



# inseta

**INSURANCE SECTOR EDUCATION  
AND TRAINING AUTHORITY**

<b>Learner Name</b>	
<b>ID Number</b>	
<b>Organisation</b>	

## **FORMATIVE ASSESSMENT: LEARNER WORK FILE VERSION 1**

Unit Standard Title: **Demonstrate knowledge and understanding of the fundamental principles of risk finance in order to propose an insurance solution**

Unit Standard No: **242562**

Unit Standard Credits: **5**

NQF Level: **5**

### **Mark information:**

<b>Specific Outcome/Section</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Total</b>	<b>%</b>	<b>C / NYC</b>
<b>Maximum marks</b>	15	18	18	9		60	100	

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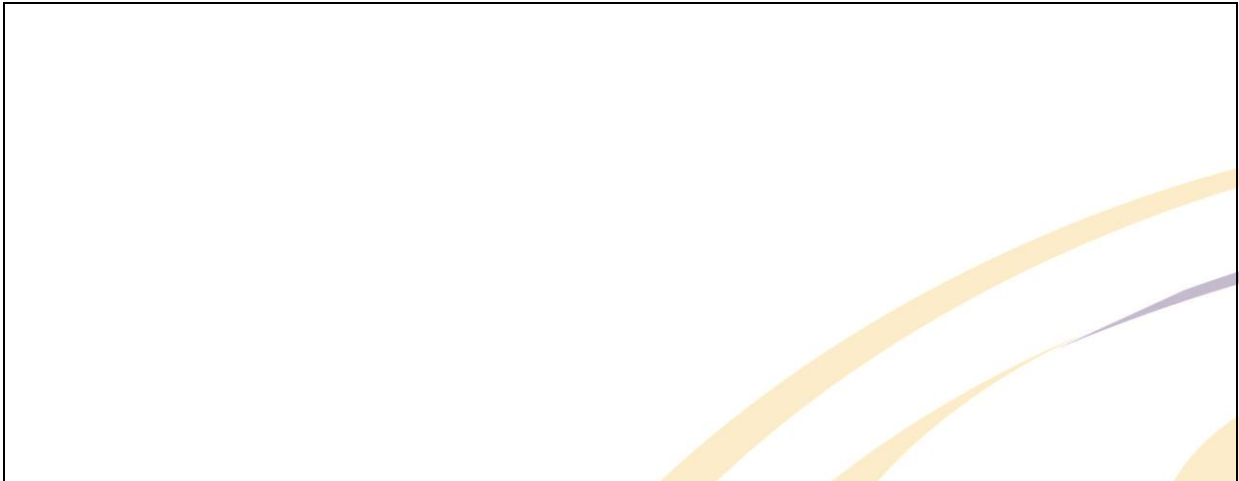
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## Formative Assessment

### Section 1: 15 marks

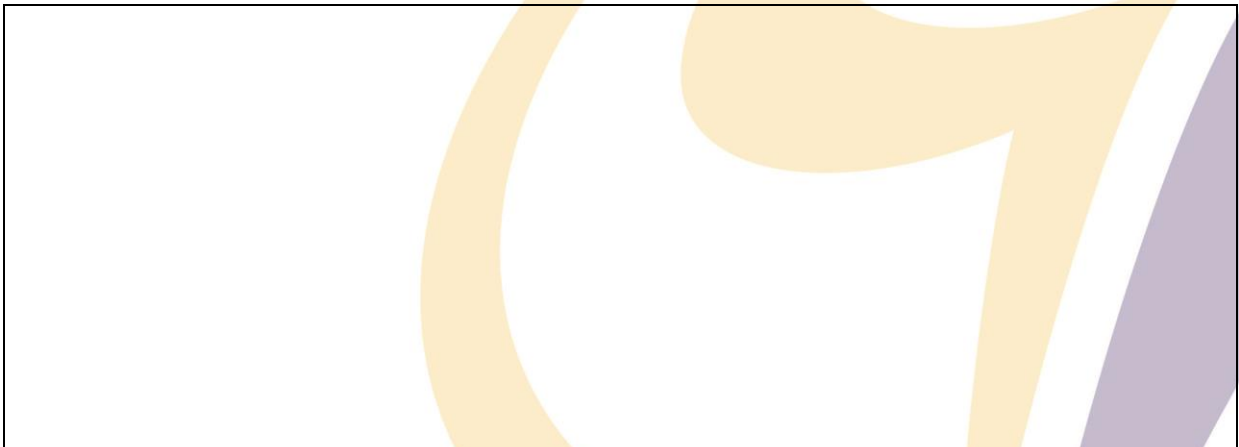
#### Activity 1

Why would a company want to transfer risk? What are the reason(s) for transferring risks? (4)



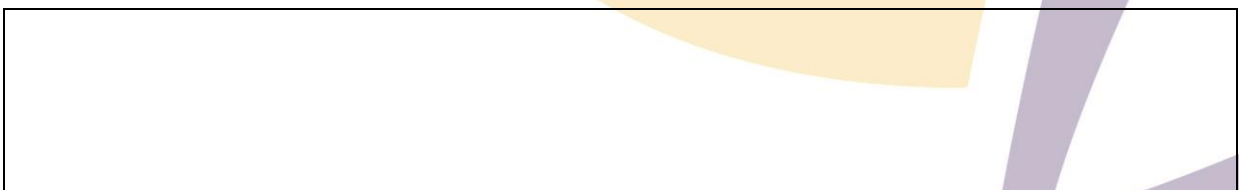
#### Activity 2

List 4 advantages of transferring risk (4)



#### Activity 3

What are the underlying principles of risk transferring? (2)



**Activity 4**

What, would you say, are some of the possible indicators of risk tolerance? (5)

**Section 2: 18 marks**

**Activity 5**

Define 'aggregate annual loss' in your own words. (2)

**Activity 6**

Make a sketch of a normal distribution graph (bell curve) to show the relationship between risk retention and risk transfer. (5)

**Activity 7**

The risk of loss may be transferred by one entity to another in various ways. The methods of transfer fall into 3 basic categories. Name the categories. (3)

**Activity 8**

Explain how your knowledge of insurance cost can determine risk retention. (4)

**Activity 9**

Explain the difference between a provision and a reserve and give an example of each. (4)

**Section 3: 18 marks****Activity 12**

Explain the following concepts in your own words. Make use of examples to clarify your explanation:

a) Risk transfer (3)

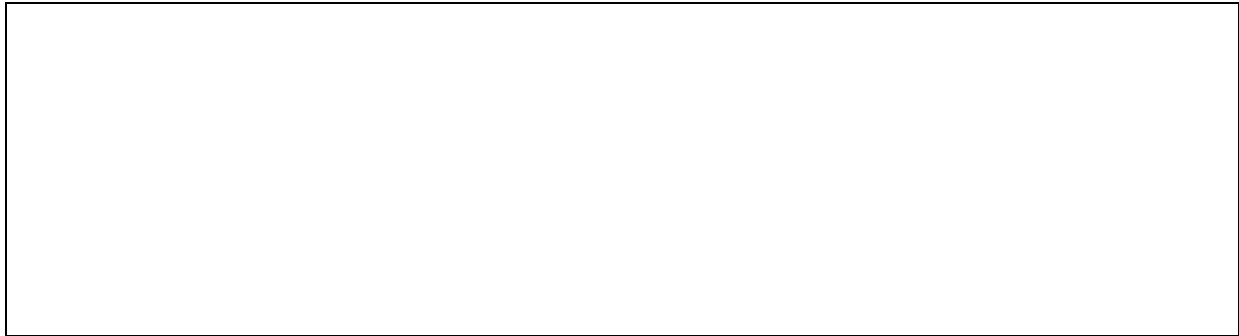
b) Risk retention (3)

c) Risk tolerance (3)

**Activity 13**

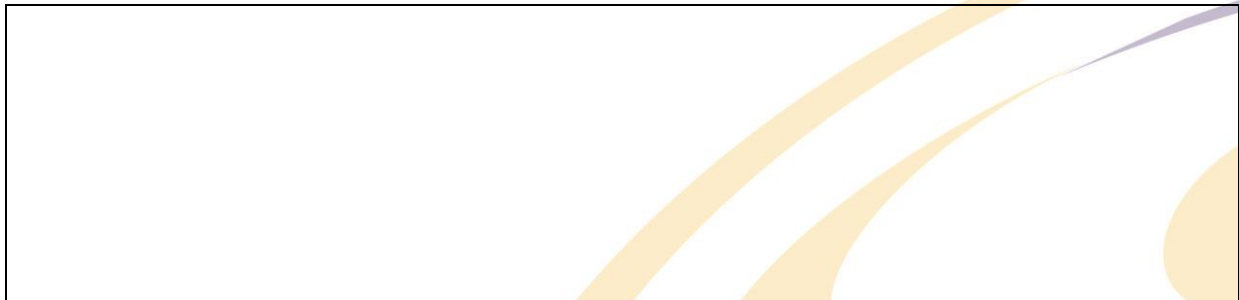
List 3 reasons why it is sometimes better to retain risks than to transfer it to and insurance company.

(3)

**Activity 14**

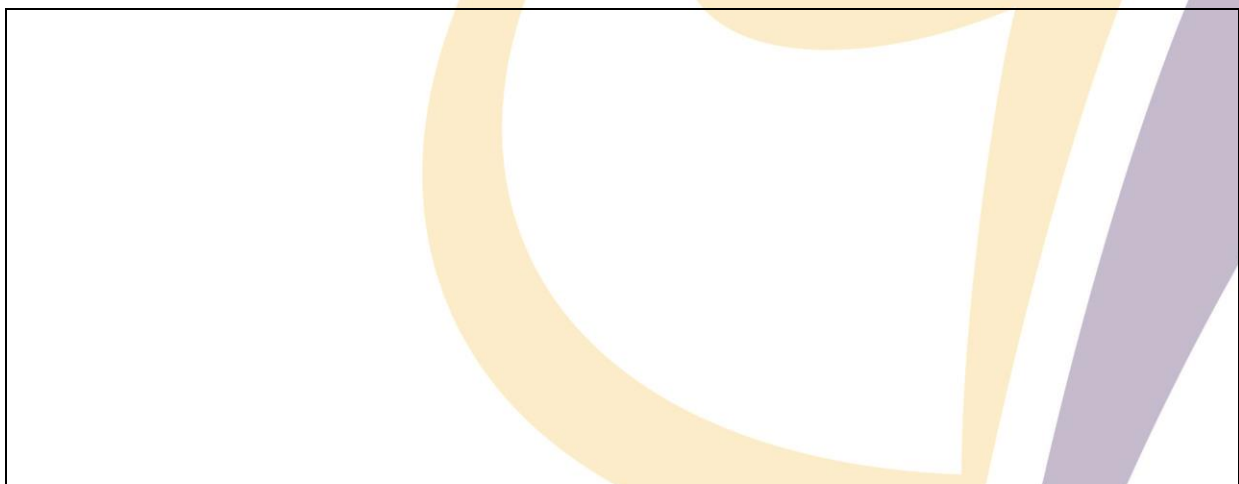
Which would have a higher degree of risk? A risk transfer, or a risk retention? Why would you say so?

(2)

**Activity 15**

Explain the difference between a risk transfer and an alternative risk transfer. Give an example of each to clarify your explanation.

(4)



**Section 4: 9 marks****Activity 16**

Out of your own work experience, how would you say does the price of risk transfer compare to that of risk retention? (3)

**Activity 17**

In terms of your answer in activity 14, which one of the two (risk transfer or risk retention) would you propose as a cost effective option to your client? Motivate your answer. (2)

**Activity 18**

Certain guidelines need to be taken into consideration when proposing a short term insurance solution to a client. List at least 4 guidelines that you would take into account when proposing a short term insurance solution to one of your possible clients. (4)





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**SOUTH AFRICAN QUALIFICATIONS AUTHORITY  
REGISTERED UNIT STANDARD:**

**Demonstrate knowledge and understanding of the fundamental principles of risk finance in order to propose an insurance solution**

<b>SAQA US ID</b>	<b>UNIT STANDARD TITLE</b>			
242562	Demonstrate knowledge and understanding of the fundamental principles of risk finance in order to propose an insurance solution			
<b>ORIGINATOR</b>		<b>ORIGINATING PROVIDER</b>		
SGB Insurance and Investment				
<b>QUALITY ASSURING BODY</b>				
-				
<b>FIELD</b>			<b>SUBFIELD</b>	
Field 03 - Business, Commerce and Management Studies			Finance, Economics and Accounting	
<b>ABET BAND</b>	<b>UNIT STANDARD TYPE</b>	<b>OLD NQF LEVEL</b>	<b>NEW NQF LEVEL</b>	<b>CREDITS</b>
Undefined	Regular	Level 5	New Level Assignment Pend.	5
<b>REGISTRATION STATUS</b>		<b>REGISTRATION START DATE</b>	<b>REGISTRATION END DATE</b>	<b>SAQA DECISION NUMBER</b>
Reregistered		2009-11-03	2012-06-30	SAQA 0160/05
<b>LAST DATE FOR ENROLMENT</b>		<b>LAST DATE FOR ACHIEVEMENT</b>		
2013-06-30		2016-06-30		

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 does not replace any other unit standard and is not replaced by any other unit standard.

### **PURPOSE OF THE UNIT STANDARD**

This unit standard is intended for Brokers and Intermediaries who give advice relating to risk finance and to learners who work in the field of Risk Management.

The qualifying learner is capable of:

- Explaining the concept of risk transfer as opposed to insurance.
- Explaining the limits of insurance and risk retention/risk transfer parameters.
- Explaining the different facilities involved in risk transfer.
- Proposing an insurance solution to transfer risk in a business entity.

### **LEARNING ASSUMED TO BE IN PLACE AND RECOGNITION OF PRIOR LEARNING**

It is assumed that learners are competent in Communication and Mathematical Literacy at NQF Level 4.

### **UNIT STANDARD RANGE**

The typical scope of this unit standard is:

- Conditions of uncertainty include, but are not limited to, risk averse, risk seeking and risk neutral.
- Fear factors include, but are not limited to, size of losses, criminal prosecution, share holder activism and corporate governance.
- Probability theory includes, but is not limited to, probability distributions, binomial distributions, Poisson distribution and normal distributions.
- Examples of options include, but are not limited to, captives, contingencies, bury costs, spread loss, derivatives, quota share, aggregate, stop loss and catastrophe bonds.

### **Specific Outcomes and Assessment Criteria:**

#### **SPECIFIC OUTCOME 1**

Explain the concept of risk transfer as opposed to insurance.

#### **ASSESSMENT CRITERIA**

##### **ASSESSMENT CRITERION 1**

Reasons why an organisation would seek to transfer risk are explained with examples.

**ASSESSMENT CRITERION 2**

The underlying principles of risk transfer are explained with examples.

**ASSESSMENT CRITERION 3**

Possible indicators of risk tolerance in a business are identified in order to determine ways of mitigating risk.

**SPECIFIC OUTCOME 2**

Explain the limits of insurance and risk retention/risk transfer parameters.

**ASSESSMENT CRITERIA****ASSESSMENT CRITERION 1**

Aggregate annual losses are determined using probability theory.

**ASSESSMENT CRITERION 2**

A distribution graph is interpreted and explained in relation to risk retention and risk transfer.

**ASSESSMENT CRITERION 3**

The risks in an entity are analysed to determine which risks could be transferred to insurance.

**ASSESSMENT CRITERION 4**

Knowledge of the cost of insurance is applied to determine risk retention.

**ASSESSMENT CRITERION 5**

The difference between a provision and a reserve is explained with examples.

**SPECIFIC OUTCOME 3**

Explain the different facilities involved in alternative risk transfer.

**ASSESSMENT CRITERIA****ASSESSMENT CRITERION 1**

The concepts of risk retention and risk transfer are explained with reference to degrees of risk.

**ASSESSMENT CRITERION 2**

Available options for retention and transfer of risk are explained with examples.

**ASSESSMENT CRITERION 3**

The difference between risk transfer and alternative risk transfer is explained with examples.

#### **SPECIFIC OUTCOME 4**

Propose an insurance solution to transfer risk in a business entity.

#### **ASSESSMENT CRITERIA**

##### **ASSESSMENT CRITERION 1**

The prices of risk transfer and risk retention are compared to determine the most cost effective solution for a specific entity.

##### **ASSESSMENT CRITERION 2**

A short term insurance solution is proposed for a specific entity.

#### **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 thinking have been made in proposing a solution to transfer risk.

##### **UNIT STANDARD CCFO COLLECTING**

Learners are capable of collecting, organising and critically evaluating information in determining risk retention and risk transfer parameters.

### **UNIT STANDARD CCFO COMMUNICATING**

Learners are capable of communicating effectively in interpreting and explaining distribution graphs.

### **UNIT STANDARD CCFO SCIENCE**

Learners are capable of using technology effectively and critically in determining risk retention and risk transfer parameters.

### **UNIT STANDARD CCFO DEMONSTRATING**

Learners are capable of demonstrating an understanding of the world as a set of related systems by recognising that problem-solving contexts do not exist in isolation in determining ways of mitigating risk.

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