EEN ALTERNATIEF PER VRAAG GEMERK IS
8. MOENIE VOU NIE

PART 2 (ANSWERS/ANTWOORDE) DEEL 2

1	(1) (2) (3) (4) (5)	36	(1) (2) (3) (4) (5)	71	(1) (2) (3) (4) (5)	106	(1) (2) (3) (4) (5)
2	(1) (2) (3) (4) (5)	37	(1) (2) (3) (4) (5)	72	(1) (2) (3) (4) (5)	107	(1) (2) (3) (4) (5)
3	(1) (2) (3) (4) (5)	38	(1) (2) (3) (4) (5)	73	(1) (2) (3) (4) (5)	108	(1) (2) (3) (4) (5)
4	(1) (2) (3) (4) (5)	39	(1) (2) (3) (4) (5)	74	(1) (2) (3) (4) (5)	109	(1) (2) (3) (4) (5)
5	(1) (2) (3) (4) (5)	40	(1) (2) (3) (4) (5)	75	(1) (2) (3) (4) (5)	110	(1) (2) (3) (4) (5)
6	(1) (2) (3) (4) (5)	41	(1) (2) (3) (4) (5)	76	(1) (2) (3) (4) (5)	111	(1) (2) (3) (4) (5)
7	(1) (2) (3) (4) (5)	42	(1) (2) (3) (4) (5)	77	(1) (2) (3) (4) (5)	112	(1) (2) (3) (4) (5)
8	(1) (2) (3) (4) (5)	43	(1) (2) (3) (4) (5)	78	(1) (2) (3) (4) (5)	113	(1) (2) (3) (4) (5)
9	(1) (2) (3) (4) (5)	44	(1) (2) (3) (4) (5)	79	(1) (2) (3) (4) (5)	114	(1) (2) (3) (4) (5)
10	(1) (2) (3) (4) (5)	45	(1) (2) (3) (4) (5)	80	(1) (2) (3) (4) (5)	115	(1) (2) (3) (4) (5)
11	(1) (2) (3) (4) (5)	46	(1) (2) (3) (4) (5)	81	(1) (2) (3) (4) (5)	116	(1) (2) (3) (4) (5)
12	(1) (2) (3) (4) (5)	47	(1) (2) (3) (4) (5)	82	(1) (2) (3) (4) (5)	117	(1) (2) (3) (4) (5)
13	(1) (2) (3) (4) (5)	48	(1) (2) (3) (4) (5)	83	(1) (2) (3) (4) (5)	118	(1) (2) (3) (4) (5)
14	(1) (2) (3) (4) (5)	49	(1) (2) (3) (4) (5)	84	(1) (2) (3) (4) (5)	119	(1) (2) (3) (4) (5)
15	(1) (2) (3) (4) (5)	50	(1) (2) (3) (4) (5)	85	(1) (2) (3) (4) (5)	120	(1) (2) (3) (4) (5)
16	(1) (2) (3) (4) (5)	51	(1) (2) (3) (4) (5)	86	(1) (2) (3) (4) (5)	121	(1) (2) (3) (4) (5)
17	(1) (2) (3) (4) (5)	52	(1) (2) (3) (4) (5)	87	(1) (2) (3) (4) (5)	122	(1) (2) (3) (4) (5)
18	(1) (2) (3) (4) (5)	53	(1) (2) (3) (4) (5)	88	(1) (2) (3) (4) (5)	123	(1) (2) (3) (4) (5)
19	(1) (2) (3) (4) (5)	54	(1) (2) (3) (4) (5)	89	(1) (2) (3) (4) (5)	124	(1) (2) (3) (4) (5)
20	(1) (2) (3) (4) (5)	55	(1) (2) (3) (4) (5)	90	(1) (2) (3) (4) (5)	125	(1) (2) (3) (4) (5)
21	(1) (2) (3) (4) (5)	56	(1) (2) (3) (4) (5)	91	(1) (2) (3) (4) (5)	126	(1) (2) (3) (4) (5)
22	(1) (2) (3) (4) (5)	57	(1) (2) (3) (4) (5)	92	(1) (2) (3) (4) (5)	127	(1) (2) (3) (4) (5)
23	(1) (2) (3) (4) (5)	58	(1) (2) (3) (4) (5)	93	(1) (2) (3) (4) (5)	128	(1) (2) (3) (4) (5)
24	(1) (2) (3) (4) (5)	59	(1) (2) (3) (4) (5)	94	(1) (2) (3) (4) (5)	129	(1) (2) (3) (4) (5)
25	(1) (2) (3) (4) (5)	60	(1) (2) (3) (4) (5)	95	(1) (2) (3) (4) (5)	130	(1) (2) (3) (4) (5)
26	(1) (2) (3) (4) (5)	61	(1) (2) (3) (4) (5)	96	(1) (2) (3) (4) (5)	131	(1) (2) (3) (4) (5)
27	(1) (2) (3) (4) (5)	62	(1) (2) (3) (4) (5)	97	(1) (2) (3) (4) (5)	132	(1) (2) (3) (4) (5)
28	(1) (2) (3) (4) (5)	63	(1) (2) (3) (4) (5)	98	(1) (2) (3) (4) (5)	133	(1) (2) (3) (4) (5)
29	(1) (2) (3) (4) (5)	64	(1) (2) (3) (4) (5)	99	(1) (2) (3) (4) (5)	134	(1) (2) (3) (4) (5)
30	(1) (2) (3) (4) (5)	65	(1) (2) (3) (4) (5)	100	(1) (2) (3) (4) (5)	135	(1) (2) (3) (4) (5)
31	(1) (2) (3) (4) (5)	66	(1) (2) (3) (4) (5)	101	(1) (2) (3) (4) (5)	136	(1) (2) (3) (4) (5)
32	(1) (2) (3) (4) (5)	67	(1) (2) (3) (4) (5)	102	(1) (2) (3) (4) (5)	137	(1) (2) (3) (4) (5)
33	(1) (2) (3) (4) (5)	68	(1) (2) (3) (4) (5)	103	(1) (2) (3) (4) (5)	138	(1) (2) (3) (4) (5)
34	(1) (2) (3) (4) (5)	69	(1) (2) (3) (4) (5)	104	(1) (2) (3) (4) (5)	139	(1) (2) (3) (4) (5)
35	(1) (2) (3) (4) (5)	70	(1) (2) (3) (4) (5)	105	(1) (2) (3) (4) (5)	140	(1) (2) (3) (4) (5)

Specimen only