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**RSK3702**

MAY/JUNE 2016

**RISK MANAGEMENT: LONG TERM INSURANCE**

STUDENT NUMBER									

IDENTITY NUMBER											

**FOR USE BY EXAMINATION INVIGILATOR**

Question No	Marks		
	Examiners		
	1	2	3
<b>Section A</b>			
1			
2			
<b>Section B</b>			
3			
4			
5			
6			
<b>Total</b>			

Subject

Number of paper

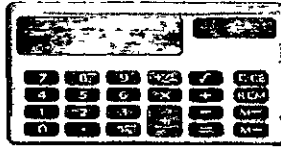
Date of examination

Examination centre

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**RSK3702**

May/June 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 paper consists of 16 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.

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. 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.

**SECTION A: MULTIPLE-CHOICE AND TRUE/FALSE QUESTIONS.**

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

**Question 1.**

1 1 In terms of universal life policies

- a the investment account belongs to the insurer
- b the insurer recovers the cost of life, disability and trauma cover from the investment account on an annual basis
- c after the breakthrough point of the policy is reached, the cash value of the policy decreases more rapidly
- d the insured is allowed to change the life cover element of the policy at will

**Choose the correct option:**

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

1 2 A member who is earning a salary of R18 000 per month and has 23 years' service is retiring at age 60. The defined benefit fund allows 2% for every year of service. Should the member decide to take the maximum amount permitted as a lump sum on retirement his pension will be

- 1 R6 304
- 2 R7 630
- 3 R8 280
- 4 R9 200

1 3 Mortality tables are used to calculate the premium rates and indicate the

- 1 probability of insured lives not surviving a given age
- 2 number of people who will die this year
- 3 chance of insured lives becoming ill
- 4 number of people who have attained a given age

1 4 Indicate the **correct** statement

- 1 Any annuity arranged or paid by a pension fund is a compulsory 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 maximum annual interest to protect the investor against stock crashes

**[TURN OVER]**

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

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 5 years
- b Increases in premiums are limited to a maximum of 20% per annum
- c It is not allowed 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

[TURN OVER]

1 9 Under a defined benefit pension fund

- 1 an open-ended contribution liability is carried by the employers
- 2 the contributions of both the employer and employee are fixed in terms of the rules of the pension fund
- 3 the employee bears the investment risk and administrative cost of the pension fund
- 4 are more flexible about retirement ages

1 10 Mr Phulong and Phiri 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

**Indicate your answer in this table.**

1	
2	
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7	
8	
9	
10	

(10 X 1 = 10)

[TURN OVER]

**Question 2.**

**Evaluate the accuracy of each of the following statements. Indicate whether you consider the statement true or false and provide a full motivation for your answer.**

2 1 A person cannot be held liable in South Africa if he/she encourages another to kill him/herself

True/False


2 2 *Uberrima Fides* is used to determine the validity of insurance contracts in South Africa

True/False


2 3 The surrender value of a policy will be the current value of the investment account of the policy

True/False


2 4 A pension fund may pay the total value of the accumulated benefits due to the member as a single lump sum

True/False


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 Morbidity refers to the number of people who will die in the year of assessment

True/False


2 8 To include a third person as beneficiary in a policy the *stipu alteri* is used to create a contract between the insurer and the third person

True/False


2 9 Where there is a difference between the stipulations in a will and the nomination of a beneficiary on a life policy, the courts will favour the beneficiary nominated on the long term policy

True/False


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

True/False


(10 x 2 = 20)  
[30]









**Question 5.**

Mr Lennie was a participant/member of a group life scheme in terms of which he applied for and was granted cover on his own life, his spouse and his children. Mr Lennie and his wife (Martie) were divorced after the commencement of the group life contract. The custody of their children was awarded to the member's spouse and he duly paid maintenance for them. When she died, he felt obliged to cover the cost of her funeral. Mr Lennie duly claimed the benefits, but the insurer declined a death claim in respect of her death on the grounds that cover, in respect of the spouse, ceased on divorce. According to the insurer the divorce terminated any insurable interest that had existed between the member and his former spouse. In the presence of an insurable interest, the insurer will be liable to pay as insurable interest did exist at the commencement of the contract and need not to be proven at claims stage.

Briefly discuss eight (8) examples of insurable interest considered by Lennie as a member of a group life scheme (15)




**Question 6.**

In order to qualify for social grants by government, the applicant must pass a means test. As part of the means test all the applicant's assets, excluding his/her house, is taken into account at market value. Money earned from growing crops and /or livestock is also taken into account when calculating whether a person is entitled to a full or partial grant. Money earned from any kind of work, after contributions to unemployment insurance, medical aid, a staff retirement fund and tax is taken off, will also be taken into account. Where the income of the applicant's spouse is a pension or other grant, that pension or grant will not be counted as income received by the applicant.

Describe five (5) special grants payable under the Social Assistance Act 1992. (10)




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

**[TURN OVER]**



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