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**RSK3702**

**MAY/JUNE 2018**

**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

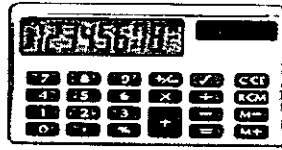
Date of examination

Examination centre

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**RSK3702**

May/June 2018

**Risk Management: Long Term Insurance**

Duration 2 Hours

70 Marks

**EXAMINERS**

FIRST

MR WK MPHANJUKELWA

SECOND

MR LP MAMARO

EXTERNAL

DR GJ SANDROCK

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

This paper comprises two sections, A and B.

Section A comprises multiple-choice questions of 1 mark each. The answers to these questions must be indicated in the table at the end of question 1. The true/false questions are worth 2 marks each and the answers must be indicated in the space provided at the end of each sub-question in question 2.

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. You 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.

**SECTION A: MULTIPLE-CHOICE AND TRUE/FALSE QUESTIONS****[Total 30]**

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

**Question 1****(10)**

- 1 1 When processing a death claim, the insurance company finds that the age was misstated and never confirmed during the duration of the policy. Identify the action the insurer is allowed to take.
- 1 Adjust the sum insured to the level supported by the premium and the real age
  - 2 Cancel the policy ab initio
  - 3 Refund all premiums received, together with a reasonable rate of interest
  - 4 Declare the policy void
- 1 2 John bought a life insurance policy in March 2000. While the life policy was still in force, he was convicted of a crime and sentenced to death in 2016. Which of the following is applicable?
- 1 The insurer has to pay the life benefit
  - 2 The insurer does not have to pay the life benefit
  - 3 Only the beneficiaries who did not play a role in John's sentencing must receive the life benefit
  - 4 All John's beneficiaries are entitled to receive their share in the life benefit

**TURN OVER**

1 3 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 4 Indicate the **correct** statement

- 1 A risk class as applied 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 5 All persons of the same age who are expected to die at the same age must be offered the same rates and conditions, except

- 1 policies for large sums insured offered at preferential rates submitted to the Register
- 2 non-reinsurance contracts
- 3 when the financial position of the prospective insured is not the same
- 4 when the valuator reports that it is actuarially sound

**TURN OVER**

- 1 6 According to the Protection of Personal Information Act, data security measures are appropriate and reasonable if the responsible party
- a ensures that safeguards are continually updated where necessary
  - b regularly verifies that the safeguards are implemented effectively
  - c establishes and maintains appropriate and reasonable data
  - d identifies all reasonable foreseeable risk to personal information under its control

**Choose the correct combination**

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

- 1 7 With an assistance business group life insurance scheme
- a individual persons are the policyholders
  - 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 8 Defined contribution funds
- 1 are less flexible about retirement ages 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 lead to cross-subsidisation between members, depending on their ages
- 1 9 After a life insurer has submitted a copy of the table of the rates of premiums and the benefits it undertakes to sell as policies, it is not allowed to use any other table of premium rates and policy benefits, except
- 1 in times of hard inflation and a declining insurance client base
  - 2 for operational reasons which the insurer is concerned about
  - 3 when the valuator reports that it is actuarially sound
  - 4 if a once-off discount is given
- 1 10 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

**TURN OVER**

Indicate your answers in this table

11	
12	
13	
14	
15	
16	
17	
18	
19	
110	

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 full justification for your answer.

2 1 A retirement annuity contract is not a policy document

True/False


2 2 When issuing a life policy to a person performing military service, a life insurer may exclude death as a result of such military action

True/False


TURN OVER



2 3 The underwriting standards of all insurers tend to become more severe as more statistics become available and the risks of many diseases are improved as a result of modern medicine and surgery

True/False


2 4 Greg is married to Koos Greg and Koos took a life policy of R5 million each on each other's life On 17 January 2018 Greg and Koos were driving from Cape Town to Bloemfontein On their way to Bloemfontein their car was involved in a terrible accident which resulted in Koos's death and the car was written off Subsequent investigation indicated that Greg was driving at 160 km/hour on the N1 Greg will have a successful claim on Koos's policy because there is deemed insurable interest

True/False


TURN OVER

2 7 In the case of non-medical business, where the life to be insured is not subject to careful medical investigation, the mortality is likely to be lower than in the case of selected lives

True/False


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

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 in a foreign country

True/False


TURN OVER

2 9 In terms of universal life policies, the investment account belongs to the insured

True/False


2 10 Pure endowment policies do not include life cover

True/False


TURN OVER

## SECTION B

[Total 40]

ANSWER ALL THE QUESTIONS IN THIS SECTION IN THE SPACES PROVIDED

## Question 3

[12]

ABC Assurance Brokers process new business proposals on behalf of DEF Life Insurance Company. On 2 January 2018, the server of ABC Assurance Brokers was hacked and the client data was circulated in the foreign media by the hackers. ABC Assurance Brokers did not report this data breach because they did not want to lose their business from DEF Life Insurance. On 31 May 2018, Mqeqeshi was the first insured who became aware that his personal information was circulated. He discovered this through his friend studying in Japan. After a long conversation with his friend in Japan, Mqeqeshi phones you and asks the following questions.

- 3.1 In terms of the Protection of Personal Information Act, which company is the operator in this case? (2)


- 3.2 What is the responsibility of the operator when it observes the data breach of its systems? (2)


TURN OVER

3 3 In terms of the Protection of Personal Information Act, which company is the responsible party in this case? (2)


3 4 What is the responsibility of the responsible party when it observes the data breach? (4)


3 5 Which company is liable for all the processing of client personal information? (2)


**TURN OVER**







**Question 5**

**[8]**

The marketing manager of ABC Life Insurance Company wants to increase the number of life clients for the company in 2018. The manager has developed a marketing strategy which indicates the following:

**Strategy 1: Existing policyholders**

Existing policyowners who buy an additional life cover of at least R50 000 will be given a free benefit of R2 000 to their sums insured.

**Strategy 2: New policyholders**

New policyowners who are experiencing financial difficulties are permitted one partial surrender or loan against the policy during the first four years.

**Strategy 3: Maximisation of premium income**

With the exception of new policies, an annual increase of 30% applies to all existing policies.

5.1 Indicate whether or not you agree with **strategy 1** on existing policyholders. (3)


**TURN OVER**

5 2 Indicate whether or not you agree with **strategy 2** on new policyholders (3)


5 3 Indicate whether or not you agree with **strategy 3** on premium maximisation (2)


**TURN OVER**







DO YOUR ROUGH WORK HERE.

NO ROUGH WORK WILL BE  
MARKED.

DO YOUR ROUGH WORK HERE.

NO ROUGH WORK WILL BE MARKED.

