

**RSK3702**

October/November 2015

RISK MANAGEMENT. LONG TERM INSURANCE

Duration 2 Hours

70 Marks

EXAMINERS

FIRST

MR NJ GODI

SECOND

MR E ZINGWEVU

EXTERNAL

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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 12 pages in total, including 2 pages for rough work

This paper comprises section A and B

Section A comprises multiple choice and true/false questions. Section B comprises paragraph and essay type questions. Both sections 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 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 11 and 12). No rough work will be marked.

[TURN OVER]

SECTION A: MULTIPLE-CHOICE AND TRUE/FALSE QUESTIONS

Indicate the correct answer to each question by drawing a circle around the number of the correct option.

Question 1

- 1 1 Themba was married to Ntombie for 15 years. As part of their financial planning, they both took life insurance cover on each other for R5 Million. In the passage of time, they divorced. Themba decided to move on with life and remarried. Ten years later, Themba passed away. Assuming that Ntombie had continued with the premium payments on the policy for Themba's life, state whether Ntombie would successfully claim from the life insurer.
- 1 No, she cannot since she no longer had insurable interest in Themba's life
 - 2 Yes, because she continued paying premiums consistently over the policy period
 - 3 Yes, since she had insurable interest when the policy commenced
 - 4 No, since Themba had a new wife who was entitled to the benefits of the policy
- 1 2 Following advice from their financial advisor, Dumir and Sarah decided to take a lump sum investment on the life of their child (Noble). At age 5, Noble suffers from a rare disease and dies. The investment had grown to R60 000 over the five years. Initial premium was R25 000. The maximum amount claimable is
- 1 R30 000
 - 2 R10 000
 - 3 R25 000
 - 4 R60 000
- 1 3 Under what category would you classify credit life insurance?
- 1 Whole life
 - 2 Term
 - 3 Endowment
 - 4 Universal
- 1 4 Indicate the **correct** statement regarding annuities.
- 1 Any annuity arranged or paid by a pension fund or retirement annuity fund is voluntary
 - 2 Gender does not affect the compulsory annuity that the insurer is prepared to guarantee
 - 3 With an annuity certain, the annuity will cease if the annuitant dies within the stipulated period
 - 4 Indexed annuities are normally issued with a minimum annual interest to protect the investor.
- 1 5 If an individual is worried about the possibility of a loss of earning ability and wants a policy that will supply him with a regular income until s/he reaches retirement age, which policy would you recommend?
- 5 Capital disability
 - 1 Income protection
 - 2 Dread disease cover
 - 3 Endowment

[TURN OVER]

- 1 6 Restrictions to new policies that are issued in accordance to Part 4 of the Regulations to the Long Term Insurance Act include
- a The minimum policy term must be 10 years
 - b Increases in premiums are limited to a maximum of 20% per annum
 - c It is possible to have more than one life insured on a policy
 - d Policyholders are not allowed a loan against the policy in the first 5 years of the policy

Choose the correct combination:

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

- 1 7 The difference between medical schemes and hospital insurance lies in that .

- 1 contributions to hospital cash plans are taxable while contributions to medical schemes are not
- 2 hospital cash plans pay the hospital for all the medical expenses while medical schemes pay the member.
- 3 hospital cash plans are only for accidents sustained at work while medical schemes cover natural illnesses
- 4 medical schemes fall under the Medical Schemes Act while hospital cash plans fall under the Short Term insurance Act

- 1 8 Indicate the **correct** statement

- 1 Policy loans approved by a life insurer are paid from the investment account of the policy.
- 2 The value of a policy loan granted will be limited to a percentage of the cash value of the policy
- 3 No interest is charged on policy loans where the policy has a surrender value.
- 4 Policy loans are paid out with money retained in the reserve account of the life insurer

- 1.9 In terms of the ASISA HIV testing protocol ...

- 1 all applicants for life insurance must undergo HIV testing
- 2 it is not compulsory for life insurance applicants to test for HIV
- 3 testing is only compulsory for life cover above R200 000
- 4 positive results must not be recorded in the ASISA registry

- 1.10 Mr G and Mr Z are equal partners in a business. One of their concerns is the area of control over the interest or share in the business should one of them pass away. They both realise that it would be to their advantage to make arrangements for the continuation of the business while they both are still able to do so. One of the options they might consider is to

- 1 establish a sinking fund
- 2 enter into a buy and sell agreement
- 3 purchase contingent liability insurance
- 4 arrange key-person insurance

(10 X 1 = 10)

[TURN OVER]

Question 2

Evaluate the accuracy of each of the following statements. Indicate whether you consider the statement accurate or not and provide a full motivation for your answer.

2 1 Aggregate recovery of initial costs is when the insurer settles his costs first before paying premiums into the investment account of the policyholder

True/False

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2 2 Anti-selection is a tendency by those that are exposed to higher risk like smokers, to take life insurance cover

True/False

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2 3 Where a polygamous man dies intestate, the first wife will inherit the estate

True/False

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2 4 An intervivos trust is created through a will and only exists after the death of the owner of an estate

True/False

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2 5 In terms of the long Term Insurance Act, claims occurring during the days of grace will not have to be paid by the insurer

True/False

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2 6 If at claims stage an insurer discovers that a person who was an administrator died while working as a mining worker, the insurer will be justified to repudiate a claim on the basis that this was a material fact that required disclosure.

True/False

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2 7 Mandy is employed by Tony and is entitled to a salary of R500 000 per year Mandy takes out life cover for R1 000 000 on the life of Tony. The cover is equivalent to the value of the two year contract that she has with Tony This policy is valid form an insurable interest point of view

True/False

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2 8 The Financial Intelligence Centre Act exempts the long term insurers from complying with the Act.

True/False

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2 9 The reasonable man test is used in life insurance to test the materiality of a fact

True/False

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2 10 In terms of universal life policies, the investment account belongs to the insurer

True/False

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[30]

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SECTION B

ANSWER ALL THE QUESTIONS IN THIS SECTION IN THE SPACES PROVIDED.

Question 3

a. How are contributions to a medical scheme treated in terms of income tax? (5)

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b Briefly explain five (5) points under the demarcation guidelines between health insurance and medical schemes. (5)

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Question 4

List and discuss the objectives of the underwriter in life insurance

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Question 5

Explain the guaranteed insurability benefit under a life insurance policy State the reasons why a person would opt for such cover

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DO YOUR ROUGH WORK HERE

NO ROUGH WORK WILL BE MARKED.

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NO ROUGH WORK WILL BE MARKED.