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RSK3702

OCTOBER/NOVEMBER 2016

RISK MANAGEMENT: LONG 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			
4 1			
4 2			
5			
6			
7			
Total			

Subject

Number of paper

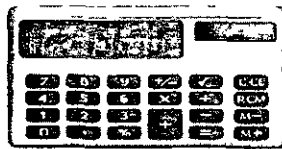
Date of examination

Examination centre

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**RSK3702**

October/November 2016

RISK MANAGEMENT: LONG TERM INSURANCE

Duration 2 Hours

70 Marks

EXAMINERS

FIRST

MR LP MAMARO

SECOND

MR J VAN HUYSSTEEN

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 examination paper consists of 19 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. Both sections must be answered in the designated area below the question. You must answer all the questions.

Please note:

- 1 This is a fill-in examination paper and there is no need for any examination scripts. Hand 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

SECTION A: MULTIPLE-CHOICE AND TRUE/FALSE QUESTIONS

[Total 30 marks]

Indicate the **CORRECT** answer to each question in the table at the end of this section.

Question 1

(10)

1 1 The risks are assessed in terms of

- a morbidity in life insurance
- b mortality in permanent health insurance
- b occupation and medical condition in personal accident insurance
- d medical condition and medical history in hospital and medical insurance

Choose the **correct** combination

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

1 2 Indicate the **correct** statement

- 1 The main reason of reinsurance is to stabilise financial results through the reduction of fluctuations in claims
- 2 Facultative reinsurer agree to accept, all amount in excess of a certain retention limit
- 3 Reinsurer does not protect an accumulation of claims from one source
- 4 Treaty reinsurance is obliged (reinsure) in the event where there is no automatic cover provided by the reinsurer

1 3 A non-fatal heart attack, requiring heart surgery but with a "full" recovery will constitute a high claim in terms of the supplementary benefit of a life insurance policy if that benefit is a benefit

- 1 dread disease
- 2 double accident
- 3 capital disability
- 4 waiver of premium

TURN OVER

- 1 4 In terms of the Association of Saving and Investment of South Africa (ASISA) Human Immunodeficiency Virus (HIV) testing protocol
- 1 testing is only compulsory for life cover above R200 000
 - 2 all applicants for life insurance must undergo HIV testing
 - 3 an HIV test is not compulsory for life insurance applicants
 - 4 positive results must not be recorded in the ASISA registry
- 1 5 Competition is an important aspect to be considered by the underwriter. Competition will ensure that the policy
- a is equitable
 - b delivery is prompt.
 - b provides benefits that meets the needs of the buyer
 - d premium is much lower than that of the competition

Choose the **correct** combination

- 1 a, b, c, d
 - 2 a, b
 - 3 a, b, c
 4. a, c
- 1 6 An absolute cession of a life insurance policy is used under which one of the following circumstances?
- 1 In a partnership buy and sell agreement
 - 2 When taking a bond for a house with a bank
 - 3 When an education policy is taken out
 - 4 When a wife needs protection against insolvency of her spouse
- 1 7 Indicate the **correct** statement
- 1 Proper underwriting helps guard against anti-selection in life insurance
 - 2 The preferred life insurance risk class includes individuals whose anticipated mortality is regarded as average
 - 3 The standard life insurance risk class includes individuals with impairments that can be expected to shorten their lifespan
 - 4 A risk class as it applies to life insurance is a group of insureds who present similar morbidity risk to the insurance company

TURN OVER

- 1 8 Mr Enock is married to Ingreed, he took out a life insurance policy where he nominated Ingreed as the sole beneficiary of the policy. They divorced after four years and he (Enock) remarried Mahlako. Three years after the marriage Mr Enock died in a car accident. In his last will he left his estate, including the life policy to Mahlako. However, he neglected to change the beneficiary of his life policy.

Indicate the **correct** statement

- 1 Ingreed will not be able to claim from the estate or policy proceeds
 - 2 Ingreed will be able to claim the proceeds of the policy despite the conditions of the will
 - 3 Mahlako will be able to claim the proceeds of the estate, including the proceeds of the life policy
 - 4 Ingreed will be able to claim proceeds from the estate in terms of the Surviving Spouses Act 27 of 1990
- 1 9 The following persons are disqualified from receiving a benefit from the will of the testator
- a A person that attests and signs the will as a witness
 - b A person who writes the will in his/her own handwriting
 - c The spouse of the person who signs the will on behalf of the testator
 - d A person generally disqualified but declared by a court competent to receive a benefit

Choose the **correct** combination:

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

- 1 10 Lenny and Miranda advised as follows from their financial advisor. They have decided (Lenny and Miranda) to make a lump sum investment on the life of their first child (Busi). At the age 5, Busi suffers from a rare disease and dies. The investment had grown to R60 000 over the five years. Initial premium was R25 000. What is the maximum amount claimable at this stage?

- 1 R10 000
- 2 R30 000
- 3 R35 000
- 4 R60 000

TURN OVER

Indicate your answers in this table.

1.1	
1.2	
1.3	
1.4	
1.5	
1.6	
1.7	
1.8	
1.9	
1.10	

TURN OVER

Question 2

(20)

Evaluate the accuracy of each of the following statements. Indicate whether you consider the statement to be True or False and provide a full justification for your answer.

2 1 Andrew was married to two wives (Mavis and Nnana) in South Africa. He recently died in a car accident on his way from work. As a polygamous person dies intestate, Mavis will inherit the estate as the first wife.

True/False

2 2 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

23 A person cannot be held liable in South Africa if he/she encourages another to kill him/herself

True/False

24 Risk classes used by life insurers can be grouped as standard, substandard, preferred and non-smoker

True/False

25 In terms of Part 4 of the Regulations to the Long Term Insurance Act, the minimum policy term must be two years and it is possible to have more than one life insured on a policy

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 Under an revocable nomination of the beneficiaries, the beneficiary requires full rights the moment nomination is accepted in writing

True/False

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

True/False

2 9 A pension fund may pay the total value of the accumulated benefits due to the member as a single lump sum

True/False

2 10 The reasonable man test is used in life insurance to test the materiality of a fact

True/False

4 2 Describe what pre-funding is and discuss the importance of pre-funding before or/and after retirements (5)

Question 5

(5)

Mrs Shirley knows that the new machinery that she has recently bought will need to be replaced in five years' time She has asked you for a solution to raise the required capital Explain the option of a sinking fund and how it works to your client by giving examples

Question 6

(5)

The risk classes can be established, using available statistics on mortality, a life company actuary will be able to establish a number of different categories or risk classes to accommodate the varying degree of risk presented by groups of individual applicants. Briefly discuss four different risk classes used by life insurance companies.

TURN OVER

Question 7**(10)**

Distinguish five differences between a defined contribution and a defined benefits fund by using the table below

Defined Contribution	Defined Benefits

TURN OVER

DO YOUR ROUGH WORK HERE

NO ROUGH WORK WILL BE MARKED.

DO YOUR ROUGH WORK HER

NO ROUGH WORK WILL BE MARKED.