FINAL	%	

UNISA university of south africa

RSK3701
SECOND PAPER
MAY/JUNE 2018

SECOND PAPER

RISK FINANCING AND SHORT TERM INSURANCE

STUDENT NUMBER

IDENTITY NUMBER

FOR USE BY EXAMINATION INVIGILATOR

| Question No	Marks		
	Examiners		
	1	2	3
Section A			
1			
2			
Section B			
3			
4			
5			
6			
7			
8			
9			
10			
Total			

Subject

01
Number of paper

Date of examination

Examination centre

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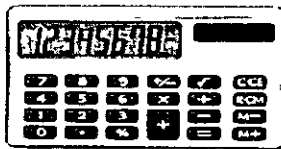
RSK3701
SECOND PAPER

May/June 2018

Risk Financing and Short Term Insurance

Duration   2 Hours

70 Marks

EXAMINERS
FIRST	MS CJ DE SWARDT	
SECOND	MS TG LEGOTLO	MISS Z YOUSUF
EXTERNAL	DR GJ SANDROCK	

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 of 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 calculation and written questions These questions must be answered in the designated spaces provided 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 scripts. 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.

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 financial statements of the business shows a low concentration of inventory at the beginning of its sales cycle with an equally low 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   an unfavourable asset test ratio at the beginning of the sales cycle

1 2   In terms of marine insurance, *perils on 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

1 3   An insurer has a stop loss treaty for 80% of any access of claims over 70% of premiums in any one year up to 100% The insurer has R20 000 000 premium income and losses amounts 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 3 200 000

1 4   The following short-term covers are subject to average

a   Glass insurance
b   Motor insurance
c   Personal Accident insurance
d   Householders insurance

Choose the correct combination:

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

15   The preamble of a policy

a   gives the names of the parties to the contract
b   specifies the special terms and conditions
c   normally carries a premium payment condition
d   specifies any exclusions

Choose the correct combination

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

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

1   A jacket torn while passing a gate on your way to work
2   A laptop stolen from an unattended motor vehicle
3   A crashed computer hard drive
4   Money, cheques and coins

17   Insurable interest must exist when

1   a marine loss occurs
2   a short term policy is cancelled
3   entering into a wagering agreement
4   a life insurance claim is submitted

18   Non-proportional reinsurance products include

a   Stop loss insurance
b   Excess of loss
c   Catastrophe excess of loss
d   Surplus treaty

Choose the correct combination.

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

19   An excessive claim reserve may result in a(n)

1   rise in the share price of the insurance company
2   increase in investments from external sources
3   lower solvency margin
4   higher solvency margin

1 10   A motorcar accident is a typical example of a(n)   risk

1   uninsurable
2   fundamental
3   particular
4   speculative

(10 x 1 = 10)

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 insurer may repudiate a claim if a warranty contained in the policy has been breached.

True/False

2 2   In terms of collective insurance the lead insurer is responsible to place cover elsewhere in cases where one of the companies that share in the policy is liquidated

True/False

2 3   Liability arising from the negligent use of a firearm is an exception in terms of the liability cover provided under a Personal liability policy

True/False

2 4   Ex gratia payments are compensation payments

True/False

2 5   When purchasing business interruption insurance, the insured is responsible for determining the indemnity period

True/False

2 6   A company delivery goods overseas, will need marine insurance to cover possible losses of goods in transit

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 R42 000

True/False

2 8   Personal Accident policies provide cover for accidents and illnesses

True/False

2 9   Mr A insured his vehicle with ABC insurance company Mr A is involved in a motor car accident caused by the negligence of a third party The third party is not insured In this case Mr A will be able to claim the amount of damages from his own insurer and the third party

True/False

2 10   The minor limit under a money insurance policy will apply to money held overnight, in a safe, at the premises of a business

True/False

(10 x 2 = 20)
[10 + 20 = 30]

SECTION B: PARAGRAPH QUESTIONS

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

Question 3 (5 marks)

You have insured your house for R2 000 000 with ABC Insurer You transfer your bond to another bank and take out insurance on the house with DEF Insurer for R1 000 000 You do not cancel your insurance with ABC Insurance company The actual value of your house is R2 000 000 A fire breaks out in your house causing damages of R500 000

Calculate the amount payable by each insurer. Explain the legal principle that applies when an insured is insured by more than one insurer for the same exposure.

Question 4 (5 marks)

Explain the cover provided under **glass insurance**

Question 5 (5 marks)

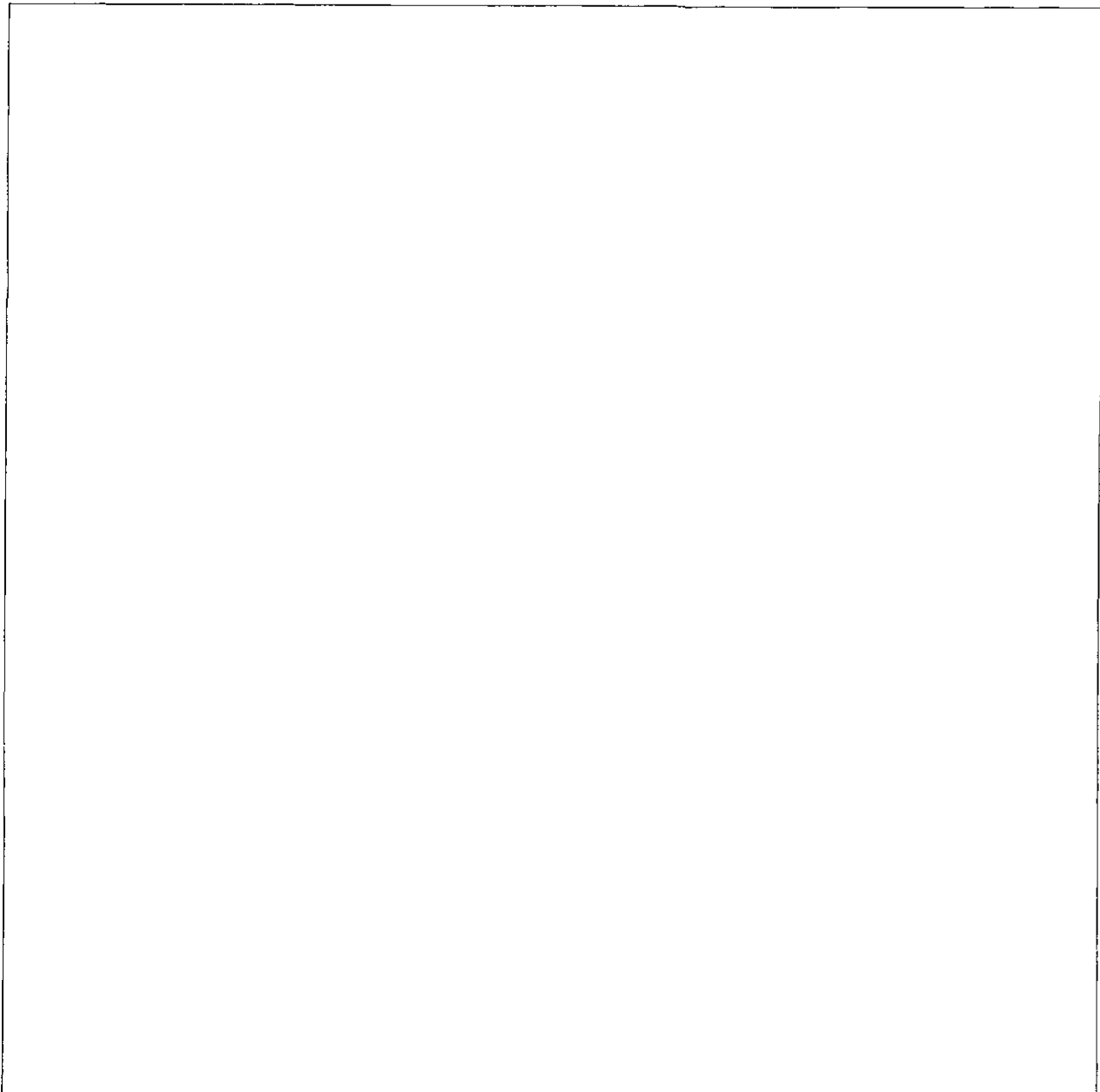Highlight the main features of **finite risk insurance.**

Question 6 (5 marks)

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 R8 000 000 and can take an additional 50% if the risk involves Fire and Loss of profit The underwriter can arrange a nine line surplus treaty with a reinsurer **Determine whether the underwriter can accept the risk without placing facultative reinsurance or arranging a second surplus treaty.**

Question 7 (5 marks)

Distinguish between the cover provided under **Third party only, Third party, Fire and Theft** and **Comprehensive** motor insurance

Question 8 (5 marks)

Make use of a practical example to illustrate the difference between the **pro-rata condition of average** and the **special condition of average**

Question 9 (5 marks)

Use a numerical example to illustrate the difference between a **straight** and **aggregate** deductible

Question 10 (5 marks)

Mr Baker approaches you to arrange employers' liability cover for him Assist him by briefly explaining the functioning of the COID Act and how it affects him as employer

[8 x 5 = 40]

Total marks· 70

[TURN OVER]

ROUGH WORK
NO ROUGH WORK WILL BE MARKED

ROUGH WORK
NO ROUGH WORK WILL BE MARKED

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Batch No
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Fill-in/MCQ

Examination period

Student number

Surname

First Names

Subject

Code of paper ☐☐☐☐☐☐☐—☐ Number of paper

Centre   Date

This is to certify that I have read the rules governing the examinations as set out on the inside cover of this examination answer book and in the examination instructions

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

Signature of candidate

ID Number ☐☐☐☐☐☐☐☐☐☐☐☐☐

Signature of invigilator ☐☐☐☐☐☐☐☐

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