

**RISK MANAGEMENT: LONGTERM ISUARANCE**

**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(MULTIPLE CHOICE QUESTIONS)**

1.1-3.

1.2-2

1.3-2

1.4-4

1.5-3

1.6-2

1.7-3

1.8-4

1.9-3

1.10-2

**QUESTION 2(TRUE/FALSE)**

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 Nomination of a beneficiary will always be overruled by the stipulations of a will.

True/False

-False because the court will favour the nominated beneficiary regardless of the stipulations of the will.

2.2 An insurer is not obliged to pay a life insurance claim when the insured committed suicide.

True/False

-False because the insurer is obliged to pay a life insurance claim when the suicide is committed after a period of 24 months. However if suicide is committed within 24 months, the claim will be repudiated by the insurer as the suicide clause is still in force.

2.3 Where a polygamous man dies intestate, the first wife will inherit the estate.

True/False

-False as each of his wives will inherit equal shares

2.4 The surrender value of the policy is the current value of the investment account.

True/False

-False because the surrender value of the policy refers to the amount of money that a policy owner will receive out of the investment account if he or she decides to cancel the policy.

-Or this statement applies to cash values and not the surrender value of the policy

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

-False, In terms of the Long term Insurance Act, claims occurring during the “days of grace” will have to be paid by the insurer. The insurer is however entitled to deduct the unpaid premium from the claim amount.

2.6 Competition is an important aspect to be considered by the underwriter.

True/False

-True, competition ensures that the policy is equitable, provide benefits that meets the needs of the buyer, delivery prompt and the premium is competitive.

2.7 Mortality refers to the number of people who have attained a certain age.

-False Mortality refers to the probability of people not surviving at a given age.

2.8 A descendant is a person whom a deceased has left a certain item or sum of money, as specific mentioned in his /her will.

-False as this statement applies to a legatee.

2.9 The validity of an insurance contract is based on the principle of Caveat Emptor

True/False

-False because the validity of an insurance contract is based on the reasonable man test which means that the proposer is expected to provide an insurer with all the relevant information required that a reasonable man would know to be material to the risk. If a reasonable man would have recognised the facts to be material, the proposer is expected also to recognise this. However with a life insurance proposal there is some information that will always be considered to be material and must also be disclosed:-insurance record of the proposer/insured, Risk experience of proposer, Medical questions.

2.10 In terms of universal life policies, the investment account belongs to the insurer.

True/False

-False, the investment account belongs to the insured as he or she is responsible for the payment or contribution of premiums.

SECTION B

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

Question 1

List and briefly explain three of types of absolute cessions.

(5)

1. as a free gift

-A policy can be given as a free gift perhaps to a loved one or a family member.

2 .In accordance with an agreement

-Partners in a business often agree that on death of one partner, the other partner will purchase his interest in the business. To provide the funds for the purchase the partners can use insurance policies on each other's lives. Often in a buy and sell agreement the buyers will be proposers on life insurance policy on the life of the seller. More over the seller can propose for a policy on his own life. More over as soon as the policy is issued he cedes the policy to the buyer in terms of a clause in the buy –and –sell agreement.

3. In terms of a duly registered ante nuptial contract

-There are only certain limited protections available for an insurance policy in a marriage. These limited protections are restricted to a current maximum of R50 000 on the life of either spouse.

-When two people decide to get married, they need to set out conditions of their marriage in an ante nuptial contract. The future husband or wife can include a condition in the ante nuptial contract that he will cede a life insurance policy to his future spouse.

-This can be extremely valuable gift and can be extended to any children of future children.

Benefits of an antenatal contract are as follows:

-Any policy ceded in terms of an ante nuptial contract will not be included in the estate of the deceased spouse.

-Any policy ceded in terms of an ante nuptial contract will not be included in the estate of an insolvent spouse.

QUESTION 2

Explain what is meant by the reasonable man test as applied to life insurance.

(5)

The proposer is expected to provide an insurer with all the relevant information required that a reasonable man would know to be material to the risk. Some information that will always be considered material is as follows:

i) Insurance record of proposer/insured

-The fact that a policy has been cancelled, or that the previous proposal was declined, or accepted at other than ordinary terms, must be disclosed.

ii) Risk experience of proposer

-Should the proposer have submitted a dread disease or disability claim at any time in the past and is now looking for a cover for the same risk, this must be disclosed.

iii) Medical Questions

-A proposer must provide honest and truthful answers to all medical questions on proposal form. However failure to do so can result in the insurer repudiating a claim due to the non-disclosure of material fact. The insurer must however, prove that the proposer was aware of the facts at the time of proposing.

### QUESTION 3

Highlight three special grants payable under the Social Assistance Act. (5)

i) Old age grants

-This type of a social grant is payable to men and women older than 60 years of age

-All will be subject to a means of test before the grant is approved, furthermore an amount of R1500 per month is added to age over 75.

#### Grant in aid allowance

-If the physical and mental condition of a person getting a grant is bad that he or she needs to be looked after all time an additional amount per month may be paid. When this extra allowance is applied for, a medical certificate must be sent with the application. An additional amount of R350 will be paid on a monthly basis.

#### War veterans

-Anyone who was in a military, naval or air service during the wars that South Africa's have fought in can apply for a war veteran grant when they reach the age of 60 years or older if they are unable to maintain themselves because of a mental or physical disability caused by the wars.

-All people that apply will have to qualify with the means of test. The war veterans grant is slightly larger than the amount received as a normal social grant. War veterans applying for their grants must submit their discharge certificates that is (R1520 per month as from 2016).

#### Disabled grants

-This type of a grant is paid to people who are 18 years and older, who are disabled for 6 months and more who cannot support themselves because of nature of disability (1500 per month is entitled to be received as per 2016)

## Child support

-This type of a grant is payable to a primary care giver who cares for a child or children (up to a maximum of six children)who are under the age of 18 can apply for a special child –support grant.(R350 per month as from 2016)

## QUESTION 4

Compare the two methods that are used by life insurers to charge for their expenses.

### Up-front recovery

- Little difference between cash value and surrender value.
- The investment account will start after the insurer recovers all its expenses.
- Expenses are recovered before the start of investment account.

### Aggregate charging

- Large difference between cash value and surrender value.
- The insurer allows the investment account to start straight away.
- Expenses are recovered yearly.

## QUESTION 7

Explain under what circumstances a life insurer would consider a claim if the life insured dies before the policy comes into force.

- If all documents are already in life insurer possession. All documents in the hands of marketer/broker will also be considered in the hands of life insurer.
- The risk have been accepted based on the information in the proposal documentation.
- The proposer/insured accepted the terms by paying an extra amount of premium.
- A cash premium was submitted with the proposal and there was no request for the inception date to be later than the first of the following month.
- Death occurred during the month preceding the inception date.
- Premiums were to be paid by debit or stop order and the ability to pay can be established beyond reasonable doubt.

Explain why it is difficult for an insurer to compete directly in the investment market against other investment players-even with pure endowment policies.

- Most life insurance companies offer a policy called a pure endowment policy to the clients.
- The policy does not have life cover.
- It is difficult for the insurer to compete in the market because of range of expenses incurred by the insurer such as:

- Cost of under writing the application.  
These costs include salaries of the under writers as well as fees that is paid to the doctors who examines applicants if the information is used.
- New business expenses at head office.  
Once a proposal has been accepted the new information about policy must be filed for easy access if it is needed.
- Printing of the policy documentation.  
It is not cheap to print all the documentation needed.
- Commission.  
The intermediaries are not paid a salary but a commission based on the premium that a policy owner will pay on any new business that the insurer accepts.

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Section A

Question 1

1.1-1

1.2-1

1.3-1

1.4-1

1.5-3

1.6-4

1.7-3

1.8-4

1.9-3

1.10-2

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

True-suicide is not a crime, however the idea of suicide or the encouraging to commit suicide is against public policy.

2.2 False-It is to act in almost good faith not to determine the validity of insurance contracts.

2.3. The surrender value of a policy will be the current value of the investment account of the policy.

False- the surrender value is the amount of the money that you receive from insurer at the cancellation of the policy.

2.4. A pension fund may pay the total value of the accumulated benefits due to the member as a single lump

True/False

False- A pension fund is not allowed to pay more than a 1/3 of the accumulated value due to the member as lump sum at retirement.

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

True –In Terms of the long term insurance act ,claims occurring during the days of grace will have to be paid by the insurer .The insurer is however entitled to deduct the unpaid premium from the claim amount.

2.6. An insurer is not obliged to pay a life insurance claim when the insured is convicted of a crime for which he or she is executed

True/False

True-The insurer is obliged to pay claims that are either natural or accidental cause. More over the murder of the life insured is covered and the insurer and is not relieved from any liability to the estate of the deceased.

2.7Morbidity refers to the number of people who will die in the year of assessment

True/False

False-Morbidity refers to the probability of a chance of being disabled

2.8To include a third person in a policy the stipe alter is used to create a contract between the insurer and the third person

True/False

False-There is no contract between the insurer and the third person.

-To include a third person as a beneficiary in a policy we use the legal maxim stipulation alter.

-The prosper and the insurer agree with each other to pay the benefits of the policy to third person.

-The stipulation alteri its self creates no contract between the insurer and the third person until such time as the third person accepts the nomination as a beneficiary.A policy owner may change the nominated beneficiary while he is alive as often as he chooses ,unless the nomination is irrevocable.

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

True-The court will favour the nominated beneficiary regardless of the stipulations of the will.

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

True/False

True-The insured is responsible for the payment of premiums and is obliged to receive the investment benefits

## SECTION B

ANSWER ALL THE QUESTIONS IN THIS SECTION IN THE SPACES PROVIDED

### QUESTION 3

Ague the importance and value of the underwriting manual in the underwriting function (5)

- Underwriting refers to the consideration that is given to an application for insurance so as to determine whether or not the policy applied for should be issued
- Proper underwriting helps to prevent anti selection
- underwriting manual provides back ground information on impairments and serves as a guide to suggested underwriting action when various impairments are present
- processing and examination of individual application forms and documents relating to ascertaining the applicants state of health
- establishment and maintenance of close contact with company management
- design of application forms and other documents relating to ascertaining the applicants state of health

### QUESTION 4

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

- Documents in the hands of a broker are deemed to have been received by the insurer or to be in the hands of the insurer
- The cash premium was submitted with the proposal and there was no request for the inception to be later than the first of the month following
- Death occurred during the first month of the inception date
- Premiums were to be paid by the debit or stop order



- The risk would have been accepted based on the information in the proposal form
- The insured accepted the terms by paying an extra amount for an increased premium

#### QUESTION 5

Explain whether a claim submitted 20 months after reinstatement of a policy will be considered if the death was suicide

- If suicide is proven, the insurer will not be liable for any claims as suicide clause was still in force
- Policies that are reinstated with proof of good health are made subject to a suicide clause from the date of reinstatement
- If the suicide was committed after a period of 24 months the insurer will be obliged or held liable for the payment of a claim

#### QUESTION 6

List the three marital regimes in South African law and briefly explain any two of the three.

- Marriage in community of property
- Marriage in terms of an ante nuptial contract
- Marriage in terms of ante nuptial contract including accrual

##### i) Marriage in community of property

- As a general rule it can be said that all marriages entered into in terms of common law, create communal property. Unless the parties to a marriage specifically request an ante nuptial contract, they are therefore married in community of property.
- This means that on termination of the marriage, either by death or divorce, the joint estate is shared equally between the parties, irrespective of the value of their respective contributions to the estate.
- All assets as they exist on the date of marriage are joined into one communal estate.
- The Matrimonial Property Act provides for the joint administration of the communal estate, in which spouses may not alienate, pledge or negotiate any other right on the communal property without the other spouse's consent.

##### ii) Marriages in Terms of an Ante nuptial Contract

An ante nuptial contract is a legal document which is drawn and signed with an attorney and registered at the Deeds Office before two parties are named. If the parties intend not to be married in community of property, then this contract must be agreed before they marry.

- Each party has, and maintains a completely separate estate. Irrespective of who puts what in the marriage, the party who owns the estate is the owner of its contents before, during and after the marriage

-This further clearly gives parties an absolute independence of contractual capacity and protects the estates of each party against claims by the other party's creditors, but there is no provision for any sharing.

lii) Marriage in terms of an antenatal contract including the accrual system

This accrual system allows for the sharing of assets but entitles each party to a marriage to retain their contractual independence and separate estate

-Under the accrual system, should the marriage dissolve, the value of the assets of both estates are combined and split between the parties.

-Each party retains their own original estate

-At dissolution each estate is calculated separately. This means that the monetary value of the smaller estate is subtracted from the larger estate and the difference is split equally

#### QUESTION 7

Explain why it is difficult for an insurer to compensate directly in the invest market against other investment players-even with pure endowment policies. (10)

-Most life insurance companies offer a policy called a pure endowment to the clients

-The policy does not have a life cover or any benefit other than investment account

-It's difficult for the insurer to compare in the investment market because of a range of expenses incurred by the insurer such as:

Cost of underwriting the Application

-These costs includes salaries of the underwriters as well as fees that is pad to any doctors or specialist who are required to examine the applicant if the underwriter need to make a decision

New business expenses at head office

-Once a proposal has been accepted, the new information about policy must be filled easily accessible if it is needed

Printing of the policy documentation

-it is relatively expensive to print all the policy documentation needed

Commission

-The intermediaries are not paid a salary but are entitled to get paid a commission basis which is based under the amount of premium that a policy owner will pay on any new business that the insurer accepts

#### QUESTION 8

It has become common practice to alter a universal policy when a more life insurance is required rather than a contract for a new policy. Explain how the universal concept allows this trend to continue. (10)

- It is flexible policy that meets all the needs of the insured throughout his or her life
- Similar to a bank account opened with an insure where all premiums will be paid to
- The bank account is called policy owners bank account
- Minimum premium determined by the level of a cover applied for and the circumstances of the proposer
- The proposer can pay more than the minimum premium
- Additional may be bought
- Cost of policy is on a month to month basis, the same with the investment account
- Only the difference between the investment and the required life cover is bought. This gap closes with time
- As this cover becomes expensive, the returns from the investment fund will offset the need for higher life cover

RISK MANAGEMENT: LONGTERM INSUARANCE

SECTION A: MULTIPLE-CHOICE AND TRUE/FALSE QUESTIONS

QUESTION 1

1.1-2

1.2-3

1.3-1

1.4-1

1.5-3

1.6-4

1.7-3

1.8-4

1.9-1

1.10-2

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/her self

True/False

True-Suicide is not a crime in South Africa however the idea of suicide or encouraging to commit suicide is against public policy

2.2 Uberaba fides is used to determine the validity of insurance contract in South Africa

-False because while the basis of uberrima fides is still applicable to any proposal for insurance in principle, it is now accepted that the test of the validity of the contract will be determined by the reasonable man test

-Reasonable man test determine the validity of an insurance contract

2.3The surrender value of a policy will be the current value of the investment account of the policy

True/False

-False because the surrender value is the amount of money that an insured receives at the cancellation of the policy

2.4A pension fund may pay the total value of the accumulated benefits due to the member as a single lump sum

True/False

-False because a pension fund may not pay more than a third of the accumulated value due to the member as a lump sum on retirement

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

True-The insurer is however entitled to deduct the unpaid premium from the claim amount or the insurer is obliged to pay the claim less the premium in arrears

2.6An insurer is not obliged to pay life insurance claim when the insured is convicted of a crime for which he/she is executed

True/False

True-The insurer is obliged to pay claims that are either natural or accidental cause. Moreover, the Murder of the life insured is covered and the insurer is not relieved from any liability to the estate of the deceased.

2.7Morbidity refers to the number of people who will die in the year of assessment

True/False

-False because Morbidity refers to the chance of being disabled

2.8To include a third person as a beneficiary in a policy the stipulation is used to create a contract between the insurer and the third person.

True/False

False-The stipulation itself creates no contract between the insurer and the third person until such time as the third party accepts the nomination as a beneficiary

-A policy owner may change the nominated beneficiary while he is alive as often as he chooses, unless the nomination is irrevocable

2.9Where 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

True-The court will favour the nominated beneficiary regardless of what is stipulated in the will

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

True/False

True –The insured is responsible for paying the premium and is obliged to receive the investment benefits

## SECTION B

ANSWER ALL THE QUESTIONS IN THIS SECTION IN THE SPACES PROVIDED

### QUESTION 3

Policy servicing in a life office involves a variety of functions and aspects. Briefly discuss the following issues. (10)

1.1. Cash values

1.2. Surrender values

1.3. Automatic premium loans

1.4. Revival conditions

1.5. Policy loans

#### Cash Values

-A policy owner can ask the life insurer at any time what the cash value of his /her policy is. The cash value will be the current value of the policy

#### Surrender Values

-The surrender value of a policy is that amount of money that a policy owner will receive out of the investment account if he/she decides to cancel the policy

#### Automatic Premium Loans

-When a policy has acquired a surrender value the insurer will use this to keep the benefits going for as long as possible if the premiums are unpaid. This will help the policy owner to submit a claim even if the premiums are in arrears. When the surrender value of the policy runs out the policy will lapse and all benefits will be lost

#### Revival Conditions

-If the policy has lapsed and the policy owner will have to re-apply for insurance cover. Any medical evidence that the underwriters might ask for will have to be given to them by the insured, conditions such as suicide clause will commence from the date of the revival. The life insurer has the right to refuse to renew the contract.

#### Policy loans

-To help policy owners through tough times, insurers offer loans against security of most policies. The value of the loan will be limited to 80%-95% of the surrender value of the policy. The loan and any interest that has been added to its value will be subtracted from the value of any claim that is due when policy matures

### QUESTION 4

Mr Masuria applied for alive insurance policy on 1 April 2015. He signed and submitted all documents to his broker and submitted a cash premium with proposal. He requested the inception date of the policy to be 1 May 2015 on his way home from Centurion Mr Masuria was killed in a motor car accident. At the time of the accident policy document was still in the possession of a broker

In terms of the aforementioned scenario discuss five circumstances under which a claim will be considered for Masuria

- The documents in the hands of a broker are deemed to have been received by the insurer
- The cash premium was submitted with the proposal and there was no request for the inception to be later than the first of the following month
- Death occurred during the month of the inception date
- Premiums were to be paid by a debit order or a stop order
- The insured accepted the terms by paying an extra amount for an increased premium
- The risk would have been accepted based on the information in the proposal documentation

#### 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 (Marty) were divorced after the commencement of the group life contract. The custody of their children was awarded to the members spouse and he duly paid maintained for them. When he 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 considered by Lennie as a member of a group life scheme

i) on the insured's own life

-Insurable interest is irrelevant when the policy is on the insured's own life. Insurable interest is really only needed as a proof of the good faith of people involved. It is generally accepted that every person has unlimited insurable interest in his/her own life.

ii) On the life of a spouse

-It is generally accepted that there is unlimited insurable interest between spouses. They may be no direct legal basis for this assumption but there has been a test case where this was accepted

iii) On the life of a fiancée

-There is some opinion that accepts that a person has some right to expect a financial advantage from, the continued well-being of fiancée. In practice it is usually accepted that an engaged couple have the same level of insurable interest in each other's life as a married couple.

iv) On the life of a relative

-A dependant may have a legal right to claim support from a supportive relative and so an insurable interest exists

V) Creditor on the life of a debtor

-A creditor has an insurable interest in the continued health of a person who owes him money. Insurance is allowed at least to the value of debt plus some reasonable interest

Business Partners

-Business partners create an insurable interest in each other's life when they sign an agreement to pay money to the estate of a partner that dies. The binding agreement limits the insurable interest to the amount that must be paid to the estate on death.

Employer on their employees

-An employer has an insurable interest in the life of an employee if it can be established the earnings on the company rely on the employee's skill or service. An insurable interest is limited to the worth of the employee to the company and not by status

Employees on their employer

-An employee who has a contract for a fixed number of years at an agreed salary has an insurable interest in the life of the employer

QUESTIN 6

In order to qualify for social grants by the government ,the applicant must pass the a means test's part of the mean s of test all the applicants 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 a tax is taken off, will also be taken into account. Where the income of the applicants 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)

Old Age Grants

-It is payable to men and women aged 60 years and older, all of whom are subject to the means of test before the approval of the grant

Grant in aid allowance



-If the physical or mental condition of a person who is getting a social grant is so bad that he needs to be looked after all the time an additional amount per month may be aid. When this extra allowance is applied for a medical certificate must be sent with application

#### War Veterans

-Anyone who was in any military naval or air service during the wars that South Africans fought can apply for a war veteran grant when they reach the age of 60years or older if they are unable to maintain themselves because of a mental or physical disability caused by wars.

-All people that apply will have to qualify for a means of test. The war veterans' grant is slightly larger than the amount received as a normal social grant .War veterans applying for their grant must submit their discharge certificates

#### Disabled Persons

-The grants are paid to people who are 18 and older, who are disabled for six months and who cannot support themselves because of the nature of their disability

#### Foster Child

-Persons who act as foster parents for children who have been taken away from their parents for their own safety or children who have been orphaned and need special care that cannot be provided by an orphanage(for example, new –born babies) can claim a special social grant for every child in their foster care. The appointment as a foster parent must be ratified in court and the foster parent will have to qualify for grant in terms of the means of test

#### Child support

-A primary care giver who cares for a child or children (up to a maximum of six children) who are under the age of eighteen can apply for a special child –support grant

#### Care dependency grant

-Applies to a persons who take care of a child who has a severe disability and is need of full time special care, it's for ages from birth until the age of 18

## RISK MANAGEMENT: LONGTERM INSUARANCE

### 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

1.1-3

1.2-4

1.3-3

1.4-4

1.5-1(income protection)

1.6-3

1.7-4

1.8-4

1.9-2

1.10-2

#### 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 False

-With Aggregate recovery the insurer allows the investment account to start straight away and only recovers part of the expenses every year

2.2 True

-Antireflection refers to those individual that has higher probability of a loss than the average seek insurance

2.3 False

-In the case of a polygamous man, each and every wife is entitled to receive equal benefits

2.4 False

-A trust intervoves is created during the life time of the founder

2.5 False

-In terms of the Long-term Insurance Act, claims occurring during days of grace will have to be paid by the insurer. The insurer is however entitled to deduct the unpaid premium from the claim amount.

2.6 True

-The insurer is obliged to repudiate a claim because the cause of death was not due to the peril insured

-The material facts were not disclosed

2.7 True

-The employee who has a contract for a fixed number of years at an agreed salary has an insurable interest in the life of his employer equal to the value of future salary

2.8 False

-The Long Term insurers comply with the Financial Intelligence Centre Act.

2.9 False

-The validity of an insurance contract is based on the reasonable man test which means that the proposer is expected to provide an insurer with all the relevant information required that a reasonable man would know to be material to the risk. If a reasonable man would have recognised facts to be material to the risk, the proposer (insured) is expected to recognise this

2.10 False

-The investment account belongs to the insured who is responsible for the payment of premiums, that entitles him or her to endure the benefits

## 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)

-Tax payers 65 years and older continue to be able to deduct all medical schemes contributions and other medical expenses from their taxable income.

-Members of a medical scheme themselves, their employers can make the contributions or contributions can be split between an employee and an employer

-In the past, the employer's contribution qualified for preferential treatment, no taxable value was placed on the employer's contribution to the extent that it did not exceed two thirds of the total contributions

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

-The council for medical schemes and the financial services board are in agreement on the demarcation between the business of a medical scheme and health insurance

-The key feature of the business medical scheme is that it indemnifies individuals against health care expenses

-Medical schemes is governed by Medical Schemes Act and health insurance is governed by long and short term insurance act

-Health insurance is a voluntary cover paid from after tax income to protect individuals from unforeseen events

-Medical Schemes Act is a voluntary cover partly paid out of before tax income, which aims to indemnify people against actual expenses incurred in respect of relevant health service

#### QUESTION 4

List and discuss the objectives of the underwriter in a life insurance (5)

-Underwriting describes the consideration given to an application for insurance so as to determine whether or not the policy applied for should be issued.

#### Objectives

##### A) Equitable to the client

-Each life insured should pay a premium that is proportionate to the amount of the risk the insurer assumes for that person

-As each application for insurance is received, the insurance company must determine the degree of risk and must charge a fair premium for this risk

-Furthermore an understanding on how various factors influence mortality enables the underwriter to identify applicants who present comparable mortality risks and to classify these applicants accordingly

-Classifying the lives insured enables the insurance company to charge each individual policy owner an equitable premium proportionate to the degree of mortality risk he or she present to the company

##### B) Deliverable to the intermediary

-The buyer makes the ultimate decision as to whether a particular insurance policy is acceptable

-If the buyer chooses not to accept the policy when the intermediary attempts to deliver it, that policy is said to be taken up

-One of many reasons a policy may be considered not taken is because of an unfavourable underwriting decision that results in a higher than anticipated premium charge

- For a policy to be acceptable to the buyer, it must satisfy their basic requirements:

.The policy must provide benefits that meet the buyer's needs

.The cost of the cover provided by the policy must be within the buyer's financial means

.The premium to be charged for the cover must be competitive in the market place

### c) Profitable to the insurer

-All insurance companies require sound writing so as to ensure favourable financial results

-The profitability of the insurer is to a large extent, built into the rate structure established by its actuaries

-Although underwriters are not directly involved in establishing an insurer's premium structure, underwriter's decision are very important in producing actual mortality results that concede with the actuaries mortality projections.

### QUESTION 5

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

-These benefits allow the insured to add benefits to a policy in the future without having to undergo medical tests/underwriting

-The older individuals get, their health deteriorates and they become more expensive to insure. This benefit allows the insured to get the cover into the future at the terms agreed at inception

- Contraction of a life style disease such as obesity will increase the risk and the insurers will be less willing to take the risk or may take it at higher costs.

-Accidents can also cause the insured to be UN insurable or expensive to insurer

-Benefits can be added on option dates and limited to a particular amount

-Acceleration of option date by marriage, children or purchase of a house can be permitted

### QUESTION 6

Explain the operation of policy loans. (Clearly show circumstances that may give rise to a need for such loans and explain the operation in detail) (10)

#### Cash Value

-The policy owner can ask the life insurer for the cash value of his or her policy. The cash value will be the current value of the investment account of the policy

#### Surrender Value

-Surrender value is the amount of money that a policy owner will receive out of the investment account if he or she decides to cancel the policy.

#### Automatic Premium Loan

-Where a policy has acquired surrender value, the insurer will use this keep the benefits going as long as possible, if the premiums are UN paid. This will help the policy owner to submit claims even if the premiums are in arrears

#### Revival Conditions

-If the policy have lapsed, the policy owner will have to re-apply for the insurance cover. Any medical evidence that the underwriter might ask will have to be given by the insured. Conditions such as suicide clause will recommence from the date of revival. The insurer has the right to refuse to renew the policy

#### Policy Loans

-To help policy owners through tough times insurers offer loans against the security of most policies. The value of the loan will be limited between 80-95% of the surrender value. The loan and any interest that has been subtracted from the value of any claim that is due when the policy matures.

#### QUESTION 7

Explain the operation of a universal life insurance policy. State benefits as well. (10)

-It is a flexible policy that is designed to meet all the needs of the insured throughout his life

-similar to a bank account opened with an insurer where all premiums will be paid to

-Proposer can pay more than minimum premium

-Additional cover may be bought to grow the investment account

-Cost of policy is on a month to month basis which is the same like an investment policy

-Only the difference between the investment and the required life cover is bought. This gap closes with time

-As the cover becomes expensive the returns from the investment account will offset the need for higher life cover

RSK3702

OCTOBER/NOVEMBER 2016

RISK MANAGEMENT: LONGTERM INSURANCE

SECTION A: MULTIPLE-CHOICE AND TRUE OR FALSE QUESTIONS (TOTAL 30 MARKS)

#### QUESTION 1

1.1.-1

1.2-1

1.3-1

1.4-3

1.5-3

1.6-1

1.7.1

1.8-2

1.9-2

1.10-4

## QUESTION 2

2.1False

-Where a man in a polygamous marriage dies intestate, each of his wives will inherit it in equal shares

2.2False

-With aggregate recovery, the insurer allows the investment account to start straight away and only recovers part of the expenses every year

2.3True

-Suicide is not a crime in South Africa, however the idea of encouraging someone to commit suicide is against public policy

2.4True

-These are groups of the insured's who present an equivalent mortality risk to the insurance company

2.5False

-In terms of part 4 of the Regulations to the Long-term Insurance Act, the minimum policy term must be 5 years

2.6True

-The insurer is obliged to pay claims that are natural or accidental cause. However, the murder of the life insured is covered and the insurer is not relieved from any liability to the estate of the deceased

2.7False

-This applies to irrevocable nomination of the beneficiaries

-under revocable nominations of beneficiaries, before the nominated beneficiary has been offered, the proceeds of the policy and has accepted the benefits he has no rights. The insurer and insured can cancel or modify any benefits on the policy contract by mutual agreement. Once the nominated beneficiary has accepted the benefit offered to him (usually after death), he gets the rights of a party to a contract.

2.8True

-A legatee is a person to whom a deceased has left specific items or sums of money, as specifically mentioned in his or her will

2.9False

-A pension fund may not pay more than a third of accumulated benefits due to the member as a single lump sum. The balance of the money must be used to purchase an annuity (or saved as a preservation fund) for the retiree that will provide a monthly income for the rest of his life

-A provident may pay the total value of the accumulated benefits due to the member as a single lump sum

2.10 False

-The reasonable man test is used to test the validity of the insurance contract. The validity of an insurance contract is based on the reasonable man test which means that the proposer is expected to provide an insurer with all the relevant information required that a reasonable man would know to be material to the risk. If a reasonable man would have recognised facts to be material to the risk, the proposer (insured) is expected to recognise this.

## SECTION B

ANSWER ALL THE QUESTIONS IN THE SPACES PROVIDED

### QUESTION 3

-The documents were in the hands of the insurance. For this purpose the documents in the hands of a broker will be considered being in the hands of the insured

-The risk would have been accepted based on the information in the proposal document

-The cash premium was submitted with proposal and there was no request for the inception date to be later than the first of the following month

-Death occurred during the month preceding the inception date

-Premiums were to be paid by the debit or stop order and ability to pay can be established beyond reasonable doubt

-The proposer accepted the terms by paying extra amount of premium

### QUESTION 4

-Cross –subsidisation applies to medical aid schemes where by younger people can subsidise older people with their medical aids.

Main components that help to eliminate cross –subsidisation

-Using underwriting to equate the premium and the risk more closely

-Adopting a structure which allows class groupings by age, sex, occupation

-Making use of medical savings accounts or similar devices to curtail the overall fund share of some risks

-Allowing a drift of good lives into low priced scheme and others into schemes priced according to the risk



#### QUESTION 4.2

Prefunding is when individuals build up a kind of a credit account through contributions made during the working years to be drawn on after retirement.

Pre-funding before retirement by contributing into your provident fund which has a long form security as well as tax efficiency that the scheme offers.

After retirement those have higher cost during working lives will most likely need more medical services in retirement it will help to cover the costs.

#### QUESTION 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.

The new machinery will depreciate each year. The depreciation of this machinery reflects the estimated annual cost of wear and tear, and it is tax deductible. Although depreciation is a cost, the charging of it does not involve cash out lay. To ensure that funds are available to replace the machine, cash amounts equal to the depreciation charges must be invested in a sinking fund, usually provided through use of a pure endorsement policy.

#### QUESTION 6

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 group of individual applicants. Briefly discuss four different risk classes used by life insurance companies.

Standard: includes individuals whose anticipated mortality is regarded as average.

Substandard: includes individuals with impairments any aspects of their health, occupation that can be expected to shorten their life.

Non- smoker: whether an individual smokes, usually cigarettes, to determine whether individual is a better than average mortality risk.

Preferred class: is based on many factors in addition to whether the applicant smokes.

#### QUESTION 7

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

Defined contribution	Defined Benefits
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Funds have an easily calculated member share of the fund.	Allocate resources according to the need this leads to cross subsidisation.
The accumulation of the value in a savings account is more easily appreciated than the benefits that are absolutely based on concept.	The accumulation of the value in savings account is difficult to understand as it is not easily appreciated because the benefits are based on concept.
Funds can be more flexible about retirement services penalties, since the method automatically has a penalty in that there is less time for benefits to accumulate.	Funds are less flexible as they use the services of an actuary to determine the amount of money needed by the fund to pay for the benefits promised in the rules of the act.
Funds tend to a stable liability for employers.	Funds usually present an open ended liability to employees.



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Funds tend to provide a stable liability for employers.	Funds usually present an open ended liability to employees.
The member carries the risk of investment performance of the fund	The employers bears the risk of investment performance of the fund
Amount contributed by the member is calculated as a fixed percentage of the salary.	Amount contributed by the member is calculated as a fixed percentage of the salary.

