



**RSK3701  
SECOND PAPER**

May/June 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

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 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.

**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 A business has a current ratio of 2:1 and an asset test ratio of 1,5:1. The business has a risk seeking attitude 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 for a risk retention programme
  - 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 current ratio is indicative of an illiquid working capital position
- 1 2 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 3 Acts of terrorism is a typical example of a(n) risk
- 1 uninsurable
  - 2 insurable
  - 3 particular
  - 4 speculative
- 1 4 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 5 An insured has a motor policy with a straight deductible of R5 000. The insured is involved in a car accident, sustaining damages of R10 000. The damages will be covered
- 1 in full by the insured
  - 2 on a rateable basis between the insured and insurer
  - 3 in full by the insurer
  - 4 in full by the insurer, less the deductible

**[TURN OVER]**

1 6 The principle of subrogation

- 1 applies to policies of compensation
- 2 is enforced where the insured is considered underinsured
- 3 is enforced where the insured is insured by more than one insurer
- 4 enforces the principle of indemnity

1 7 Indicate the **correct** statement

- 1 Collusion or theft by employees is a general exclusion to most accident policies
- 2 Cover for property, also covered in terms of a marine policy, is a standard exception to the multi-peril policy
- 3 Exceptions to policies can be deleted and the particular peril covered for an additional premium
- 4 Loss of damage arising from war is a general exclusion to all short-term policies

1 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

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 Indicate the **correct** statement

- 1 Stamp duties are paid on short term insurance policies in South Africa
- 2 Consideration in terms of insurance policies refers to the terms and conditions of the policy
- 3 The replacement of stolen assets with new assets is a violation of the principle of indemnity
- 4 The issuance of a policy is not essential for concluding an insurance contract in South Africa

1 11 Hull insurance

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

**[TURN OVER]**

- 1 12 A House Owners policy covers the buildings and outbuildings of a residence but can also be extended to include
- 1 swimming pool machinery against deterioration
  - 2 fixed sanitary ware against chipping and scratching
  - 3 accidental damage to television sets and video cassette recorders
  - 4 fixed glass against accidental breakage
- 1 13 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 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 14 You insured your house with a newly founded insurer. In order to limit its exposure the insurer enters into a reinsurance agreement in terms of which the reinsurance company retains 70% of the total risk and the insurer retains 30%. This reinsurance agreement is referred to as a agreement
- 1 quota share treaty
  - 2 stop-loss
  - 3 surplus treaty
  - 4 excess of loss
- 1 15 Indicate which of the following items will be covered under the All Risk section of a Personal Lines policy
- 1 A torn evening jacket
  - 2 An expensive cricket bat stolen from a locker at school
  - 3 A crashed computer hard drive
  - 4 Money, cheques and coins
- 1 16 In terms of the difference basis of calculating the annual gross profit under Business Interruption insurance, gross profit is defined as
- 1 net profit plus standing charges
  - 2 turnover minus closing stock, plus opening stock and uninsured costs
  - 3 turnover plus closing stock, minus opening stock and uninsured costs
  - 4 net profit less standing charges
- 1 17 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

[TURN OVER]

1 18 Indicate the **correct** statement

- 1 Arbitration can be used to resolve all types of claim disputes
- 2 Litigation can only be used to resolve problems of quantum
- 3 Negotiation is the most common way of handling disputed claims
- 4 Arbitrations are normally conducted in a court of law

1 19 With regard to a comprehensive motor insurance policy, indicate which of the following statements are **correct**

- a The cost of hiring a vehicle after an accident will normally be covered by the policy
- b Tyres damaged by the application of brakes will be covered in terms of the policy
- c The insured is generally not covered by the policy should he or she be involved in an accident while driving a car not belonging to him or her
- d The insured is generally not covered by the policy should his or her vehicle be driven by an unlicensed driver

**Choose the correct combination**

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

1 20 The major limit of a money policy applies to money

- 1 transferred to and from the bank
- 2 held at the home of any partner or director
- 3 held in the custody of directors on business of the insured
- 4 stolen by employees

**(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 An insurance system can only operate successfully when potential losses can be predicted accurately

True/False


2 2 A farmer insures his crop for R80 000 The value of the crop is R120 000 A loss of R50 000 is sustained If the principle of special condition applies, R33 333,33 will be payable by the insurer

True/False


2 3 An insured, insured his vehicle with two different insurance companies for its full value In the case of a loss, he would therefore be sufficiently insured as well as be able to profit from the insurance

True/False


2 4 The suicide clause included in life policies reduces adverse selection in terms of life insurance

True/False


**[TURN OVER]**

2.5 A high claims reserve of an insurer is preferred by investors and shareholders of the company.

True/False


2.6 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


2.7 An insured has a policy with a R10 000 deductible and a recapture factor of 4%. Should a loss of R100 000 be sustained, the insured will pay the full deductible of R6 400

True/False


2.8 An underwriter is requested to underwrite a tyre manufacturing plant. The sums insured are:

Fire R40 000 000  
Loss of profits R20 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 an eight line surplus treaty The underwriter will need no facultative reinsurance in this case.

True/False


[TURN OVER]



2.9 Mr Smith is a plumber. Apart from the working tools he carries with him, he also carries wires and pipes and in many cases sanitary ware that needs to be installed at a clients' premises. In terms of Goods in Transit insurance the working tools, pipes, wire and the sanitary equipment that needs to be installed will all be covered.

True/False


2.10 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 therefore not be covered and will need to claim the money from the broker.

True/False


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

[TURN OVER]













**ROUGH WORK  
NO ROUGH WORK WILL BE MARKED**

**[TURN OVER]**



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Examination period

Student number

Surname

First Names

Subject

Code of paper

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Centre

Date

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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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