2018

Long Term Insurance

RSK 3702

Semester 2

SUGGESTED SOLUTIONS OF SELF ASSESSMENT

Department of Finance, Risk Management and Banking

This tutorial letter contains the suggested solution to the self-assessment.

Define tomorrow.

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1 INTRODUCTION

Dear Student

The purpose of this document is to provide you with guidelines on answering the self-assessment questions.

Question 1

1.1 Correct answer is option 3

Refer to section 2.15.3 of Chapter 2 of the prescribed book.

According to POPI requirements ABC Life Insurance, as responsible party, may be instructed by the Regulator to inform the data subjects.

1.2 Correct answer is option 3

Refer to section 2.2.2 of Chapter 2 of the prescribed book.

Mr X will be required to provide tangible evidence, if called upon to do so, that he stands to suffer a financial loss in the event of the insured event happening to his neighbour's son.

1.3 Correct answer is option 3

Refer to section 2.6.1 of Chapter 2 of the prescribed book.

XYZ Life Insurance Company does not have to pay the life claim.

Question 2

2.1

Refer to section 3.3.5 Chapter 3 of the prescribed book.

True, the personal accident will pay because because it covers accidental death and accidental disability.

2.2

Refer to section 5.2. of Chapter 5 of the prescribed book.

False, on submission of a claim the insurer not will pay the claim because any pre-existing conditions will usually not be covered for two years after the commencement date.

2.3

Refer to section 2.6.3 and 8.5.2 of Chapter 2 and Chapter 8 of the prescribed book.

False, most South African life policies have a suicide clause, which states that a death claim as a result of suicide during the first 24 months of the contract will be repudiated.

Question 3

3.1
Refer to section 6.8.1 of Chapter 6 of the prescribed book.

Total retained premium:

Standard risks = [(R800*20/100) + (R300*20/100) +

$\qquad$ = R160 + R60

$\qquad$ = R220

Sub-standard risks = [(40/100*R500) + (40/100*R200)]

$$= R200 + R80$$

$$= R280$$

Total retained premium = R220 + R280

$$= R500$$

3.2

Refer to section 6.8.1 of Chapter 2 of the prescribed book.

Total share of the claims:

Standard risks claims [(R20 000*80/100) + (R15000*80/100)]

$$= R16\ 000 + R12\ 000$$

$$= R28\ 000$$

Sub-standard risks claims [(R50 000*60/100) + (R18000*60/100)]

$$= R30\ 000 + R10\ 800$$

$$= R40\ 800$$

Total share of the claims = R28 000 + R40 800

$$= R68\ 800$$

3.3

Refer to section 6.8.1 of Chapter 6 of the prescribed book.

Calculate the total amount of claims

R20 000 + R50 000 + R15 000 + R18 000 = R103 000

Question 4

4.1

Refer to Marx J and Van der Meer F, 2017, page 63)[1]

Define an annuity

An annuity is a series of equal cash flows for each of a specified number of periods.

4.2

Refer to section 4.3.1 of Chapter 4 of the prescribed book.

What type of annuity product is under discussion?

It is annuity arranged by the Employer's Pension Fund, a compulsory annuity.

4.3

Refer to section 4.3. of Chapter 4 of the prescribed book.

Discuss the advantages of annuity products

- Provide income for a definite period or lifetime of the person
- Definite and guaranteed income
- It is a venture for accumulating saving
- May take care of education costs for children
- Tax benefit

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[1] Students are free to use and reference any academic approved source.

4.4

Refer to section 4.3 and 4.3.2 of Chapter 4 of the prescribed book.

Recommend the annuity products

Ntate is planning to purchase annuity investments and does not want to lose money before and after death. Therefore, in regard to money considerations may consider buying between fixed annuity or indexed annuity. In regard to the types of annuity the annuity certain may solve the issue of education costs.

Good luck