

**RSK3701**

(495570)

October/November 2013

RISK FINANCING AND INSURANCE

Duration 2 Hours

70 Marks

EXAMINERS :

FIRST

MS CJ DE SWARDT

SECOND

MR J VAN HUYSTEEN

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 19 pages including 2 pages for rough work, plus instructions for completing a mark-reading sheet

This paper comprises two sections, A and B

Section A consists of thirty 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 **495570** on the mark reading sheet

Section B comprises FOUR paragraph/calculation type questions. Each question counts 10 marks. Section B must be answered in the designated areas on pages 10 to 17

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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 Section B 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 (see pages 18 and 19). No rough work will be marked.

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SECTION A: MULTIPLE-CHOICE QUESTIONS

Indicate the correct answer to each question on the mark-reading sheet.

Question 1

Indicate the correct statement

- 1 Risk cannot exist if danger is not perceived
- 2 Organisational charts are useful tools in identifying process type risk
- 3 A bank robbery is an example of a particular risk
- 4 Static risks only arise from changes in the economy

Question 2

Indicate the correct statements

- a Insurance contracts indemnify the insured in terms of money only
- b Pooling is not a prerequisite for insurance
- c Production flow charts are useful in identifying supplier risk
- d Driver training is an example of a pre-loss minimisation technique

Choose the correct combination.

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

Question 3

Adverse selection

- 1 can result in lower losses than expected
- 2 is increased by introducing clauses such as the cancellation clause
- 3 refers to the tendency that people with higher probability of loss than the average seek insurance
- 4 is increased by introducing compulsory medical examinations when applying for policies

Question 4

For a loss to be insurable it should be

- 1 inevitable
- 2 catastrophic
- 3 measurable
- 4 unique

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Question 5

Lloyds .

- a has underwritten the Titanic
- b is an insurance company
- c operates worldwide
- d originated the term *underwriting*

Choose the correct combination

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

Question 6

A proposal form

- a is an offer by the insured to the insurer to do business
- b can be used to advertise other products available from the insurer
- c elicits a quotation
- d establishes a warranty

Choose the correct combination.

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

Question 7

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

Question 8Indicate the **correct** statement(s)

- a Stamp duties are paid on short term insurance policies
- b Consideration in terms of insurance policies is defined as the payment of a claim
- c The replacement of stolen assets with new assets is a violation of the principle of indemnity
- d The issuance of a policy is not essential for concluding an insurance contract.

[TURN OVER]

Choose the correct combination:

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

Question 9

Indicate which of the following is/are considered as a material fact(s) when taking out a motor policy

- a The age of the driver
- b The intended use of the vehicle
- c The driver's academic record
- d Previous criminal records

Choose the correct combination:

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

Question 10

Indemnity

- 1 is enforced by the principles of contribution and subrogation
- 2 applies to Personal Accident policies
- 3 implies that the insured will be indemnified to the full extent of the loss
- 4 applies to ex gratia payments

Question 11

An insurer enters into a quota share arrangement with the ceding insurer retaining 70% of any loss
How much will the reinsurer pay if the loss amounts to R40 000 under a R80 000 policy?

- 1 R12 000
- 2 R40 000
- 3 R28 000
- 4 R24 000

Question 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

[TURN OVER]

Question 13

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

Fire R50 000 000

Loss of profits R30 000 000

The underwriter has a net line of R2 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 R27 000 000
- 2 the total net line is R2 000 000
- 3 facultative reinsurance of R50 000 000 will have to be placed
- 4 no facultative reinsurance is required.

Question 14

Indicate which of the following is likely to be covered in terms of Personal Accident policy

- 1 A man injured when lifting a heavy box.
- 2 A 75 years old man, dying two months after being injured in a car accident
- 3 A worker sustaining lung cancer as a result of working in an asbestos plant
- 4 A man injured in an explosion at a production site

Question 15

The following is/are exceptions in terms of liability covers in a domestic package

- a Liability arising from conduct of business for reward
- b Liability for the injury of the policyholder
- c Liability arising from the negligent use of a firearm
- d Liability arising from the consequences of a bad slice at golf

Choose the correct combination

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

Question 16

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 the commission rate is normally lower for the cedant

[TURN OVER]

Question 17

A fire policy can be extended to include damage caused by

- a earth tremors
- b landslides
- c explosions
- d malfunctioning of sprinkler systems

Choose the correct combination.

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

Question 18

Proximate cause refers to the cause of a loss in a chain of events

- 1 original
- 2 dominate
- 3 *last straw*
- 4 final

Question 19

A farmer insures his crop for R100 000. The value of the crop is R120 000. A loss of R30 000 is sustained. If the principle of special condition applies, an amount of will be payable by the insurer

- 1 R30 000
- 2 R25 000
- 3 R15 000
- 4 No payment will be made

Question 20

Indicate the correct statement.

- 1 Theft of money by employees is covered under money insurance if discovered within 14 days of its happening
- 2 The breakage of mirrors in a fitting room of a retailer is not covered under glass insurance
- 3 Money transported to and from the bank is covered under Fidelity guarantee insurance
- 4 Shoplifting is covered under theft insurance

[TURN OVER]

Question 21

An excessive claim reserve will result in

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

Question 22

In terms of the COID Act (130 of 1993) .

- 1 employees can sue their employers for injuries following an accident at work
- 2 employers have a greater need for Employer's Liability cover
- 3 domestic workers and contractors have the right to compensation from the government for injuries following an accident at work
- 4 Permanent Military Force members have the right to compensation from the government for injuries following an accident at work

Question 23

Under motor cycle insurance

- 1 there is no cover for the motor cycle if a passenger is being carried on the motor cycle
- 2 full cover for the motor cycle and passenger liability can be provided by adding a pillion passenger extension to the policy
- 3 cover for theft of accessories and spare parts of the motor cycle is provided at all times
- 4 the driver of a motor cycle is covered when driving his own as well as another motor cycle

Question 24

Indicate the **correct** statement

- 1 Companies authorised to issue SASRIA cover are remunerated by means of interest payments
- 2 The government is the sole shareholder of SASRIA
- 3 The government has an unlimited liability towards SASRIA
- 4 SASRIA cover risks in South Africa and Namibia

Question 25

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

- a A torn evening jacket
- b An expensive cricket bat stolen from a locker at school
- c A wrist watch lost while doing water sport
- d Money, cheques and coins

[TURN OVER]

Choose the correct combination.

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

Question 26

Indicate the correct statement(s)

- a Joint owners of property have an insurable interest in each other's life
- b Neighbours have an insurable interest in each other's life
- c Trustees can insure the property for which they are liable for
- d There is no legally recognised relationship between mortgagees and mortgagors.

Choose the correct combination.

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

Question 27

Business interruption insurance

- 1 is also referred to as profit and loss insurance
- 2 was developed to pay the net profit that would have been earned if there had been no interruption
- 3 provides cover for bad debts
- 4 has an unlimited indemnity period

Question 28

Indicate the correct statement.

- 1 Collusion or theft by employees is normally covered under most accident policies
- 2 Exceptions to a policy can be deleted and the peril covered for an extra premium
- 3 Exceptions to policies cannot be deleted and always apply
- 4 Shoplifting is an exclusion to a theft policy

Question 29

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 levels of control and the salaries and wages paid in a business

[TURN OVER]

Question 30

Mr A insured his motor vehicle for R300 000 with Insurance Company A. After a few months, he moved his short term cover to another insurer, Company B. Cover for the vehicle, amounting to R300 000, is included in the new policy. Before he could cancel the cover with Company A, Mr A is involved in an accident. The damage to his vehicle amounts to R100 000. The value of the vehicle at the time of the accident is R280 000.

Indicate the **correct** statement

- 1 Insurer A and B will each be liable for the full amount of the damage
- 2 Insurer B will be liable for the full damage to the vehicle
- 3 Insurer A and B will each only be liable for 50% of the damages
- 4 The principle of average will apply in the aforementioned case

[30 X 1 = 30]

[TURN OVER]

**DO YOUR ROUGH WORK HERE.
NO ROUGH WORK WILL BE MARKED.**

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DO YOUR ROUGH WORK HERE.
NO ROUGH WORK WILL BE MARKED.

PART 1 (GENERAL/ALGEMEEN) DEEL 1

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For use by examination invigilator
 Vir gebruik deur eksamenopsiener

- IMPORTANT**
- USE ONLY AN HB PENCIL TO COMPLETE THIS SHEET
 - MARK LIKE THIS
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 - ENTER YOUR STUDENT NUMBER FROM LEFT TO RIGHT
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