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**INTERNAL SUMMATIVE ASSESSMENT**

**Qualification: Occupational Certificate: FINANCIAL ADVISOR**

**Module 5: Long-Term Insurance Advice**

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| ***INSTRUCTIONS***   * *Complete all questions using black ink.* * *Write legibly in the language agreed, namely English.* * *Label drawings clearly (if applicable).* * *The required mark to be declared competent is 50%.* * *This is a closed book, 3-hour test.* |
| **SECTION A: MULTIPLE CHOICE QUESTIONS**  **Select the correct answer from the alternatives given.**   1. The following are the events covered by Long Term Insurance except; 2. Death 3. Medical Expenses 4. Personal Accident 5. Disability 6. Which of the following is the correct description of dread disease insurance?   A. Insurance that covers the insured in the event of him/her being occupationally incapacitated or impaired.  B. Insurance that covers in the event of being diagnosed with a covered ailment or medical condition.  C. Long term insurance that runs for a known period of time, and either expires or pays out a maturity amount.  D. Insurance that provides cover in the event of death due to a dread disease.   1. Term Insurance has various features that makes it different from other types of Long-Term Insurance products, choose the **Incorrect** statement.   A. Term insurance cannot be converted to whole life insurance.  B. Pays benefits only if you die while the term of the policy is in effect.  C. It is purchased for a specific time period.  D. An Insured can add ancillary benefits to the term insurance policy.   1. Which of the following can be regarded as supplementary benefits under Long Term Insurance? 2. Disability and dread disease cover. 3. Premium Holiday and waiver. 4. Accidental death benefit. 5. All the above. 6. Retirement annuity contributions can be made largely through a regular payment arrangement, choose the correct term for this arrangement. 7. Ad hoc premium 8. Recurring Premium 9. Single Premium 10. None of the above. 11. The following pieces of legislation govern the Long Term Insurance industry except, 12. The Financial Sector Regulation Act 9 of 2017. 13. Income Tax Act 58 of 1962. 14. The Promotion of Access to information Act 4 of 2013 15. The Short-Term Insurance Act 53 of 1998. 16. The class of Long Term Insurance which provides one or more sums of money at a fixed or determinable future date is referred to as a\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 17. Life Policy 18. Assistance Policy 19. Fund Policy 20. Sinking Fund Policy 21. The following are some of the factors that are taken into consideration during the risk assessment process in long term insurance. Choose the incorrect one 22. Knowledge of Insurance 23. Number of dependents 24. Family Medical History 25. Level of Education 26. This is when an insured person derives a financial or other kind of benefit from the continuous existence, without repairment or damage, of the insured object (or in the case of a person, their continued survival). Choose term being described by this statement. 27. Compensation. 28. Indemnity. 29. Insurable Interest. 30. Insurable Risk. 31. Which of the following is not a party to a Long Term Insurance contract? 32. Policyholder. 33. Beneficiary. 34. Financial Advisor. 35. Long term insurer 36. Non-disclosure means failure to divulge a relevant fact when applying for an insurance policy. This is a violation of the principle of good faith which should be observed in insurance negotiations. Which of the following is **most** likely to happen should a client fail to disclose material facts to the insurer?   A. The client may pay a fine.  B. The claim can be repudiated.  C. The client can pay an extra fee.  D. All the above.   1. Which of the following are typical exclusions under disability insurance? 2. Disability as a result of Acts of War 3. Self-Inflicted Injuries 4. Disability as a result of participating in riots, strikes and civil commotion 5. All of the above 6. Below is a list of the elements of fraud with the exception of? 7. Unlawfulness 8. Misrepresentation 9. Bona fides 10. Prejudice 11. Choose the correct term that best describes professionals who apply mathematics and numerical evaluations to solve financial problems. 12. Claims Assessor 13. Actuaries 14. Underwriters 15. Investment Brokers 16. Assessors must be able to communicate professionally and concisely. The assessor is one of the insurance representatives that communicates with a client after a policy is purchased and is responsible to talk with third party claimants as well as many other contacts throughout the claim process. Because of this, one of the key roles of an assessor is that of\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. 17. Claim examiner 18. Communicator 19. Independent work 20. Receiving claim notices from the insurer 21. Reinsurance is "insurance for insurance companies”, in other words a “second level of insurance. Choose the incorrect term(s) with regards to the role of a re-insurer? 22. Limiting Liability 23. Stabilisation 24. Catastrophe Protection 25. Evaluation of claims 26. Self-reported ailments are based on the premise that the insured is knowledgeable enough to report on certain ailments without any record from the medical practitioners: Which of the following is an example of a self-reported ailments? 27. Influenza like sicknesses 28. Headaches 29. Shortness of breath 30. All the above 31. The following are the financial consequences of a decision to prosecute in the event of fraud except; 32. Legal Costs 33. Hiring and firing costs 34. Administration costs 35. Loss of market share as a result of reputational damage. 36. One of the reasons an insurer may denies a claim is because: 37. The insurer is mean 38. The insurer is greedy 39. The insurer is sneaky 40. The insurance policy coverage does not apply to the loss, damage or injury that is the subject of the claim. 41. It is an intermediary’s obligation to adhere to the certain responsibilities when dealing with clients with regards to disclosing material facts to clients. Failure by the intermediary to disclose the necessary information to clients will lead to the following consequences. Choose the correct statement. 42. The intermediary can get a warning 43. The intermediary can pay a fine of a maximum of R1 million or imprisonment of not more than 10 years. 44. The licence can be withdrawn or suspended. 45. All of the above   **State whether the following statements are true or false**.   1. Facultative reinsurance is negotiated separately for each insurance contract that is reinsured. **True/False** 2. An insurance contract is a contract of "utmost good faith." This expression means an insured is required to disclose all information requested by an insurer. **True/False** 3. Claims Assessors also gather information from the underwriters so that their decision to authorise a claim will be consistent with the standards, terms and conditions of the policy set during the underwriting stage. **True/False** 4. Under abnormal risk, the elevation of risk may be caused by external or internal vulnerabilities, and may be avoided through pre-emptive action. **True/False**   **Match the following words/terms in column A with their correct meaning in Column B.**   |  |  | | --- | --- | | **1**.Underwriting | **A**. A significant misstatement in an application form. For example, you did not tell the truth about a situation or medical condition at the time of applying for coverage which would have caused the company to deny you insurance if they had known the truth. | | **2**.Insurable interest | **B**. Is a payment for a special purpose; payment to a common fund as by an insured to the risk pool; the principle whereby two or more insurers covering the same risk contribute proportionately to any losses | | **3**.Material misrepresentation | **C**. The process of evaluating the subject of insurance, whether a person, property, profession, business, or other entity, and determining whether to insure it or not. | | 4.Waiver of premium | E. The notion that the insured is totally disabled, even if still at work, if sickness or injury results in the total and complete loss of sight in both eyes, hearing in both ears, power of speech or use of any two limbs. | | 5.Contribution | **F**. A demonstrable interest in something covered by an insurance policy, the loss of which would cause deprivation or financial loss. This must be shown whenever somebody takes out an insurance policy or makes a claim; the principle that requires an insured to have a legally recognised relationship with the item to be insured. |   **ANSWERS**   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **1** | **2** | **3** | **4** | **5** | **6** | | ***C*** | ***F*** | ***A*** | ***E*** | ***D*** | ***B*** |   **Total marks: 30**  **SECTION B: SHORT AND LONG QUESTIONS (76 MARKS)**  **Question 1 (8 Marks)**  **With reference to the types of Long Term Insurance, outline the benefits of having long term insurance. Use examples to support your answer.**  ***Model Answer.***   * *Life Policy-Financial security to the dependents when you die* * *Dread disease insurance-Payment towards hospital costs when you get ill* * *Disability Insurance-Income replacement in the event of disablement* * *Funeral Policy-Peace of mind knowing that you will have a dignified funeral when you pass on.* * *Fund Policies-Ability to save for retirement*   ***Assessor to use discretion on the examples given by the learner. (4 marks for the benefits and 4 marks for examples)*** |
| **Question 2 (15 marks)**  **Discuss the main differences between the Short Term and Long Term Insurance Acts; include an explanation of indemnity and non-indemnity cover.**  ***Assessor’s discretion, Model response can include the following:***  *The Short Term Insurance Act regulates the registration and activities of short term insurance companies and The Long Term Insurance Act regulates the registration and activities of long term insurance companies with regards to how they conduct, manage, market and maintain their business. The activities of these insurers are separated between the fact that short term insurers provide indemnity and long-term insurers provide compensation to their clients.*  *Indemnity vs Non-Indemnity (Compensation)*  *Indemnity means security, protection and compensation given against damage, loss or injury, therefore indemnity only applies to short term insurance in which the subject matter of insurance has a monetary value but in case of long term insurance, the principle of indemnity does not apply because the value of human life cannot be measured in terms of money, the two concepts are explained below in detail.*  *Indemnity*  *One of the most important principle of short term insurance is that the insured should not profit from a loss or damage but should be returned (as near as possible) to the same financial position that existed before the loss or damage occurred. In other words, the insured cannot recover more than his or her actual loss from the insurer. This principle is referred to as the indemnity principle.*  *There are, however, certain exceptions to this rule, such as personal accident and life insurance policies where the policy amount is paid on occurrence of accident or death and the question of profit does not arise. Some marine insurance policies also constitute an exception because the settlement of a total loss is based on a sum agreed upon at the time the insurance policy was written Indemnity insurance includes insurances such as:*   * *Fire and natural perils* * *Motor vehicle* * *Burglary* * *Public liability* * *Marine insurance, etc*   *Forms of Indemnity*  *Indemnity can be provided in the form of:*   * *Reinstatement: The damaged or lost item can also be restored e.g. a building* * *Repair: Repair is a commonly used when indemnifying motor accidents* * *Cash-in-lieu: The insured can be indemnified by the payment of cash, which should not be more than what the insured stands to lose financially.* * *Replacement: Indemnity can be in a form of replacement with an equivalent item than in a form of cash.*   *Non-Indemnity (capital)*  *Compensation is also a way of reimbursing the insured for the losses that he might sustain. However, unlike indemnity, compensation need not bear any relationship to the actual loss suffered by the insured. Here the intentions are not to put the insured in exactly the same financial position he was in before the loss, but simply to make good for the loss suffered and reduce any financial burden that comes as a result of the particular loss.*  *For example, a person can insure himself against disability for R250 000 and this amount does not need to be equal to the actual loss suffered as a result of the injury. The reason for this being that no one can ever be able to put a value on anyone’s life.*  *Compensation can be done through:*   * *Disability insurance* * *Dread Disease insurance* * *Life insurance* * *Personal accident insurance* * *Health insurance* |
| **Question 3 (10 marks)**  **List and discuss at least two (2) internal and external role players in the Long Term insurance Industry.**  ***Assessor discretion, award marks for relevant answers. Brief discussions on the roles played by any two role players :***  *Underwriters,*  *Claims Assessors,*  *Actuaries,*  *The legal department,*  *Reinsurers.* |
| **Question 4 (11 marks)**   1. **Define with the use of examples fraud in the Long Term Insurance industry. (5 marks)** 2. **Describe the six steps a Long term insurer needs identify and manage fraud in order to minimize/eliminate fraud. (6 marks)**   ***Assessor’s discretion. Award marks for relevant response.***   1. *Fraud can be defined as follows:*   “*The unlawful and intentional making of a misrepresentation which causes actual prejudice, or which is potentially prejudicial to another.”*  *The wrongful or criminal deception intended to result in financial or personal gain.*  *The well-known South African criminal law jurist, C R Snyman, explains fraud as “…the unlawful and intentional making of a misrepresentation which causes actual prejudice or which is potentially prejudicial to another.”*   1. *Moving from reactive to proactive fraud detection takes six steps:* 2. *IMPLEMENT A FOUNDATIONAL FRAMEWORK*   *A foundational framework should reflect a fraud-detection strategy that addresses such questions as: How can companies check all claims for fraud but ensure fast claim processing? How can companies identify fraud before a claim is paid? How can companies improve fraud investigation efficiency? How can companies keep track of changing fraud behaviours? How can companies reduce false positive signals? And finally: What is the best approach to automate the fraud-detection process and predict the likelihood of fraud? Implementing a foundational framework enables management to make better decisions about priorities, resource deployment and investments.*  *A foundational framework can range from an “out-of-the-box” solution that automates the institutional knowledge of your claims professionals and enables workflow management to full social networking analysis of the parties involved in a claim. From there, insurers can add a multitude of scoring engines, third-party data captures, criminal history lookups and many other tools. An important aspect of fraud detection is having a culture in claims staff, and other staff that emphasizes the importance of recognizing, identifying and investigating suspicious claims. Empower staff to be involved, and then the tools deployed will function much more effectively.*  *2. KNOW THE RELATIVE LEVEL OF FRAUD POTENTIAL*  *Knowing the relative level of fraud potential for every type of claim allows the best, and quickest, action to be taken to maximize special investigative unit (SIU) efficiency and savings. With limited resources to devote to fraud, it is important to make sure that investigations can be focused on the items that have the greatest potential for cost avoidance and successful identifications. For example, a theft claim involving the suspicious disappearance of expensive jewellery has a higher potential for being fraudulent than a stolen smartphone or laptop.*  *3. USE DATA ANALYTICS TO DETECT FRAUD*  *Fraud comes in all shapes and sizes. In general, insurance fraud can be divided into two categories: criminal fraud, which is perpetrated by professionals habitually trying to milk the system; and cultural fraud, which is a genuine claimant being opportunistic or exaggerating a claim.*  *Data analytics can be applied to detect fraud. By analysing past fraud, insurers can use predictive modelling to produce what is called a “Suspicion Score,” a value for the propensity of fraud. The process works like this: Adjusters simply enter data, and claims are automatically given a Suspicion Score to indicate the likelihood that fraud has occurred. The technology behind this involves utilizing data-mining tools and applying quantitative analysis.*  *Even with automation and data analytics, the weakest link in fighting fraud can be a company’s own employees. The importance of checks and balances cannot be stressed enough.*  *4. CONTINUALLY REVIEW AND RESCORE CLAIMS*  *Success in combating insurance fraud comes from persistence and good timing. Above all, apply an arsenal of tools — including data analytics and predictive modelling — early and often. Claims should be continuously monitored for fraud potential. As an insurance company, it is imperative to target the right claims, at the right time, with the right tools. Luckily, predictive modelling and advanced analytics are coming into play as essential tools for fighting insurance fraud. These tools can be automated, preventing the need for hands-on manual analysis.*  *By continuously reviewing and rescoring claims using Suspicion Scores, insurers can detect patterns that reveal fraud. Some claims score high immediately at first notice of loss, prompting your SIU to get involved immediately. For others, high scores do not show up until after the claim has been collected.*  *Monitoring Suspicion Scores has been shown to be more accurate and more effective than traditional fraud-detection methods. But again, the key is to not rely solely on technology to do all of the heavy lifting — human analysts are required to initiate action after the suspected fraud has been flagged, and your people must follow through with appropriate measures. This is where training employees to identify fraud becomes an important piece of the overall fraud-detection puzzle.*  *5. ADOPT A LAYERED APPROACH*  *In the world of IT, a “layered approach” refers to using a variety of tools and technologies to tackle a challenge. In detecting insurance fraud, this means throwing the kitchen sink at the criminals, but doing it in an organized, well-considered fashion.*  *Fraud is a complex, multifaceted problem, and no single method can detect all fraud. Each fraud-detection method needs to be crafted to address a specific area. Different rules and indicators are needed for different types of policies and claims. Plus, fraudsters usually hide in multiple databases, so fraud-detection methods must search them all. Because of the complexity of fighting fraud, it is advisable to bring in outside expertise to help formulate a framework and implement the technology, tools and methods needed to deal effectively with fraud.*  *The modern insurance organization has a number of technology tools at its disposal to detect fraud. For example, videos, photos and even livestreaming can be used to document evidence at an accident, a disappearance or crime scene. It’s difficult for the average person to fake a video, especially when the device’s location access is turned on. A virtual gold mine lies within unstructured data, and it is imperative to collect, organize, index and mine the data to detect fraud. Always remember: “You can’t claim what you can’t prove”.*  *6. REVISE BASED ON MARKET CONDITIONS*  *Criminals are ever resourceful, so it is imperative to always be ready to quickly adapt to changes in the ways fraud is undertaken, as well as changes in the industry. For example, professional criminals are sophisticated enough to become familiar with the analytical approaches that insurance companies use to detect fraud, and to change their tactics when committing fraud. As fighting fraud becomes more proactive, insurers must spot new fraud trends early and take steps to stay.*  *Your everyday policyholders may also try to be more creative with their insurance claims when the economy is in a down cycle. The current economic downturn has resulted in high levels of unemployment, and general standards of lives taking a nose dive. Keeping your staff aware of the type of market conditions the policyholders are facing so the staff can be on the lookout for new and inventive fraud attempts that may be unknown to the software in place. South Africa is seeing an increase in “fake deaths” claims.* |
| **Question 5 (8 marks)**  **Describe the role of an Actuary and discuss role of actuarial reports in determining the financial soundness of an organisation.**  ***Assessor’s discretion. (4 marks for the role of an Actuary, and 4 marks for the role of Actuarial reports)***  *Model answer:*  *Actuaries play a crucial role in the operation and profitability of any insurance business. They help the firm with their expertise in calculation of premiums of various insurance policies, rating methods and reserves. Actuaries analyse the financial costs of risk and uncertainty. They use mathematics, statistics, and financial theory to assess the risk that an event will occur and help businesses and clients develop policies that minimize the cost of that risk.*  *The purpose of an actuarial report is to show an organization’s loss experience using probability theory and other methods of statistical analysis. It can be used to determine an insured’s projected losses, a self-insured’s liability accruals, the adequacy of the insurer’s statutory loss reserves, or a life insurer’s unearned premium (technical) reserves as well as an estimate of the value of a claims or group of claims not yet paid.*  **Question 6 (4 marks)**  **What role does the Claims Assessors play in the determination of underwriting profit?**  ***Assessor to award marks for relevant responses***  *Claims assessors are there to make sure that the information mentioned above is accurate in order for the insurer to pay legitimate claims otherwise the underwriting profit will be compromised severely.*  *Underwriting profit is realized after taking into consideration the cash inflow from premiums and outflow on paying out claims and other expenses.*  *Underwriting profit is often used as a measure of the success of an insurance firm.*  **Question 7 (4 marks)**  **With the aid of examples, explain Accelerated benefits, and when they can be used**  ***Assessor’s discretion’***  *Accelerated Benefits: Accelerated benefits refers to a clause in certain life insurance policies that enable the policyholder to receive the benefits before death. … Insurers offer anywhere from 25 to 100 percent of the death benefit as an early payment.*  *Accelerated Benefits are used if the option is selected from inception, and usually responds if a medical practitioner confirm in writing that the insured has less than 12 months to live.* |
| **Question 8 (10 Marks)**  **Explain the role played by disability and dread disease insurance benefits in a person’s financial plan.**  ***Assessor’s discretion.*** |
| **Question 9 (10 marks)**  **Give an example of an abnormal risk. Suggest underwriting factors to consider when dealing with the identified abnormal risk.**  ***Assessor’s discretion.***  ***Guidelines would include underwriting factors like, Age, Health Status, Lifestyle, Smoking status, Avocation/Hobbies, Occupation.*** |
| **SECTION C**  **Question 1 (20 marks)**  **Kim is a Legal Consultant with a Law Firm. She has been working in the position for the past 5 and half years. She is a member of a medical scheme, and a pension fund - both provided as fringe benefits at work. She is 41 years old and is a single mom. Her eldest child is 7, and the other is 4 years old. She is paying a mortgage bond with a local bank, and has 12 instalments outstanding on her car with a different bank. She was recently diagnosed with Stage 2 breast cancer and may have to undergo surgery to remove the affected breast. She would need to go through chemo and radiation therapy for about 8 months to treat the disease.. Her mother was diagnosed with the same type of cancer and survived after a mastectomy (breast removal surgery), and her grandmother unfortunately died due to a cancer related illness.**  Create a risk profile for Kim as a client.  What role can long term insurance products play in Kim’s financial wellbeing? Give detailed justifications for your response.  ***Assessor’s discretion.*** |
| **Achieved\_\_\_\_\_\_\_/130 Percentage \_\_\_\_\_\_%**  **Assessed** **by:** …………………………………………………... **Date:** ………………………...  **Meets requirements: / Does not meet requirements:**  ……………………………..…………… ……………..……………………………  **Assessor Candidate** |