



Gr 12

Chapter 9

Insurance







"If I die, why do I
need money?"

You don't -- but your family, your business
or your favorite charity might.

LIFE INSURANCE

Insurance and assurance as risk management tools for individuals and businesses:

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Insurance

Insurance is **I**N case something happens

Assurance

AS sure as we are human beings we will retire and one day die!

Insurable and non-insurable risks

- ☐ War
- ☐ Bad debt.
- ☐ Price fluctuations
- ☐ Obsolete or outdated inventory
- ☐ Technology changes
- ☐ Illegal act
- ☐ Climate change



<http://www.reuters.com/article/us-syria-crisis-secrets-idUSBRE8AF1C20121116>



<http://www.collapse.news1>

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Insurable and non-insurable risks



- Some risks are **Uninsurable** and some of them are so expensive to insure, that is unaffordable to insure against these risks. Some of these risks are:
- **War** and associated risk are uninsurable as insurance companies regard it as a risk that should be managed by the Government(it should be prevented).
- **Bad debt**(There is insurance available but it is almost unaffordable).
- **Business risk**, such as price fluctuations, due to time intervals between the time that goods are ordered and the time they are received) are not covered by means of traditional insurance policy. The business may however, decide to hedge against such risks, but that is not part of our syllabus.

- If trading **inventory** becomes **obsolete or outdated** due to changes in fashion, it is a business risk that is not insurable.
- **Technology** changes at quite a rapid pace and constant improvements are made to machinery and the production processes. A business cannot take out insurance against machines becoming outdated. **Leasing** however is an option to prevent being stuck with outdated equipment.
- No one can take out insurance against committing an **illegal act**. For example, I cannot take out an insurance policy against a penalty imposed for a traffic offence.
- Interestingly enough, some areas of the world (and South Africa) are fast becoming a bigger risk due to **climate change**. Consequently, some insurers consider the risk associated with natural disasters as too high, to cover these areas. During 2010, Sanlam identified areas in RSA such as Langebaan, areas in the Southern Cape and areas around the Vaal dam as becoming too risky to insure.

Types of insurance

- **Compulsory insurance**
- The **Unemployment Insurance Amendment** Bill(2013) changes certain issues that were covered by the Unemployment Insurance Act of 2001.
- The Unemployment Insurance fund(UIF) gives short-term relief to workers when they are **unemployed** or if they are unable to work because of **maternity leave** or **illness**. It also provides relief to the **dependants** of a deceased employee who contributed to the fund.
- **Contributions** are made by the both the employee and the employer. **1%** of the gross salary is deducted from the employee's salary and an equal amount is contributed by the employer who is responsible for paying this amount to SARS. There is a **ceiling** amount.

- The following people are **excluded from UIF insurance**:
- Employees who **work less than 24 hours** a month
- Employees who **earn commission** only.
- **Civil servants and foreigners** working in the country were previously excluded. Now some foreigners are covered by UIF. Employees on **learner ship** are also included as per the 2013 Amendment.
- **Domestic workers** are included in UIF and the employer must ensure he/she registers with the Department of labour.
- The maximum amount that will be paid to the unemployed worker is **66% of the monthly salary**, provided he/she has already **contributed** for at least **4 years to UIF**. The claim will **not** be paid for **more than 365 days**.
- In the case of **maternity leave** the maximum number of days that the mother can claim for is **121 days**.

Unemployment Insurance Fund (UIF)

Unemployment
Insurance Fund Ad



https://www.youtube.com/watch?v=5KRePCIU5_s



labour

Department:
Labour
REPUBLIC OF SOUTH AFRICA

<http://www.atbc.co.za/unemployment-insurance-fund-uif-2/>



<http://www.paysol.co.za/payroll-services/uif-unemployment-insurance-fund/>

Compensation for Occupational Injuries and Diseases Act (COIDA)



COIDA



Compensation for Occupational Injuries and Diseases Act(COIDA)

- This was previously known as the Workmen's Compensation Fund.
- If an employee is injured at work or becomes **sick or disabled** as a result of his/her job, the person is entitled to claim compensation from the COIDA. It is also possible for **families or dependents** of a breadwinner to claim, if he or she has **died** as a result of a work-related accident or disease.
- Every **employer registers** with the Compensation Fund and pays an **annual fee** based on the **employee's earning** and the **risks** associated with that particular job.
- The amount of **compensation** paid to an employee is calculated as a **percentage of the salary** that the employee was earning at the time.

When will claims not be paid?

- **Private owned domestic workers** cannot claim, but domestic workers employed by a hotel or guest house may claim.
- Members of the **South African National Defence Force** or South African **Police** Service are not covered by COIDA, because they have their own separate fund.
- If the employee is **booked off for three days or less** due to the incident, the fund will not pay.
- If the claim is **older than 12 months** from the date of the incident or when the diagnosis was made, automatic rejection of the claim occurs.

Road Accident Fund (RAF)



<https://www.claimhelp.co.za/road-accident-fund/>



<http://cliparts.co/car-accident-cartoon-pictures>

Road Accident Fund - the
criteria for claiming



<https://www.youtube.com/watch?v=fiW-Xzg3bSY>

Claiming &
compensation



<https://www.claimhelp.co.za/road-accident-fund/>

Road Accident Fund(RAF)

- The Road accident Fund is compulsory insurance that covers all of **South Africa roads**.
- The RAF assists people **injured in a motor vehicle accident** and will pay for **rehabilitation and medical claims**.
- The RAF provides **indemnity** to the person guilty of causing the accident, this prevents the person injured or his/her family from lodging a claim against the guilty party.
- The RAF will pay in the following instances:
 - **Any person injured** in a motor vehicle accident, whether it is the **driver, a passenger or a pedestrian**.
 - The **family** of the deceased victim may also claim.
 - Contributions to the fund are **included in the petrol/diesel price**.

Non-compulsory insurance

- There are a variety of insurance policies available to businesses and individuals. Different insurance companies may offer **short-term insurance policies** that differ from one to another. What is given below is a generalisation, as it acknowledged that differences between policies may exist.
- When insurance is taken out, the insured **pays the premium** to the insurer(e.g. Sanlam, First for Women)) to **cover the risk** of a specific event that may occur.
- **Premiums** for these insurance policies will depend on the **personal needs**, the **risk profile** of the customer but also on the **value of the assets** that are insured.

Types of insurance:

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Non-compulsory insurance:

Virgin Money Insurance Ad



https://www.youtube.com/watch?v=VK_JObu7s9w

Fire insurance:

Santam Fire insurance



<https://www.santam.co.za/products/personal/fire-protection/>



<http://www.clker.com/clipart-house-fire-insurance.html>



<http://businessinsurance.co.za/new>

General Business insurance / Commercial insurance:

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Fire insurance

- Although fire insurance is listed in some books as a separate insurance policy, insuring against fire will usually form part of other insurance policies:
- Fire damage to the **structure of a house or** building is usually included in the insurance made **compulsory by banks**, when they **finance a bond** for the building.
- Fire causing **damage to a vehicle** will be included in the vehicle insurance.
- The **content** of the house or building will be covered against fire by the **householder's insurance**.

- The more **flammable** a product(**thatch roof** or inventory such as wood, paper or gas etc.) the higher the risk and therefore the higher the premium.
- The **nature of surrounding buildings** may also have an impact on the risk and premium. If the building(house or business) that is insured is next to a **garage(selling petrol or diesel)** there will be a high risk associated with the insurance and therefore, a high premium payable.

General business insurance/Commercial insurance

- Business insurance will protect the business from losses caused by unforeseen circumstances.
- These include theft(shoplifting),
- burglary(forced entry),
- public liability if a customer slips on a wet floor and sustains an injury while in the shop(called liability insurance) and
- damages from fire or elements of nature.
- Insurance contracts relating to insurance for inventory(trading stock) will include an 'iron safe clause'. This requires the insured(business to keep the record of the stock on hand in a safe that is fireproof and that cannot be destroyed by the fire. It is no longer required to keep back-up records in a fireproof safe on the premises, as technology enables stock records to be kept off-site.

- The business also has to be aware that in extreme circumstances there may be a **total or partial loss of income** if the business cannot operate while repairs are being done.
- The loss of income can also be covered in a **Commercial insurance** policy.

Household insurance

- A Household policy usually includes all types of assets that form part of every household that is at risk due to risks such as
 - burglary,
 - accidents or
 - losses caused by fire, lightning, floods etc.
- Assets may range from furniture, electrical items, clothing, toys, sports equipment and tools to gardening equipment. If the insured has visitors their belongings may also be covered if provision was made for it in the policy.
- Liability insurance is usually included as part of the household insurance. This will cover the home owner against losses or injuries sustained by people visiting or working on the premises(e.g. a dog biting the domestic worker).

Household insurance

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<http://www.bureauinsure.com/tag/insurance-cover/>

King Price – Household insurance



<http://www.kingprice.co.za/Home-Content.aspx>

Vehicle insurance



<http://insurance4cars.info/an-overview-of-third-party-car-insurance-coverage-in-uk/>

OUTsurance – Car insurance



<https://www.outsurance.co.za/car-insurance/>

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C

<https://www.youtube.com/watch?v=bl3IGkB05PE>

- Two options available:
- **Fully comprehensive**- means the **insured's car** and the **other vehicle** will be repaired in the case of an **accident**. Damaged caused by **fire** will be covered or if the car is **stolen** the insured will be **indemnified**(put in the same financial position than before the loss occurred).
- **Expensive sound systems, laptops and other expensive items** must be **specified separately** to avoid these assets not being covered by the insurance policy. Insurers can work on a tailor- made solution to cover the individual needs of the insured.

Third party, fire and theft

- The **older** the vehicle, the **less the value**. If a vehicle is relatively old, it may not be financially viable to continue paying fully comprehensive insurance, because the chances are the insurance company will **write off** the vehicle if the vehicle is damaged and not pay out a decent value.
- In such a case, if the driver(of the old vehicle) is to blame for an accident that caused damage to another expensive car, at the very least, the damage to the **other car(third party)** should be paid by his/her insurance company. This type of insurance also pays out if the car is **stolen** or **damaged in a fire**.

- The premium paid on insurance will be determined by the **value** of the asset and the **risk**.
- It is interesting to note that **male drivers under the age of 25** are classified as a very high risk and that their car insurance premium are usually very expensive.

Money in transit insurance

- If a business handles a lot of cash, it may prudent(wise) to take out Money in transit insurance to cover any potential losses that may occur between the **business and the bank**.
- Some businesses prefer not to take this risk and will **outsource** the transportation of the money to a third party such as a Coin Security company(will definitely have this type of insurance)

Money in transit insurance

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<http://africanreporter.co.za/55369/cash-in-transit-robbers-sought/>



Fidelity insurance

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<http://secretovnet.by/proverki-v-ramkax-provodimyx-sluzhebn.html>

Fidelity insurance

- Fidelity insurance is taken out to protect the business against financial losses caused by **dishonest employees**.
- Theft of money or fraud may be covered. If there are only one or two people in the business handling money or working with finances, the policy may be taken out to cover **individual employees(their names are specified on the policy)**.
- If a large number of staff members need to be covered, **a floating policy** may be taken out where **specific positions(jobs)** rather than individual people are covered.

Crop insurance

- Crop insurance is aimed specifically at **farmers** and is taken out to cover risks that may arise from their income-generating assets.
- Risks that are covered may include **drought, heat waves, floods, frost and fire.**
- Additional insurance on **livestock** may also be added.





Drought stalks SA
crops



[http://mg.co.za/
article/2015-
09-03-
drought-stalks-
sa-crops-and-
economy](http://mg.co.za/article/2015-09-03-drought-stalks-sa-crops-and-economy)

Requirements of a valid insurance contract:

<https://www.youtube.com/watch?v=fE5HFPltu78>

**Absolute
good faith**

**Insurable
interest**

**Contractual
capacity**

miway.co.za
rewards your way

auto general
car | home | business insurance

santam

unity
MOTOR, HOUSEHOLD & BUSINESS INSURANCE

REGENT
YOUR COVER OF CHOICE

Discovery

Z



LIBERTY
Own your life

ZURICH



QUICKSURE
Nationwide Insurance
Administrators

MUTUAL & FEDERAL

Hollard

New National

SAU
SA Underwriting Agencies
THE MOTOR
SPECIALISTS

ABSA
Today, tomorrow, together.

<http://insurancemag.co.za/insurance-companies-list-registered-insurers-with-fb/>

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Requirements of a valid insurance contract

- **Absolute good faith**
- This is also known as **utmost honesty** and requires the insured to **disclose all relevant information** that may affect the risk.
- If all questions are not answered honestly and accurately, the risk will not be covered and the policy will be declared **null and void**.
- All premiums paid to cover the risk will be lost and no compensation will be received.

Insurable interest

- A person has insurable interest if it can prove that he/she will sustain a financial loss if a certain event takes place. The following are examples of insurable interest:
- A person has an insurable interest in his **own assets(belongings)**
- A person has an insurable interest in **his/her own health**(if he/she becomes permanently or temporally disabled) or in his/her life(in the case of death, the family members should be looked after).
- A married person has insurable interest in the **life of the spouse**(husband/wife)
- Business partners have an insurable interest in the lives of **co-partners**, because they are jointly and separately liable for the debts of the business.
- A creditor has an insurable interest in the life of his **debtor**(a person that owes him/her money)

Contractual capacity

- Means the person entering into the insurance contract is of legal age and sound mind.
- Legal age in South Africa is 18 years of age.

General concepts relating to insurance:

Indemnification

Security

Average clause

Under-insured

Over-insurance

Excess

Proximate cause

Subrogation



<https://www.kaggle.com/c/prudential-life-insurance-assessment>

Cession or to cede (sign over) the policy

General concepts relating to insurance

- **Indemnification**

- Indemnification provides the insured with the peace of mind of knowing, that should the insured asset be damaged or destroyed, the insured will be adequately compensated for the loss.
- Adequately in this case means the insured will be **put in the same financial position as before the event took place.**
- The insured will not suffer a loss, nor will(or may) the insured make a profit out of insurance.
- Indemnification refers to **short term insurance.**

Security

- Security is applicable when we refer to **long-term assurance**. The aim is to provide financial security to the insured when he/she retires or to the insured's dependants when he/she dies, or in the event of disability.
- The **Group Life cover policy** that the employee belongs to at work(if applicable) provides security to the family in the form of Life Assurance(when the person dies).
- **Premiums** on Group life Cover are usually **lower** than normal life assurance policies, because a large number of employees take out the same cover(the same principle as “bulk discount”)

Average clause

- The principle of the Average clause is applied if the asset was not insured for the correct value.
- If the asset was **under-insured**, the insured has not been paying a premium that is **insufficient to cover the full risk**. Remember the premium is calculated by looking at the value of the assets (and other risk factors). If the ,monthly premium is **too low**, the full value of the loss will not be indemnified.
- An example to illustrate this is: if the value of an asset is R 10 000, but the asset is only insured for R6 000, it means only 60% of the risk was insured.
- If the asset is then damaged in a fire and the damage is R 2000, only 60% of the damage will be paid out i.e. (R1 200)
- Insured value/actual value x damage

Over-insurance

- Refers to a situation where the asset is insured for more than the current value. This means the insured will **pay a monthly premium higher than necessary**. If a loss is suffered to this asset, only the value of the asset will be paid out by the insurer, because you will remember the principle of indemnification stating the insured is not allowed to make a profit from insurance.
- Vehicles are often over-insured, because the **value** of the car **diminishes** on a yearly basis and people do not adjust their policies to insure it to a lower value.
- If the car is stolen, the value of the car and not the value on the insurance contract will be paid out.

Excess

- Excess is the Rand amount or % of the loss/claim specified by the policy that is the **responsibility of the insured to pay.**
- This is the amount on each claim that is **not covered by the policy.** The excess amount can be low, but then the monthly premiums will be higher.
- Or, if the insured is prepared to pay a high excess, the monthly premiums may be lower.

Proximate cause

- If a person claims from the insurance company for a loss suffered, the insurance company will make sure that the loss suffered was **as a result of the event that was insured**(the proximate cause of the loss) and not a secondary event.
- This sounds very complicated, but it is easy to understand if it is illustrated by means of an example: if someone has household insurance and the person is burgled, the household insurance will pay for the loss.
- Let us assume this person does not have insurance on his car and his car is stolen when he drives to the police station to report the house break-in. **The person cannot claim for the loss of the car under the household insurance, because it is a separate incident that caused the second loss suffered(the stolen car)**

Subrogation

- Subrogation relates to the **principle of indemnity**.
- This means the person is put in the same financial position when the insurance pays out (cannot make a profit and should preferably not suffer a loss either).
- The fact that the insured is not allowed to make a profit from insurance, means that **every loss may only be claimed once**. If the insured has claimed from the insurance company to cover the loss, he /she cannot claim from the guilty party that caused the loss as well.
- **The right to claim from the guilty party is signed over to the insurance company that has paid out to cover the loss.**

Cession or to cede(sign over) the policy

- An endowment policy builds up a cash worth over time(every month when the premium is paid).
- Should an immediate need arise by the insured for the money, the policy may be signed over to a creditor as **collateral** in order to get the loan.

Advantages and disadvantages of insurance



Advantages of insurance:

- ☐ Transfers risk
- ☐ Peace of mind
- ☐ Bank requires it for finance
- ☐ Cash back bonus
- ☐ Could be cheaper



Disadvantages of insurance:

- ☐ Can be expensive
- ☐ Must check cover
- ☐ Bank requires it for finance
- ☐ Insurers look for reasons not to pay



S U R A N C E

Advantages and disadvantages of insurance

- **Advantages of insurance**

- The insured can **transfer some of the risks to the insurance company**, which then provides indemnification against a large number of risks, e.g. fire, theft, natural disasters etc.
- **Peace of mind**, not having to worry about uncertainties.
- In some cases a person **cannot buy a car/house**, unless there is insurance to cover the risk for the bank while it finances the asset.
- **Cash back bonuses** from some insurers if no claims are made.
- It may be **cheaper to pay insurance** rather than paying the expense if the event takes place. Think, for example, of buying a new car and within a month it is stolen or written off. One premium has been paid and the car is replaced.

Disadvantages of insurance

- Insurance can work out **expensive**, especially if the insured never claims. (This is why some insurers now offer bonuses- money back after a certain number of claim-free years).
- The insured has to check that the insurance he/she requires **covers all the circumstances/events** for which is needed to ensure complete peace of mind.
- Insurers often look at every **excuse** possible not to pay a claim. Unfortunately, this is probably because so many people in the community fraud by claiming for losses that were not suffered, which contributes to general insurance premiums increasing, even if some people are honest.

Advantages and disadvantages of assurance

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Advantages of assurance:

- ☐ Dependants standard of living
- ☐ Mortgage loans – policy linked
- ☐ Provision for future
- ☐ Medical aid
- ☐ Life Assurance sector is regulated
- ☐ Policies ceded
- ☐ RA's offer tax benefits



Disadvantages of assurance:

- ☐ Do research
- ☐ Over-insure
- ☐ Admin fees



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Advantages of assurance

- Life assurance ensures that **dependants** can continue to enjoy a good standard of living in the case of insured becoming disabled or in the case of death.
- **Mortgage loans** usually have a life assurance policy linked to it. This settles the outstanding amount on the bond if the bondholder or spouse dies and provides peace of mind to the family.
- **Life assurance** is a long-term investment that allows the insured to make provision for **future events** after the date of the policy maturing, e.g. tertiary education for children or retirement.
- **Medical aid** is a form of assurance that gives the insured peace of mind knowing health expenses will be covered.
- The life assurance sector in South Africa is highly regulated and it allows the insured to save money via a secure long-term vehicle, rather than to make risky decisions for short-term gains. Policies can **be ceded** to obtain a loan if the insured is in urgent need of money.
- **Retirement annuities** offer tax benefits

Disadvantages of assurance

- As with everything in life, proper research needs to be undertaken circumstances. There are a wide variety of policies available and the right one has to be chosen for the specific individual, or else it may be a waste of money.
- People generally think one cannot over-insure on life cover. There are, however, certain conditions according to the law, that specific the maximum allowable sum to be paid out . Unfortunately BROKERS OFTEN DO NOT MENTION.



5 min
10 marks

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Insurance

Each of the following statements is FALSE. Change the bold word(s) in each statement to make the statement TRUE.

1	War is a <u>insurable</u> risk.
2	<u>RAF</u> is a short-term relief for workers who are unemployed.
3	COIDA was previously known as the <u>Disease and Injuries Act</u> .
4	Contributions to the <u>UIF</u> are included in the petrol price.
5	If a customer slips on wet a wet floor the business can claim from <u>fidelity</u> insurance
6	A valid contract requires: Absolute good faith, <u>indemnification</u> and contractual capacity.
7	Over and under insurance falls under the <u>proximate</u> clause.
8	<u>Cession</u> relates to the principle of indemnity.
9	<u>COIDA</u> insurance covers employees who steal from the business.
10	An amount of <u>3%</u> is deducted from the employee salary for UIF

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Answers

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Insurance

1	Non-insurable
2	UIF
3	Workman's compensation
4	RAF
5	Liability
6	Insurable interest
7	Average
8	Subrogation
9	Fidelity
10	1%

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Insurance