



UNIVERSITY
OF
JOHANNESBURG

Department of Finance and Investment Management

Insurance and Risk Management
FPL03X7

FINAL ASSESSMENT OPPORTUNITY
2 JUNE 2014

Time: 2.5 hours

Marks: 100

Assessor: M Lotter

Internal Moderator: R Andrew

External Moderator: R Brune

INSTRUCTIONS:

- This paper consists of 10 pages.
- Answer ALL questions in the answer book provided. Only answers in your own handwriting in the official answer book will be considered.
- Silent, non-programmable calculators may be used. The use of any other electronic devices for whatever reason will lead to immediate expulsion from the examination as well as from the course.
- Where applicable, show all calculations clearly.
- Use today's date for all calculations unless instructed differently.
- Answers that have been corrected by the use of Tippex and answers in pencil will **not** be marked.
- Scratch out all open spaces and empty pages.
- Good luck!

Question	Topic	Marks	Time
1	Multiple choice questions – various topics	30	45 minutes
2	Regulatory environment	18	27 minutes
3	Long-term & short-term insurance	22	33 minutes
4	Business assurance	14	21 minutes
5	Health care	16	24 minutes
		<u>100</u>	<u>150 minutes</u>

QUESTION 1.4

The Treating Customers Fairly (TCF) principles require financial services businesses to consider their treatment of customers at all stages of the product life cycle. Indicate which statement is not an outcome of a TCF policy. (2)

- a) Products and services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are marketed accordingly.
- b) Where consumers receive advice, the advice is suitable and takes account of their circumstances.
- c) Financial products that are appropriate to the client's risk profile and financial needs must be identified.
- d) None of the above.

QUESTION 1.5

Which of the following contracts are *void ab initio* (regarded as being void from the beginning) (2)

- a) A contract between Charles and his financial advisor to invest the proceeds of his drug business.
- b) A contract between Werner and his financial advisor. Werner only agreed to invest his inheritance money with his financial advisor out of fear that his financial advisor would inform his wife of his extra-marital affair.
- c) A contract between Natasha and her financial advisor where the financial advisor intentionally misrepresented the benefits of the financial product to gain commission.
- d) All of the above.

QUESTION 1.6

Ariska applied for a mortgage bond. The financial institution granted the loan provided that she cedes a life policy to the financial institution to protect their interest in the event of her death. The financial institution can only be considered to have complied with the provisions of section 44(1) if: (2)

- a) Ariska was notified of her right to free choice and that a life policy with the exact amount as the outstanding loan should be ceded to the financial institution.
- b) Ariska was instructed to take out a new life policy for the entire outstanding amount since the insured amount on her existing policy is not sufficient.
- c) Ariska was instructed to take out a new life policy with an insured amount equal to the difference of the outstanding loan and insured amount on her existing policy.
- d) Ariska was instructed to cede any life policy with sufficient cover to the financial institution.
- e) None of the above.

QUESTION 1.11

Kyle bought a new vehicle and he wants to make sure that he takes out insurance to cover himself against any legal liability caused by an accident in his vehicle. Indicate which statement is incorrect.

(2)

- a) Comprehensive motor insurance: cover includes damage to another person's property; loss or damage to his vehicle by fire or theft; accident loss; and any legal liability for death and/or injury caused by an accident in his vehicle.
- b) Balance of third party insurance: cover includes damage to another person's property.
- c) Balance of third party, fire and theft insurance: cover includes damage to other person's property; and loss or damage to his vehicle by fire or theft.
- d) None of the above

QUESTION 1.12

Nigel is a member of MediWonder medical scheme. He resigned from his current employment and will join his new employer from 1 July 2014. He has a choice to stay with his existing medical scheme or join MediCare medical scheme in terms of his new employment. Nigel's new salary has increased with 40% and he would like to change to a better option as his medical expenses are very high.

Indicate which statement is incorrect.

(2)

- a) MediWonder is entitled to restrict Nigel to only change to another benefit option at the beginning of each month of January each year.
- b) Assume Nigel resigns from his membership with MediWonder and joins MediCare. Nigel can choose the maximum benefit option but the scheme is entitled to only give pro rata benefits since Nigel joins six months into the year.
- c) Assume Nigel resigns from MediWonder and joins MediCare. No waiting period will be applied since the change of scheme is due to a change in employer.
- d) None of the above.

QUESTION 1.13

Nadia and Skylin are in business together. Nadia started the business in 2001 when she registered the company Design Young (Pty) Ltd. Nadia is an excellent designer and due to the success of the business, she appointed a second designer, Skylin in 2005. Skylin specialised in wedding dresses and the mark-up on wedding dresses is much higher than any other design. Skylin is very valuable to the business and Nadia sold 20% of her shares to Skylin in 2010. Nadia and Skylin both agree that they would like to continue the business on their own should something happen to one of them. The company was recently valued at R2 300 000. An outstanding loan of R800 000 is payable by the company to Nadia. Nadia and Skylin decided to enter a buy and sell agreement and to fund it with life policies. Assume the policies are taken out to fund the buy and sell agreement and qualify with all the requirements of section 3(3)(d)(ii) unless stated otherwise. Indicate which statement is correct.

(2)

- a) If Nadia and Skylin decide to take out life policies to fund the buy and sell agreement, only the policy on the life of Skylin will be exempt from estate duty, since it is a family company.

QUESTION 2

[18 marks]

QUESTION 2.1

Michael is an established financial advisor. He was very successful but business has slowed down drastically since most of his clients are at retirement age and require limited advice. Michael is in desperate need of new clients and to make more money. Michael used many ways of marketing to advertise his services to the younger generation and he is excited about the positive response.

Michael met with Matthew, a university student, who explained over the phone that he wants to invest some money. Matthew informed Michael that he wants to invest his money in a foreign product, that does not require any identification documents and where the gain is exempt from tax. Matthew mentioned that he made a profit out of a small operation he runs on campus but did not want to elaborate anymore.

QUESTION 2.1.1

Michael was surprised when Matthew handed him a suitcase with cash of R500 000.

REQUIRED:

Advise Michael about the duties in terms of the Financial Intelligence Centre Act 38 of 2001 (FICA), applicable to this scenario.

(6)

QUESTION 2.1.2

Matthew was hoping to speed up the process and decided to confide in Michael. He disclosed to him that he is secretly selling Ritalin to students in order to help them with their studies and he feels proud that he can contribute to their success.

Matthew offered 20% of the return of the investment to Michael if he speeds up the process and if he agrees not to report him. Michael is desperate to increase his income and accepts Matthew's offer.

REQUIRED:

Determine if Michael is committing a crime in terms of the Prevention of Organised Crime Act 121 of 1998 and discuss the fine and/or penalty if Michael is found guilty of one of the offences. **(4)**

QUESTION 2.2

Naude's father died of prostate cancer and he was immediately interested when he was offered a policy that provides cover in the event of cancer being diagnosed. He was sold a critical illness policy through direct marketing and he accepted the contract telephonically.

QUESTION 2.2.1

Once he received the contract, 10 days later and after he paid his first premium, he consulted Ronald for some advice. Ronald, a financial advisor and a representative for an authorised financial service provider, noticed that the policy only provides for cancer. He informed Naude that he can take out a comprehensive critical illness policy, which covers a number of

QUESTION 3.3.1

REQUIRED:

Lika and Daniel are considering disability cover. Advise them about the different disability policies available (differentiate between the options) and recommend the best option. Do not consider impairment cover in your answer. (7)

QUESTION 3.3.2

Daniel's financial advisor referred to a comprehensive disability product that includes impairment cover.

REQUIRED:

Differentiate between impairment cover and the traditional disability cover. (4)

QUESTION 4

[14 marks]

Joan and Craig are in business together. They each have shares in Baking Tin Decoration (Pty) Ltd. Joan has 60% shares and Craig has 40% shares. Joan is responsible for managing, ordering, selling and mostly the operational side of the business. Craig studied at one of the top culinary schools in Europe and specialises in pastries. Craig is very skilled and it will be difficult and costly to replace him. Joan estimates that the operation loss should something happen to Craig will be R3 500 000. Craig is hosting food and pastry classes on a daily basis and it generates 60% of the income of the business. 40% of the income is from equipment and ingredient and selling of cakes.

REQUIRED:

Joan is very concerned about the future of the business should something happen to Craig. Advise Joan how she can address her concerns through the use of a business assurance solution and what the tax implications will be. Discuss your recommendations and the tax implications (where necessary) in detail.