

**RSK3702**

May/June 2015

**RISK MANAGEMENT: LONG TERM INSURANCE**

Duration 2 Hours

70 Marks

**EXAMINERS :**

FIRST

SECOND

EXTERNAL

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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 14 pages in total, including 2 pages for rough work.

This paper comprises three sections, A, B and C

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 four paragraph type questions of 5 marks each. Section C comprises two essay type questions of 10 marks each. 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 13 and 14). 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 The following applies to Term Insurance

- 1 The policy does not include life cover as such
- 2 When the policy holder dies before the maturity date the premiums paid during the term of the policy will be returned plus a fixed rate of interest paid on the premiums paid
- 3 The sum insured is only payable if death occurs within the specified term of the contract
- 4 These policies have increased in popularity due to its investment value

1 2 Pure endowments policies .

- 1 are not suitable to persons who are uninsurable for health issues
- 2 are issued on a *with profit* or *without profit* basis
- 3 includes life cover if the policy holder dies before the maturity date of the policy
- 4 does not make provision for any investment growth.

1 3 Morbidity rates .

- 1 refers to a person's death or chances of dying
- 2 are used to calculate premiums for disability benefits the proposer might want.
- 3 used by life insurers are based on census statistics.
- 4 are not impacted by HIV/AIDS

1 4 Indicate the correct statement

- 1 Any annuity arranged or paid by a pension fund is a voluntary annuity
- 2 The gender of a person applying for a compulsory annuity will have no impact on the annuity 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 against stock crashes

1.5 With an assistance business group life insurance scheme . .

- a individual persons are the policy holders
- b individual underwriting is done
- c the policy has term cover only
- d the policy may be cancelled by either party to the policy

Choose the correct combination:

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

[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 Policy holders 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 Indicate the **correct** statement

- 1 A risk class as applies to life insurance is a group of insureds who present similar morbidity risk to the insurance company
- 2 The standard life insurance risk class includes individuals with impairments that can be expected to shorten their life span.
- 3 Proper underwriting helps guard against anti-selection in life insurance
- 4 The preferred life insurance risk class includes individuals whose anticipated mortality is regarded as average

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 Defined contribution funds .

- 1 are less flexible about retirement ages when compared to defined benefits funds
- 2 usually present an open-ended contribution liability to employers
- 3 have an easily calculated member share of the fund
- 4 leads to cross-subsidisation between members, dependent on their ages

1 10 Mr A and Mr B 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 The insurer's underwriting manual should be used as an absolute authority in the underwriting process

True/False


2.2 Where an insurer uses aggregated charging to charge for expenses there is usually very little difference between the cash and surrender value of a policy.

True/False


2.3 The nomination of a beneficiary is automatically revoked if the policy is ceded to a third party

True/False


2.4 Retrospective underwriting is done at the reinstatement of a lapsed policy

True/False


**[TURN OVER]**

2 5 In terms of the long Term Insurance Act, claims occurring during the days of grace will have to be paid by the insurer

True/False


2 6 An insurer is not obliged to pay a life insurance claim when the insured is convicted of a crime for which he/she is executed

True/False


2 7 Mortality refers to the number of people who will die in the year of assessment

True/False


2 8 A legatee is a person whom a deceased has left a certain item or sum of money, as specific mentioned in his/her will

True/False


2 9 The validity of a life insurance contract is based on the principle of *uberrima fides*

True/False


[TURN OVER]

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

True/False


(10 x 2 = 20)  
[30]

[TURN OVER]

**SECTION B**

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

**Question 3**

Explain how sinking funds can be used to provide sufficient capital to replace old machinery. (5)


**Question 4**

List five circumstances under which a claim will be considered if the life insured dies before the date on which cover commences (5)


[TURN OVER]

**Question 5**

Explain whether a claim submitted 20 months after the reinstatement of a policy will be considered if the **cause of death was suicide** (5)


**Question 6**

List the three **Marital Regimes** in South African Law and **briefly explain any two of the three** (5)


[Any 4 x 5 = 20]

[TURN OVER]











**DO YOUR ROUGH WORK HERE**

**NO ROUGH WORK WILL BE MARKED.**

**[TURN OVER]**

**DO YOUR ROUGH WORK HERE**

**NO ROUGH WORK WILL BE MARKED.**