Meaning of insurance

- Insurance refers to cover for a possible event that may cause a specified loss.
- The insured has to pay a premium for specified losses covered.

The meaning of non-compulsory insurance

- Non-compulsory insurance is voluntary/the insured has a choice whether to enter into an insurance contract.
- It is not required by law, but it can provide protection for businesses and individuals.

Meaning of insurance concepts

Over insurance

- Over insurance is when the item is insured for more than the actual market value.
- Businesses will not receive a pay-out larger than the value of the loss at market value.

Reinstatement

- It is a stipulation whereby the insurer may replace lost/damaged property/goods instead of reimbursing the insured.
- This stipulation is applicable when property/goods are over insured
- **Example**: A business property that has been insured for R300 000 but the market value for the property is R200 000. If it is destroyed by fire/storm etc, the insurer will rebuild the property instead of paying cash.

Under-insurance

- Occurs when property or assets are insured for their full market value.
- The asset is insured for less than the actual value of the assets

Average clause

- A stipulation set by the insurer which is applicable when property/goods is under insured/insured for less than its market value.
- The insurer will pay for insured loss/damages in proportion to the insured value.

Formula for calculating the average clause

- The insured amount is divided by the market value of the insured item and multiplied by the total value/amount of the damages/loss.
- Insurance companies apply the following formula to determine the amount to be paid out to the insured:

FORMULA: (**Amount insured ÷ Market value) x damages**

$$\frac{\text{Amount insured}}{\text{Value of insured item}} \times \text{Amount of damages/loss}$$

Example of calculating the average clause

Peter owns a thatched house valued at R100000. He insured his house with Pro-Cover Insurers for R800000. Afire in the kitchen caused damages of R30000.

1 Calculate the amount that Pro-Cover Insurers will pay Peter to cover damages. Show ALL calculations.

2 Explain to Peter the reason why he did not qualify for the full amount of damages sustained.

$$\frac{R800000}{R1000000} \times R30000$$

=R24000

Reasons for not qualifying for the full amount of damages

- Peter insured his house for less (R800 000) than the market value (R1 000 000).
- He was underinsured so the average clause had to be activated.
- He will only receive R24 000 for damages, and not the full amount of the claim (R30 000).

Excess

- A portion of the insurance claim that the insured will have to pay towards the cost of replacing or repairing the goods or property concerned.
- Excess is the amount that the insured agrees to pay upfront when he/she takes take out an insurance policy

DIFFERENCE BETWEEN OVER INSURANCE AND UNDER

OVER-INSURANCE	**UNDER-INSURANCE**
Property/Assets that are insured for more than their value.	Property/Assets that are not insured for their full market value.
The insurer can choose to reinstate the insured.	The insurer will implement the average clause to determine the amount that will be paid.

INSURANCE	**ASSURANCE**
Based on the principle of indemnity	Based on the principle of security/ certainty
It covers a specified event that may occur	Specified event is certainty, but the timeof the event is uncertain
Examples Property insurance/money in	Examp**les** Life insurance/endowment policies/
transit/theft/burglary/fire	retirement annuities,

Examples of short term and long term insurance

SHORT TERM INSURANCE	LONG TERM INSURANCE
• Property insurance • Money in transit • Theft • Burglary • Fire	• Endowment policy • Life cover policy/Life insurance • Retirement annuity/Pension fund/Provident fund • Disability policy • Trauma insurance • Funeral insurance • Health insurance/Medical aid

Advantages/Importance of insurance for businesses

- Transfers the risk from the business/insured to an insurance company/insurer.
- Transfer of risk is subject to the terms and conditions of the insurance contract.
- Protects businesses against dishonest employees.
- Protects businesses against losses due to death of a debtor.

PRINCIPLES OF INSURANCE

Indemnification/Indemnity

- Insurer agrees to compensate the insured for damages/losses specified in the insurance contract, in return for premiums paid by the insured to the insurer.
- Protects the insured against the specified event that may occur.

Security/Certainty

- Applies to long-term insurance where the insurer undertakes to pay out an agreed upon amount in the event of loss of life.
- A predetermined amount will be paid out when the insured reaches a pre-determined age/or gets injured due to a predetermined event.

Utmost good faith

- Insured has to be honest in supplying details when entering in an insurance contract.
- Both parties/insurer and insured must disclose all relevant facts.

Insurable interest

- Insured must prove that he will suffer a financial loss if the insured object is lost
- An insurable interest must be expressed in financial terms.

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Meaning of insurable risks

- These risks are insured by insurance companies.

Meaning of non-insurable risks

- These risks are not insured by insurance companies as insurance cost/risks are too

Compulsory insurance

Meaning of compulsory insurance

- Compulsory insurance is insurance that is required by law before /businesses/individuals may engage in certain activities.
- Compulsory insurance is intended to safeguard the welfare of everyone concerned.

ROAD ACCIDENT

UIF

COIDA

Examples of insurable and non- insurable risks

INSURABLE RISKS	NON-INSURABLE RISKS
Examples • Theft • Fidelity insurance • Burglary • Money in transit • Fire • Natural disaster/Storms/Wind/Rain/Hail • Damage to/Loss of assets/vehicles/ equipment/buildings/premises • Injuries on premises	**Examples** • Nuclear weapons/war • Changes in fashion • Improvement/changes in technology • Irrecoverable debts • Financial loss due to bad management • Possible failure of a business • Shoplifting during business hours • Loss of income if stock is not received in time/Time that elapses between the ordering and delivery of goods.

UIF

- The UIF provides benefits to workers who have been working and become unemployed for various reasons.
- Employees contribute 1% of their basic wage to UIF.
- Businesses contribute 1% of basic wages towards UIF, therefore reducing the expense of providing UIF benefits themselves.
- Businesses are compelled to register their employees with the fund and to pay contributions to the fund.

BENEFITS

Unemployment benefits
- Employees, who become unemployed/retrenched due to restructuring/an expired contract, may claim within six months after becoming unemployed.

Illness benefits/ Sickness/ Disability
- Employees may receive these benefits if they are unable to work for more than 14 days without receiving a salary/part of the salary.

Temporary Employer/Employee Relief Scheme (TERS)

- All employers and employees who are registered with the Department of Employment & Labour can apply for this relief.

Maternity benefits
- Pregnant employees receive these benefits for up to 4 consecutive months.

Adoption benefits
- Employees may receive these benefits if they adopt a child younger than two years.

Dependants' benefits
- Dependants may apply for these benefits if the breadwinner, who has contributed to UIF dies.

Road Accident Fund (RAF)/Road Accident Benefit Scheme (RABS)

- RAF/RABS insures road-users against the negligence of other road users.
- Drivers of business vehicles are indemnified against claims by persons injured in vehicle accidents. RAF/RABS is funded by a levy on the sale of fuel
- Injured parties and negligent drivers are both covered by RAF/RABS

Compensation Fund/Compensation for Occupational Injuries and Diseases/COIDA

- The fund covers occupational diseases and workplace injuries.
- Compensates employees for injuries and diseases incurred at work.
- Compensation paid is determined by the degree of disablement.
- The fund covers employers for any legal claim that workers may bring against them.

Compulsory insurance	**Non-compulsory insurance**
Required by Law/there are legal obligations for it to be taken out and paid for.	Is voluntary/the insured has a choice whether to enter into an insurance contract.
It is regulated by Government and does not require insurance contracts/brokers	Insured will enter into a legal insurance contract with the insurer, who may be represented by an insurance broker.
Examples UIF, RAF and Compensation Fund/COIDA	**Examples** Short term insurance/Multi-peril insurance (theft, fire, etc.) Long term insurance/Life insurance