EXAM PACK

RISK MANAGEMENT: LONG TERM INSURANCE.RISK3702

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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

Answer. 3. The sum insured is only payable if death occurs within the specified term of the contract.

1.2 Pure endorsements policies.

Answer. 2. Are issued on a with profit or without the profit basis.

1.3 Morbidity rates

Answer 2.2 are used to calculate premiums for disability benefits the proposer might want.

1.4 Indicate the correct

Answer. 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 by either party to the policy>
Answer.3. a, c, d

1.6 Restrictions to new policies that are issued in accordance to part 4 of the Regulations to the Long Term Insurance Act include.

Answer. 3. b, c

1.7 Indicate the correct statement

Answer. 3. Proper underwriting helps guard against anti- section in life insurance.

1.8 Indicate the correct statement.

Answer. 4. Policy loans are paid out with money retained in the reserve account of the life insurer.

1.9 Define contribution funds

Answer. 3. Have an easily calculated member share of the fund

1.10 Mr A and B are equal partners in a business of 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

Answer. 2. Enter into a buy and sell agreement.

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

- False: underwriting manual provides a background of information on impairments.
- Although underwriting manual has a significant function, the manual should not be used as an absolute authority.

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

True/False

- False: because there is usually a large difference between the cash value and the surrender value of the policy especially of it is fairly new.

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

True/ False

- False: to include a third person as a beneficiary in a policy, the maxim stipulation alteri. This means that the proposer and the insurer agree with each other to pay the benefits of a policy to a third person.
- Stipulation Alteri creates no contract between in the insurer and the third person until such time as the third person accepts the nomination as beneficiary.

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

True/ False

- False: Retrospective underwriting can be done on both active and lapsed policy.
- This method, the reserve is the amount by which premiums paid to the date of calculation, accumulated the valuation rate of the interest which excluded the accumulated value of the claims.

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 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 insurer is convicted of a crime for which he /she is executed

- True: The insurer pays a claim when death was due to natural accident cause.
- 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. The murder of the life insured is covered and the insurer is not relieved from any liability to the state of the accused.

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

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

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: a legatee is a person to whom the deceased has left specific items or sum of money as a specific mention in his /her will
- An heir is a person who has been mentioned in the will as one who is to share in the residue of the deceased estate after the payment of all debts and legacies.

2.9. The validity of a life insurance contract is based on the principle of uberrima fides

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

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

- True: the insured is responsible for the payment of a premium which entitles him or her to endue or to receive the benefits in a policy.

QUESTION 3

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

- To ensure that enough funds are available to replace these assets, cash amounts equal to the depreciation charges must be invested in a sinking fund usually provided through use of a pure endorsement.
- The annual depreciation is with an annual payment into a pure endorsement policy of at least 5 years because there is no life cover on a pure endorsement, the company will not be able to deduct the premiums and therefore the proce will be tax free received by a company.
- In terms of the part 4 of the regulations to long- term insurance act, there is also no need for a policy to have a life insured if there is no cover included in the policy.
- Sinking funds in addition to replacing to save employee bonus schemes.

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.(5)marks

-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.

QUESTION 5

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

-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 again 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 acclaim

QUESTION 6

List the three Marital Regimes in South African law and briefly explain an y two of the three.(5)marks

-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 in the 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 Matrimonal Property provides the joint administration of the communial estate, in which spouses may not alienate ,pledge or negotiate any other right on the communal property without the other spouses consent.

ii)Marriages in Terms of an Antenuptial Contract

An antenuptial 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 mantains 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 caoacity and protects the estates of each party against claims by the other partys creditors,but there is no provision for any sharing .

Iii)Marriage in terms of an anteneptual 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

Describe the factors that need to be taken into account when an actuary does a valuation and the reasons why it is necessary for a valuation to be done in the first place.(10)marks

- The official valuation that must be done at least once three years is a ruling of the Insurance Act. It is seen as a test of an insurer's financial strength and protection of the interests of the policy owners. The results of the valuation (the valuation report) must be sent to the Registrar of Insurance. The Registrar can ask for a valuation at any time. Life offices usually carry out an internal valuation every year- usually at the end of their financial year.
- When doing a valuation of the following play a special role:
    - The rate of mortality that the insurer has experienced in the past and what it estimates will be experienced in the future; and
    - The average rate of interest (growth and earnings) it has earned in the past on its assets and what it estimates it will earn in the future; and
    - Expenses of running the business of the long term insurer- including commission and any other expenses involved in getting new business and servicing that business

In simple terms a valuation puts a value on the assets and liabilities of an insurer. The assets are the policy reserves an insurer should be holding so that it can pay the future benefits (liabilities) it will have to pay when claims arise

-The main reason for carrying out a valuation is to make sure that the life insurer still has enough assets to pay its liabilities (i.e solvent)

-The second reason for carrying out valuation is to work out the value of surplus that good investment strategy and watching the expenses has buit up.There will be a surplus if assets are greater than liabilitities.

-Thirdly valuation must be done if two or more insurers are planning to merge of if any part of an insurers business is to be transferred to another insure.

-Finally a valuation must be done to test the effect of new premiums and products

-In calculating the surplus ,certain assumptions have to be made about the future.A true profit can only be worked out if the actuary can compare actual claims and expenses against actual premiums received and interest earned after the last of all the policies have been paid as a claim.

QUESTION8

-List and briefly explain the information that the claims assessor must verfy before the process of assessing the claim can be started.(10) marks

-One of the first procedures to be followed by the claims staff on receiving a claim against a policy is to verify all information relevant to the policy contract. This includes calling for the file and checking the information provided at the inception of the contract(i.e on the proposal form)wit the information now available with the claims documentation.The aim and objective is merely to verify information and check that non-disclosure of a material fact that could have affected the risk was with held

a)Insurable interest

-Insurable interest can be defined as the legal right ti insure and means that the proposer must have the actual ,recognised relationship with the person to be insured,as aresult of which he would suffer a financial loss if the event being insured against occurs.

-insurable interest has to be present at the inception of the contract. As this decision was about a life insurance policy it is now accepted as applying to all life policies

-In a life insurance one must prove that insurable interest was present when the policy commenced.There is no need to prove insurable interest at claims stage.

-Should ,it however ,appear to the claims clerk when a claim arises that insurable interest was accepted during the proposal stage based on false information ,the claim must be very carefully assessed.

b)Personal Particulars

-Verification of personal information is necessary in those areas where incorrect information provided at the inception would have had a bearing on the underwriting of the proposal .

-Information such as name,postal address and nominated beneficiary,whilst important,would probably not have to led to the underwriter imposing a loading or rejecting the proposal.

c)Age and Gender

-These must be checked if not already confirmed

d)Smoking Habits

-There is a significant difference in the rates for smokers and non smokers.It is therefore essential to check the anti-selection did not take place.It is difficult to obtain proof that the information provided during the proposal was incorrect and only in cases where irrefutable evidence can be found,it is possible that the values be adjusted.

e)Occupation

-It applies in cases where conclusive proof is found that incorrect information was provided intentionally at the proposal stage in order to obtain better benefits or rates,must ,must a recalculation be doneor in extreme cases,repudiation of the claim be recommended.

f)Part-time activities

-Once again the claims clerk should check to see whether incorrect information was provided intentionally at the proposal stage in order to obtain better benefits or rates.More over where this is the case it is likely that repudiation of claim should be recommended.

g)Health Aspects

-Where a policy has been re-instated within the last 12months it is imperative that all aspects of the insured health be checked and verified.The reason for this is the possible non disclosure of a deterioration of the health of the insured in the declaration of a continued heath that was required at the time of reinstatement.it is also advisable that the insureds health be checked and verified .

-The reason for this is the fact that the claims has resulted in the insured falling outside the averages used by the actuaries in determining the premiums to be charged.

-The claims assessor should request a medical report from the insureds personal medical attendant or any other doctor or institution that may possibily be in possession of information.

- However where any claim results from unnatural causes,the medical report will not be necessary.Should there be a suspicion that information has been concealed cases must be checked in the usual way

h)AIDS exclusion clause

-With the decision by the member offices of ASISA to abandon the enforcement of HIV/AIDS exclussions on life and lump sum disability benefits,an HIV/AIDS check is only required for certain additional benefits,such as PHI cover.