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RSK3701

MAY/JUNE 2017

RISK FINANCING AND SHORT TERM INSURANCE

STUDENT NUMBER									

IDENTITY NUMBER											

<p>FOR USE BY EXAMINATION INVIGILATOR</p>
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Question No	Marks		
	Examiners		
	1	2	3
Section A			
1			
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Section B			
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Subject

01.....

Number of paper

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Date of examination

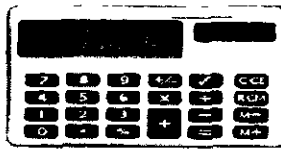
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Examination centre

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**RSK3701**

May/June 2017

RISK FINANCING AND SHORT TERM INSURANCE

Duration 2 Hours

70 Marks

EXAMINERS

FIRST

MS CJ DE SWARDT

SECOND

MISS Z YOUSUF

EXTERNAL

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 Indicate the **correct** statement.

- 1 A Houseowner's policy covers the content of a private dwelling
- 2 Multi peril policies are more expensive to issue
- 3 A Householders policy covers the building of a private dwelling.
- 4 Asset All Risk policies are policies of exclusions

1.2 Advanced listing ...

- a entails the listing of policies due for renewal
- b is done two months before the renewal date of policies.
- c is a long process completed manually by the claims department.
- d enables the underwriter to rate the claims experience for the policy.

Choose the correct combination:

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

1.3 In terms of an insurance policy ..

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

1.4 In terms of a collective insurance policy ..

- a only one policy document is issued.
- b claims are handled by the lead insurer
- c the lead insurer is responsible to place cover elsewhere in cases where one of the companies that share in the policy is liquidated.
- d a company who has a share on a collective policy may quote against the lead insurer

Choose the correct combination.

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

[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 2015 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 Examples of post-loss minimisation of losses include

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

Choose the correct combination:

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

1 7 The policy schedule includes details of the

- a period of the insurance
- b general policy conditions
- c first amount payable
- d exclusions

Choose the correct combination:

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

1 8 Proportional reinsurance

- 1 entails the cedant to underwrite its retention as a form of first-loss insurance
- 2 have grown in popularity because they are simple to operate
- 3 is arranged on a treaty or facultative basis
- 4 is arranged on a treaty basis only

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

[TURN OVER]

- 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 R6 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 R81 000 000
- 2 the total net line is R6 000 000
- 3 facultative reinsurance of R20 000 000 will have to be placed
- 4 no facultative reinsurance is required

- 1 11 Non-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,c
- 2 a,c
- 3 b,c
- 4 a,b

- 1 12 A farmer insures his crop for R100 000. The value of the crop is R120 000. A loss of R50 000 is sustained. If the principle of special condition applies, an amount of _____ will be payable by the insurer.

- 1 R 8 333,33
- 2 R 50 000,00
- 3 R100 000,00
- 4 R 41 666,67

- 1 13 Indicate the **correct** statement

- 1 Arbitration can only be used to resolve problems of quantum
- 2 Ex gratia payments are indemnity payments
- 3 Ex gratia payments might affect future claim payments
- 4 Contribution and subrogation applies to ex gratia payments

- 1 14 An excessive claim reserve may result in

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

[TURN OVER]

1 15 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 lower solvency margins
- 3 Lower solvency margins indicate a lower utilisation of resources
- 4 Policyholders usually prefer lower solvency ratios

1 16 Indicate the **correct** statement

- 1 The cover provided by All Risk Insurance is also referred to as *premises risks*
- 2 A squash racket broken during a match will not be covered under the All Risk section of a Personal Lines policy
- 3 A radio system stolen from an unlocked motor vehicle will be covered under the All Risk section of a Personal Lines policy.
- 4 Money, cheques and coins are covered under the All Risk section of a Personal Lines policy

1 17 Indicate the **correct** statement

- 1 Personal Accident policies are policies of indemnity
- 2 Personal Accident policies provide cover for accidents and illnesses.
- 3 No age restrictions apply to Personal Accident cover
- 4 Death cover under Personal Accident policies are sold in units of R10 000

1 18 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 life insurance policies
- 4 be able to recover the damages caused to the deceased motor vehicle from the Personal Accident policy

1 19 Indicate the **correct** statement

- 1 Under third party only cover, cover is provided for the insured's vehicle
- 2 Damage to the insured's recovered stolen vehicle will 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 on a motor cycle

1 20 Motor traders internal policies

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

(20 x 1 = 20)

[TURN OVER]

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 Insurance contracts are based on the premise of *caveat emptor*.

True/False

2.2 A ship has an insurable value of R5 000 000 but is insured for R3 500 000. The ship is damaged during a storm at sea. Damage amounts to R500 000. The insurer will not be liable for the loss because the ship is underinsured.

True/False

2.3 Shoplifting is automatically covered under theft insurance.

True/False

2.4 Hull insurance is only available to completed vessels and only covers perils on sea.

True/False

[TURN OVER]

2.5 In terms of a true monthly policy premiums are quoted annually but paid in monthly instalments

True/False

2.6 The replacement of stolen assets with new assets is a violation of the principle of indemnity

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 insured will pay a deductible of R6 000

True/False

2.8 Mr A is a plumber Apart from the working tools he carries with him, he also carries pipes and in many cases sanitary equipment that needs to be fitted at a clients' premises. In terms of Business All Risk insurance the sanitary equipment and his working tools will be covered

True/False

2.9 In terms of the difference basis of calculating the annual gross profit under Business interruption insurance, gross profit is defined as turnover minus closing stock, plus opening stock and uninsured costs

True/False

[TURN OVER]

2 10 The major limit of a money policy covers money held in the custody of directors on business of the insured

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.
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That the information supplied by me in this answer book is correct and valid

I undertake to adhere to the procedures, rules and regulations of the University of South Africa as published in the official brochures

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Batch No
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Signature of invigilator

UNISA invigilator's personnel number

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