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INSURANCE SECTOR EDUCATION
AND TRAINING AUTHORITY

Learner Name	
ID Number	
Organisation	

FORMATIVE ASSESSMENT: LEARNER WORK FILE VERSION 1

Unit Standard Title: **Demonstrate Knowledge of Insurable Risk**

Unit Standard No: **120124**

Unit Standard Credits: **3**

NQF Level: **4**

Mark information:

Specific Outcome/Section	1	2	3	4	5	Total	%	C / NYC
Maximum marks	21	21	7	38		87	100	

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Formative Activities

Section 1: 21 marks


Activity 1

Briefly discuss the concept of pooling of risk with reference to reinsurance, short term insurance as well as long term insurance. (5)



Activity 2

What is insurable interest? How does insurable interest impact on the law of contract? (3)



Activity 3

What is particular risk? Explain this concept in terms of the effect on the individual.

(4)

Activity 4

Give a brief overview of pure risk in terms of loss.

(3)

Activity 5

What is the difference between a hazard and a peril? Provide an example of each.

(4)

Activity 6

How do moral hazards and physical hazards impact on insurance policies? Give examples where possible to demonstrate your understanding. (2)

Section 2: 21 marks**Activity 7**

Explain how insurable risk can be applied to financial loss. (4)

Activity 8

8.1 Identify in which of the following scenarios there would be insurable risk. (1)

- a) The insurer must be able to charge a premium high enough to cover all the insurer's expenses, the nature of the loss must be definite and financially measurable and the loss should be random in nature
- b) The insurer must be sure that the loss will definitely occur, and in the event of the loss occurring that the insured will be indemnified. The loss should not exceed 50% of the insured value

Answer: _____

8.2 Choose in which of the following scenarios there would be an insurable risk:
(there is more than 1 correct answer) (2)

- a) Plants growing in a garden
- b) Residential building and contents
- c) Vehicle used for normal commuting
- d) Money lost on gambling at the casino
- e) Drugs stolen out of vehicle – there are visible signs of forced entry

Answers: _____

8.3 Name two risks that are unlikely to be insured and suggest other ways to reduce these risks. (2 x 2 = 4)

Risks never insured	Alternative risk reduction methods

8.4 Complete the blocks below by naming two other undesirable risks (other than the one mentioned) and indicate the conditions under which each could be insurable and when each would be regarded as non-insurable. (2 x 3 = 6)

Undesirable Risk	Insurable	Non-insurable
Big house with thatch roof	Used for a family to live in	Used by students as a commune

8.5 Identify which of the following risks are “fundamental risks” which are not insurable AND explain WHY these risks would not qualify for insurance.

Mark the block next to the fundamental risks with an “X” and explain your answers in the spaces provided. (4)

Risks	Fundamental? Mark with “X”	Justify your answer
Natural disasters and catastrophes		
Wear and tear		
War and the use of nuclear weapons		
Motor vehicle accidents		
Fire caused by lightning		

Section 3: 7 marks**Activity 9**

Explain the application of average in insurance and give an example. (3)

Activity 10

Explain the difference between indemnity and compensation and give an example of each. (4)

Section 4: 38 marks**Activity 11**

Choose which of the following risks would be insurable and non-insurable and indicate your choice in the table below: (remember these refer to short term personal lines insurable risks). (30/2 = 15)

A client would like to place the following items on cover:

A **holiday home** (building and contents) that is let to holidaymakers (Bloubergstrand), as well as a **car** (Opel Kadett) which is used at the holiday home (only they would use this car, not the holidaymakers). The car has a tow bar fitted to it additionally.

The residential building and contents that they live in in Rosebank.

The LDV that her husband uses to visit construction sites (he is a Constructional Engineer), with a factory fitted radio and canopy as well as a basic toolkit on the back of the bakkie used occasionally on the site.

Her Renault Megane II Sport used for daily commuting (she is a housewife). Some loose items like their cell phone, laptop, wedding rings, cameras, camping and diving equipment.

Their farm in Clarens, with their live stock and machinery. Their helicopter and she would like to know whether they can take out life insurance with you on the pilot's life.

Item	Are items insurable / not?	Justify your answer

Item	Are items insurable / not?	Justify your answer

Activity 12

Classify three of the insurable items (as per the previous question) into the most appropriate TYPE or CLASS of insurance for each risk and give a reason. (9)

Insurable item	Appropriate type of insurance	Justify your answer
<i>Example: Caravan</i>	<i>Caravan / Vehicle</i>	<i>A caravan is covered as a caravan under the vehicle section of the policy</i>
<i>Example: Baby car seat</i>	<i>All risks</i>	<i>Baby car seats are covered under all risks, but with some insurers you are able to cover it under the vehicle cover</i>

Activity 13

From the list in activity 11, which four items would you suggest must the client place on cover, and which items could possibly be self-insured? Justify your answer. (12)

Item	Insure / self-insure?	Justify your answer

Activity 14

Explain the consequences of self insurance.

(2)



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SOUTH AFRICAN QUALIFICATIONS AUTHORITY

REGISTERED UNIT STANDARD THAT HAS PASSED THE END DATE:

Demonstrate knowledge of insurable risk

SAQA US ID	UNIT STANDARD TITLE			
120124	Demonstrate knowledge of insurable risk			
ORIGINATOR		ORIGINATING PROVIDER		
SGB Insurance and Investment				
QUALITY ASSURING BODY				
-				
FIELD			SUBFIELD	
Field 03 - Business, Commerce and Management Studies			Finance, Economics and Accounting	
ABET BAND	UNIT STANDARD TYPE	OLD NQF LEVEL	NEW NQF LEVEL	CREDITS
Undefined	Regular	Level 4	NQF Level 04	3
REGISTRATION STATUS		REGISTRATION START DATE	REGISTRATION END DATE	SAQA DECISION NUMBER
Passed the End Date - Status was "Reregistered"		2009-01-27	2012-01-27	SAQA 0160/05
LAST DATE FOR ENROLMENT		LAST DATE FOR ACHIEVEMENT		
2013-01-27		2016-01-27		

In all of the tables in this document, both the old and the new NQF Levels are shown. In the text (purpose statements, qualification rules, etc), any reference to NQF Levels are to the old levels unless specifically stated otherwise.

This unit standard replaces:

US ID	Unit Standard Title	Old	New	Credits	Replacement
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		NQF Level	NQF Level		Status
14994	Demonstrate knowledge and understanding of insurable risk	Level 4	NQF Level 04	2	Complete

PURPOSE OF THE UNIT STANDARD

This Unit Standard is intended for all learners in insurance including learners who manage asset risk in insurance and other organisations. It will be useful for risk management generalists, as well as intermediaries, insurance surveyors, wealth managers, underwriters, and learners in Short Term and Long Term insurance, including agricultural insurance, who work in administration, call centers, claims support functions or who are involved in quotations.

The qualifying learner is capable of:

- Explaining the concept of insurable risk.
- Distinguishing between insurable and non-insurable risks.
- Explaining the principle of average in relation to cover in short term insurance.
- Applying categories and classes of insurance to categories of risk.

LEARNING ASSUMED TO BE IN PLACE AND RECOGNITION OF PRIOR LEARNING

It is assumed that learners are competent in Communication and Mathematical Literacy at Level 3.

UNIT STANDARD RANGE

The typical scope of this Unit Standard is:

- Fundamental risks that do not qualify for insurance include, but are not limited to, natural disasters, wear and tear, maintenance, risks covered under SASRIA, business risk, risk of trading, risk of stock market, gambling and rust at the coast.
- Non-insurable risks include, but are not limited to, business, stock market, shares, equities, gambling, illegal activities, economic and incidental risk.
- Self insurance includes unfunded, captives and excess.
- Risks that are unlikely to be insured include, but are not limited to, liquidity, credit, investment, resource risk, sales variability, fluctuation in consumer needs, changes in competitors' business strategies, guarantees and business activities.
- Average includes, but is not limited to marine average, general average, particular average and general average to underwriters.

Specific Outcomes and Assessment Criteria:

SPECIFIC OUTCOME 1

Explain the concept of insurable risk.

ASSESSMENT CRITERIA**ASSESSMENT CRITERION 1**

The concept of pooling of risk is explained with reference to reinsurance, short term insurance and long term insurance.

ASSESSMENT CRITERION 2

The concept of insurable interest is explained and an indication is given of how this impacts on the law of contract.

ASSESSMENT CRITERION 3

The concept of particular risk is explained in terms of the effect on the individual.

ASSESSMENT CRITERION 4

The concept of pure risk is explained in terms of loss.

ASSESSMENT CRITERION 5

The difference between a hazard and a peril is explained with examples.

ASSESSMENT CRITERION 6

Ways in which moral and physical hazards impact on insurance policies are explained with examples.

SPECIFIC OUTCOME 2

Distinguish between insurable and non-insurable risks.

ASSESSMENT CRITERIA**ASSESSMENT CRITERION 1**

The concept of insurable risk is applied to financial loss.

ASSESSMENT CRITERION 2

Different situations are analysed to determine whether there is insurable risk, types of risks that are unlikely to be insured are named and suggestions are made for other ways to reduce such risks.

ASSESSMENT CRITERION 3

Undesirable risks are named and an indication is given of the conditions under which each could be insurable and when each would be regarded as non-insurable.

ASSESSMENT CRITERION 4

Fundamental risks that are non-insurable under standard insurance policies are

identified and an explanation is offered as to why such risks do not qualify for insurance.

SPECIFIC OUTCOME 3

Explain the principle of average in relation to cover in short term insurance.

ASSESSMENT CRITERIA

ASSESSMENT CRITERION 1

The application of average in insurance is explained with examples.

ASSESSMENT CRITERION 2

The difference between indemnity and compensation is explained with examples.

SPECIFIC OUTCOME 4

Apply classes of insurance to categories of risk.

ASSESSMENT CRITERIA

ASSESSMENT CRITERION 1

The risks in a specific situation are analysed and classified in terms of insurable and non-insurable risk.

ASSESSMENT CRITERION 2

The insurable risks are categorised in terms of the most appropriate type or class of insurance for each risk.

ASSESSMENT CRITERION 3

A recommendation is made as to which risks should be insured and whether the entity should self insure or carry the risk.

ASSESSMENT CRITERION 4

The consequences of self insuring and carrying the risk are explained with examples.

UNIT STANDARD ACCREDITATION AND MODERATION OPTIONS

- Anyone assessing a candidate against this Unit Standard must be registered as an assessor with the relevant ETQA or ETQA where a Memorandum of Understanding (MOU) exists with the relevant ETQA.
- Any institution offering learning that will enable achievement of this Unit Standard must be accredited as a provider through the relevant ETQA or ETQA

where a Memorandum of Understanding (MOU) exists with the relevant ETQA.

Moderation of assessment will be overseen by the relevant ETQA according to the moderation guidelines and the agreed ETQA procedures.

UNIT STANDARD ESSENTIAL EMBEDDED KNOWLEDGE

N/A

UNIT STANDARD DEVELOPMENTAL OUTCOME

N/A

UNIT STANDARD LINKAGES

N/A

Critical Cross-field Outcomes (CCFO):

UNIT STANDARD CCFO IDENTIFYING

Learners are capable of identifying and solving problems in which responses show that responsible decisions using critical and creative thinking have been made in identifying the risks in a specific situation and recommending insurance, self insurance or carrying the risk.

UNIT STANDARD CCFO COLLECTING

Learners are capable of collecting, organising and critically evaluating information in analysing the risk in a specific situation.

UNIT STANDARD CCFO COMMUNICATING

Learners are capable of communicating effectively in explaining concepts, using case studies and recommending a course of action in a specific situation.

UNIT STANDARD CCFO DEMONSTRATING

Learners are capable of seeing the world as a set of related systems in understanding the impact of moral and physical hazards on a policy, explaining why some risks are regarded as fundamental and explaining the consequences of self insurance and carrying the risk.

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