

RSK3701

OCTOBER/NOVEMBER 2017

RISK FINANCING AND SHORT TERM INSURANCE

STUDENT NUMBER									

IDENTITY NUMBER											

FOR USE BY EXAMINATION INVIGILATOR

Question No.	Marks					
	Examiners					
	1	2	3	4	5	6
Section A						
1						
2						
Section B						
3						
4						
5						
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7						
8						
Total						

Subject

01
Number of paper

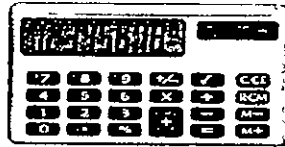
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**RSK3701**

October/November 2017

RISK FINANCING AND SHORT TERM INSURANCE

Duration 2 Hours

70 Marks

EXAMINERS
 FIRST
 SECOND
 EXTERNAL

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 MISS Z YOUSUF
 PROF RW VIVIAN

Use of a non-programmable pocket calculator is permissible

Closed book examination

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This paper consists of 16 pages in total, including 2 pages for rough work

This paper comprises **TWO** sections, A and B

Section A comprises multiple choice and true/false questions. You must answer the questions in this section on the examination paper as instructed. Section B comprises paragraph and essay type questions which must be answered in the designated areas on the paper.

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Please note:

- 1 This is a fill-in examination paper and there is no need for any examination books. Students must hand over the examination paper to the invigilator before leaving the examination hall.
- 2 **NO MARK READING SHEET IS PROVIDED** for the multiple choice questions. The answers must be indicated on the exam paper as instructed.
- 3 Any silent, non-programmable, battery operated pocket calculator may be used.
- 4 Pages for rough work have been provided (see pages 15 and 16). No rough work will be marked.

[TURN OVER]

SECTION A: MULTIPLE-CHOICE AND TRUE/FALSE QUESTIONS**Question 1: Multiple-choice questions**

INDICATE THE CORRECT ANSWER TO EACH QUESTION BY DRAWING A CIRCLE AROUND THE NUMBER OF THE CORRECT OPTION.

- 1 1 The Balance Sheet of a business shows a high concentration of inventory at the beginning of its sales cycle with an equally high concentration of receivables at the end of the sales cycle. The inventory and receivable levels is indicative of
- 1 a stable liquidity position throughout the sales cycle
 - 2 a strained working capital position at the beginning of the sales cycle
 - 3 a good solvency position throughout the sales cycle
 - 4 a favourable asset test ratio at the beginning of the sales cycle
- 1 2 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
- 1 3 Mr Yousuf bought an expensive diamond ring for his wife for her birthday. She only intends to wear the ring on special occasions. The ring will be kept in a safe at their home when she is not wearing it. Mr Yousuf would be wise to insure the ring under the _____ section of his short-term policy
- 1 All Risks
 - 2 Houseowners
 - 3 Householders
 - 4 Liability
- 1 4 In terms of Marine insurance, *perils of the sea* refer to
- a Jettison
 - b Barratry
 - c Stranding
 - d Collision

Choose the correct combination:

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

[TURN OVER]

1 5 An insurer has a stop loss treaty for 90% of any excess of claims over 70% of premiums in any one year up to 100%. The insurer has R20 000 000 premium income for 2016 and losses amount to R18 000 000. The stop loss treaty will pay

- 1 R14 000 000
- 2 R18 000 000
- 3 R 4 000 000
- 4 R 3 600 000

1 6 Insurance surveys are normally conducted

- a at the renewal of policies
- b prior to the inception of risks
- c following losses
- d for larger commercial risks

Choose the correct combination:

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

1 7 The policy schedule includes details of the

- a period of the insurance
- b special terms and conditions.
- c details of the insured
- d exclusions

Choose the correct combination:

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

1 8 Indicate which of the following items will be covered under the All Risk section of a Personal Lines policy

- 1 A worn-out evening jacket
- 2 A set of golf clubs stolen from a locker at school
- 3 A crashed computer hard drive
- 4 Money, cheques and coins

[TURN OVER]

1 9 Insurable interest must exist

- 1 when a marine policy is issued
- 2 at the time a life insurance policy claim is submitted
- 3 when entering into a wagering agreement
- 4 when a life policy is issued

1 10 An underwriter is requested to underwrite a tyre manufacturing plant. The sums insured are

Fire R70 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.

Under the above scenario

- 1 the gross retention is R67 500 000
- 2 the total net line is R5 000 000
- 3 facultative reinsurance of R35 000 000 will have to be placed
- 4 no facultative reinsurance is required

1 11 Proportional reinsurance products include

- a Stop loss insurance
- b Excess of loss
- c Quota share treaty
- d Surplus treaty

Choose the correct combination:

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

1 12 Indicate the **correct** statement

- 1 Ex gratia payments are only used to resolve problems of quantum
- 2 Ex gratia payments are indemnity payments
- 3 Ex gratia payments do not affect future claim payments
- 4 Contribution and subrogation applies to ex gratia payments

1 13 An excessive claim reserve may result in

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

[TURN OVER]

1 14 Indicate the **correct** statement

- 1 The solvency margin of a company is represented by the total value of its fixed assets
- 2 Shareholders of a company usually prefer higher solvency margins
- 3 Lower solvency margins indicate a lower *utilisation of resources*
- 4 Policyholders usually prefer higher solvency ratios

1 15 Mr Naidoo has both a Personal Accident and a Whole Life insurance policy. He works in a mine as a shaft manager. During one of the shifts he gets injured in an explosion but survived and is awarded sick leave for six months. During this time he is killed in a motor car accident. His dependants will

- 1 have no claim against the Personal Accident policy as his death was not work-related
- 2 *not be able to claim from both policies as it would be regarded as double indemnity*
- 3 be able to claim the full benefits of both policies
- 4 be able to recover the damages caused to the deceased motor vehicle from the Personal Accident policy

1 16 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 except in the case of tyre excess*
- 4 The "pillion passenger extension" provides liability cover to passengers carried on a motor cycle

1 17 Motor Traders Internal policies

- 1 provide no cover to vehicles damaged at the insured's premises
- 2 only cover the insured's own vehicles against theft
- 3 are normally rated on the wage figure of the business
- 4 cover vehicles temporarily in the course of a journey

1 18 Damages caused by a nuclear attack is a typical example of a(n) risk

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

1 19 Hull insurance

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

[TURN OVER]

1 20 Indicate the **correct** statement

- 1 Fidelity guarantee insurance provides cover against theft of money and stock by employees
- 2 Fidelity guarantee insurance is always issued on a named persons' basis
- 3 The premium of Fidelity guarantee insurance is based on the sum insured and the number of employees
- 4 The level of hazard under Fidelity guarantee insurance is judged by the salaries and wages paid in a business

(20 x 1 = 20)

Question 2: 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.

2 1 Accidental damage to television sets can be covered in an extension to the Houseowners policy

True/False

2 2 Items specified under an Asset All Risks section of a short-term policy will have an individual rate applied to them

True/False

2 3 Loss or damage arising from war is a standard exclusion that apply to all sections of a multi-peril policy

True/False

[TURN OVER]

2 4 Under the Personal Liability section of his short-term policy, Mr A is insured against possible legal liability claims up to the value of R3 million. Mr A is found negligent after causing a motor car accident. The driver of the other car, who sustained serious injuries, sues Mr A and is awarded an amount of R4 000 000 for damages and injuries sustained. In this case Mr A will, in his personal capacity, be liable for R1 000 000 of the damages awarded to the third party.

True/False

2 5 When purchasing Business Interruption insurance, the insurer is responsible for determining the indemnity period.

True/False

2 6 A company delivering goods will be sufficiently covered against the loss or damage of goods being delivered, locally and overseas, under a Goods in Transit insurance policy.

True/False

2 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 insurer will pay R48 000.

True/False

[TURN OVER]

2 8 In terms of Motor Cycle insurance, the basic excess payable by the insured varies with the engine capacity of the motor cycle

True/False

2 9 The effect of retained or self-funded losses on a company's earnings per share is normally the least constrained measure when considering the loss assumption ability of the company

True/False

2 10 The major limit under a Money insurance policy will apply to money held overnight, in the cash register, at the premises of a business

True/False

(10 x 2 = 20)
[20 + 20 = 40]

END OF SECTION A

[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.**