Career Ready Academy

TEXTBOOK

Personal Line Insurance

Final Module for COB 1

virtualclc.co.za

010 597 0835

14 Vermooten Street Alberton

Ordering information

If you would like to order the publication, please contact the author at anna@virtualclc.co.za

TABLE OF CONTENTS

INTRODUCTION

An FSP must ensure that it, its key individuals and representatives are proficient in respect of, understand, and have completed adequate and appropriate class of business training and product specific training relevant to, the particular financial products in respect of which they render financial services or manages or oversees the rendering of financial services.

Class of business training, where appropriate must include training on the following:

The range of financial products within the class of business.

The general characteristics, terms and features of financial products in the class of business and any specialist characteristics, terms and features in respect of financial products in the class of business.

The typical fee structures, charges and other costs associated with products in the class of business.

General risk associated with investing, purchasing or transacting in the products in the class of business.

Investment and risk principles, options and strategies in respect of products in the class of business.

The appropriateness of different products or product features in the class of business for different types of clients or group of clients.

The typical role players or market participants in respect of products in the class of business, including their legal structure.

The impact of applicable legislation, including taxation laws, on product in the class of business.

The impact of applicable economic and environmental factors on the products in the class of business and the performance of those products including:

- The economic and business environment and cycles.
- Inflation.
- Government monetary and fiscal policy.
- Interest rates and exchange rates.

Any inter-relationship within and between particular classes of business.

Industry standards and codes of conduct relevant to class of business

This module is the final module in order to be certified for COB Class 1: Short-term Insurance Personal lines.

To be certified, complete all of the required modules:

- COB General Module: All Classes of Business
- COB Intermediate Module: Class 1 & 2
- COB Final Module: Class 1

Topic 1 Aspects Relating to Personal Lines Insurance

LEARNING OUTCOMES

After studying the topic, the learner should be able to-

- Name the different types of cover.
- Outline additional benefits offered on personal lines short-term insurance policies.
- Describe the premium structure for personal line short-term insurance policies.
- Conduct a needs analysis for a client with regard to personal lines short-term insurance policies
- Make the necessary risk recommendations to clients.
- Be able to compare different types of cover available to clients.

1.1 TYPES OF COVER

1.1.1 Motor - Third Party and/or Liability Cover

This form of cover is most restricted as it provides no cover for damage to the insured's own vehicle.

It primarily covers any damages that the insured might be legally liable to pay as a result of the use of the insured vehicle, including damage to another vehicle or other person's property caused by the vehicle being driven, as well as liability for death or injury to the other driver and/or passengers.

1.1.2 Third Party Fire and Theft

Third party fire and theft (TPFT) has the same level of cover as third-party insurance, however, it also has the additional cover in the event of a fire or theft of your vehicle.

TPFT insurance is normally only slightly more expensive than a third-party policy.

1.1.3 Motor - Comprehensive Cover

Comprehensive cover includes cover on all types of risk including accidental damage, hail damage, fire, and theft of the insured vehicle, as well as damage caused by the insured to a third party's vehicle or assets. It also covers the insured driver in the event of damage or loss when driving a vehicle that is not his own.

It is also common for an insurer to add a hired vehicle, mechanical breakdown, and in some cases medical expenses, for an additional premium.

Should the insured suffer a loss or damage to his vehicle a hired vehicle can then be arranged for the duration of the repair or replacement of the insured vehicle. This cover is normally restricted to a 30-day rental period.

There are, however, some exceptions to comprehensive cover. These are loss or damage-

- ☐ Arising from nuclear radiation.
- ☐ Arising from war, riots or civil unrest.
- ☐ Occurring outside the Republic of South Africa, Botswana, Lesotho, Malawi, Zimbabwe, Mozambique, Namibia and Swaziland.
- ☐ While the vehicle is being used for a purpose other than for the purpose stated in the policy (for example, if the vehicle is used for business, but is only insured for private use).
- ☐ While an unlicensed driver is driving the vehicle.
- ☐ While being driven by someone including the insured, under the influence of alcohol or drugs (unless the insured did not know about this).

1.1.4 Compulsory Legislative Insurance

I) Road Accident Fund

In South Africa there is compulsory motor insurance for all motor vehicle drivers in terms of the Road Accident Fund Act of 1996. The premium for this insurance is collected through fuel sales, and the insurance covers any third party for injury he may suffer caused by the negligence or other unlawful act of the driver of a motor vehicle or of the vehicle owner, subject to the limits of the Act.

II) Compensation for Occupational, Injury and Diseases (COIDA)

COIDA provides compensation for work-related death or injuries and specified work-related diseases to or for all employees. The benefits are based on a maximum of an amount stated in the Regulations.

The premium for COIDA is a percentage of the employer's wage roll paid to the Department of Labour.

1.2 BENEFITS OFFERED BY RELEVANT PRODUCTS

The original benefit of being insured is that your claims are paid following an insured loss, on condition that you have paid the applicable premium.

There are, however, many additional benefits that insurers add to their products to give them a competitive advantage. Such benefits include no claim bonuses, roadside assistance, call centre assistance, cashback bonuses to mention a few.

1.2.1 No Claim Bonus

The premium for a specific section is discounted with each year that passes without a claim being made. If an insured makes a claim in a particular year, the amount of the discount (and therefore reduction in premium) allowed, may be adjusted by the insurer.

These benefits may vary from one insurer to another in respect of the amount of premium discount. There are two main methods of calculation such as a claims free group - usually 0 to 5 (or 6) or a percentage discount, from 0% to 60%.

The claims free bonus is dependent on your previous claims experience and is at the discretion of the particular insurer. It is therefore possible for the level of the bonus to vary at inception of the policy.

The purpose of the No Claims Bonus system is to reward those policyholders who do not claim. he effect is that policyholders do not claim for small "nuisance" amounts, which are administratively expensive for insurers.

1.2.2 Cash Back Bonuses

In the short-term insurance market, some insurers offer "cashback bonuses" if the insured has not claimed for a specified period. Insureds who fall under this category may receive a percentage of the premium they have paid.

Cash back bonuses are used as an underwriting tool, to reward policyholders for not claiming unnecessarily. However, it is can also be seen as a marketing tool by insurers to acquire new business.

It should be noted that these operate slightly differently to the No Claim Bonus in that they usually only come into effect after accumulative claim-free years. However, the "discount" is based on the previous year's premiums and may commence at the inception of the policy.

1.2.3 Car Hire

Car hire is offered as an optional benefit to the insured in the event of theft, accident or hijacking. This benefit is to provide the insured with a temporary vehicle whilst the claim is being processed, and the loss and damage is restored.

This benefit is often charged for and also limited to a certain number of days depending on the peril at the discretion of the insurer.

The type of hired vehicle is also often specified and factored into the price charged for the benefit.

1.2.4 Road Assist, Call Centre Assist

Many insurers offer towing services, accommodation or even medical assistance in some cases for either accidents or mechanical breakdown of a vehicle. Call centres are often made available with details of contracted suppliers who can assist in the cases of plumbing, glass, locksmiths, electricians and other similar services for insured perils.

Underwriters factor these services into the overall cost of the policy and offer them as a service to the insured. These are often contracts arranged between the insurer and the contractor. In these agreements the insurer will pay a portion of the contractor's fee, which may still require in some cases, that the insured has to bear some costs to the contractor, based on the circumstances of the situation.

1.3 PREMIUM STRUCTURES FOR PERSONAL LINE SHORT-TERM INSURANCE

Premium structures indicate the applicable premium for the value of the asset to be insured.

Without the correct rate structure, one would not be able to advise on the premium payable for the cover required.

Premiums is usually structured as follows for personal line short-term insurance:

- ☐ House owners' insurance is generally calculated on a percentage rate of the replacement value of the house.
- ☐ Household content insurance is calculated on a percentage rate of the replacement value or market value of the contents as listed in the inventory.
- ☐ Specified all risks is calculated on a percentage rate of the value and type of the item as an annual premium and divided by the number of months as required by the underwriter.
- ☐ Unspecified all risks is generally a limit provided in the terms and conditions of the policy and is a percentage rate of the limit.
- ☐ Personal computer is calculated as a percentage rate on the replacement value of the computer.

- ☐ Motor premium is based on the use of the vehicle, the area in which it is kept, the value of the vehicle and the model and type of vehicle.
- ☐ Small craft for motor or sail boats is calculated as a percentage rate of the replacement value of the craft and its accessories dependent on the use of the craft (inland water, coastal or deep-sea usage).
- ☐ Personal accident is generally free up to a certain limit and thereafter rated for additional cover.
- ☐ Personal liability is normally free.

1.4 NEEDS ANALYSIS FOR INDIVIDUALS

Before we will consider the needs analysis process to establish an individual's needs for personal lines short-term insurance an understanding of an individual's contractual obligations is necessary under certain circumstances. An individual may have the following contractual obligations:

- ☐ **Hire-purchase agreements (instalment sales):** It is a requirement by all finance houses in most of their agreements, that the assets being financed are covered by insurance prior to the delivery of such an asset. This is the case in personal motor insurance, which is covered by a personal motor section of a personal lines policy. Finance agreements require insurance on the outstanding balance owed to the finance house in respect of the asset, which is referred to as a credit risk policy.
- ☐ **Tenant's liability:** Tenant's liability covers a person renting premises, for damages that may arise out of an insured event, covered under the household goods section. This extension may appear as part of the householders wording or be part of the personal liability section. The extension provides indemnity to the policyholder in his capacity as tenant for legal liability arising from:
    - Damage to the building, including landlord's fixtures and fittings, caused by an insured event.
    - Accidental damage to sanitary ware and fixed glass.
    - Accidental damage to electricity, water, gas, or other public service installations or connections between the dwelling and the mains supply.

1.4.1 Determining a Client's Insurance Needs

Each insurance company or intermediary has a different form or format in which the relevant information is gathered from a prospective client. This can either be a paper-based form or on an electronic system, however these forms generally contain all of the information required from a prospective client for quotation purposes.

Information that is relevant to an insurance quote includes information regarding the:

- ☐ Personal information regarding the person's residential address, identity number and age.
- ☐ Information regarding the value, identity, security, use and location of the property being insured.
- ☐ Information regarding the current insurance cover, previous claims experience, current benefits of insurance cover, whether a previous insurer has cancelled insurance, or an application has been declined.
- ☐ Information regarding the premium that the client could afford for insurance cover, and whether the insurable item is financed, as well as the name of the finance house.

1.4.2 Establish Insurable Interest, Previous Claims Loss History, Previous Insurance Information

From the above information, one now needs to establish whether there is an insurable interest. Insurable interest exists either, by means of the person owning the insurable item, or if they have a vested financial interest in the insurable item. If there is no insurable interest, the insurer will reject a claim for that item, and any premiums paid for that insurance would be wasted, and at the discretion of the insurer, may be refunded. The insurer would have the option to “void” the policy.

Previous claims history can be established by obtaining details regarding previous claims or losses and damage over a historical period. This period may vary between three (3) and five (5) years. It will indicate the prospective insured’s attitude and moral risk profile for insurance purposes, which in turn allows the underwriter to price the risk adequately.

Previous insurance information allows the proposed insurer to verify the risk profile for the prospective insured, with the relevant previous insurers.

Lastly, the personal financial status of the client indicates the client’s sustainable level of affordability for insurance cover.

1.4.3 Identify the Areas of Risk to Which the Individual is Exposed

There are certain steps that can be followed as part of a needs identification process.

This would include unpacking the information regarding the items or assets to be insured. There are considered in the subsections following.

I) House Owner’s Insurance

The following aspects have to be assessed:

- ☐ The value of the property and its structure(s)
- ☐ The location of the property, such as Its proximity to open fields and rivers that may pose additional risk.
- ☐ Details of the building structure, such as standard construction material and/or a thatched roof
- ☐ Additional structures on the property, such as the outbuildings or any lapas.

II) Household Content Insurance

The following aspects have to be assessed:

- ☐ **Household Inventory**: It is very seldom that a proposed client can provide an accurate sum insured for their household contents. It is therefore, necessary to recommend an inventory of household items with the estimated replacement value of each item. Such an inventory becomes very valuable in determining the value of music and film CD’s and DVD’s which are seldom itemised or valued. This can also then become a very useful risk management tool during a review process to ask whether new items have been acquired that may increase the sum insured.
- ☐ **Security arrangements of the property:** Precautionary measures such as burglar-proofing, house alarms linked to 24-hour armed response, electric fencing and secured walls around the perimeter of the property.

III) All Risks Insurance - Unspecified

Confirming the value and likely risks of items that could be specified such as cameras, jewellery and sporting equipment. There are many instances in which items should be specified (e.g. bicycles) which, however, seem to be forgotten when the prospective client is asked. These can also be added to the household inventory if they are not frequently used or transported away from the insured property.

IV) All Risks Insurance - Specified

The identity of each specified item, its value, and the use thereof should be detailed. The terms and conditions for these items are often dependent on the precautionary measures practised by the insured. These items can include cameras, jewellery, and sporting equipment as mentioned above, the value thereof will usually be greater than the general all risks limit applied for unspecified items.

V) Motor Insurance

The identity, value, use and security arrangements of each vehicle and any additional modifications or enhancements made to a vehicle should be detailed. Modifications or enhanced items that are not factory-fitted and should be specified on a vehicle, may include the following:

- Sound systems or speakers
- Magwheels
- Spoilers
- Performance system

Security arrangements may be factory fitted and can include the following:

- Tracking devices
- Approved immobilisers
- Gear locks
- Alarm systems
- Smash-and-grab film on the windows of the vehicle

Use of the vehicle is generally classified as follows:

- Domestic use.
- Private use (to work and back, and occasional business use)
- Business use excluding commercial travelling
- Business use including commercial travel.

Details of each driver per vehicle must be noted on the schedule to prevent disputes in respect of claims. These details will include, but not be restricted to the following:

- Whether or not any of the named drivers have had endorsements to their driver’s license.
- The age of each driver.
- The claims history of each driver.

VI) Small Craft

The following aspects have to be assessed:

- Identity, replacement value and use of the motor or sailboat.

- Replacement value of the accessories and trailer.

Use of small crafts would refer to the following

- Inland waters
- Coastal waters
- Deep-sea use

VII) Personal Computers

The following aspects have to be assessed:

- Identity and value of computer equipment
- This is covered as a separate section of the policy as the advancement of technology and value of such items requires these items to be specified separately.

VIII) Establish Client's Limitations and Restrictions

When entering into a contract of insurance there are certain limitations and restrictions a client may have, which need to be taken into consideration when determining their insurance needs. These limitations and restrictions could relate to the following:

- ☐ **Descriptions of use on the motor policy:** The motor section of the policy outlines specific uses of vehicles. Use outside of these limits may not be covered.
- ☐ **Conditions regarding claims:** Adherence to the claims procedures and processes of the general conditions of the policy.
- ☐ **Territorial restrictions:** A client needs to be aware of territorial restrictions relating to each section of the policy to ensure that all risks are considered.
- ☐ **Warranties:** Are required in specific areas such as theft in terms of the alarm being set during times that the building is not occupied.
- ☐ **Security requirements:** For theft of motor vehicles or burglary of contents.
- ☐ Physical security and risk prevention mention measures such as fire-fighting equipment, etc.
- ☐ **Age limits:** personal accident only applies to individuals between the ages of 16 and 70 years of age.
- ☐ **Computer viruses:** the electronic equipment section specifically excludes cover, placing requirements on the internet firewalls used by the company, ensuring that these are contained.

1.4.4 Client's Risk Exposure

With the information gathered regarding the nature of the assets to be insured, their relevant security and usage information, as well the location of the assets, one is able to identify the risk that the client may be exposed to.

This is then profiled within the rating structures as a high, medium or low risk and may indicate whether loadings, discounts, or additional conditions are applicable. This further allows for the correct premium to be charged for the risk profile of the client.

EXAMPLES

House content cover: A house with no burglar bars or armed response, or any other security arrangement would be profiled as a higher risk than a complex unit which is patrolled by 24-hour security guards, with electric fencing and burglar bars.

Personal Motor: A car used only to travel to work and home again which is parked in a secure basement parking is a lower risk than a vehicle of a business consultant who is travelling on the roads regularly from one appointment to another, with the risk of parking that is not secure.

Specified All Risk: An expensive engagement ring that is worn on a daily basis is a higher risk than an expensive heirloom watch that is kept in a locked safe.

1.5 RISK RECOMMENDATIONS

An effective risk management programme identifies the risks to which an insured may be exposed and proposes measures to counter the exposure.

There are many risk management principles that can be implemented to reduce losses.

Risk management is a specialist profession offered by trained professionals for a commensurate fee. Where a representative is not equipped to deal with risk management issues, he is required to undertake a needs analysis and obtain comprehensive quotations for the provision of adequate insurance. If the terms of the insurance require specified risk improvements, then the intermediary is obliged to convey these requirements to the insured.

For example, a survey may identify the use of flammable liquids and the representative or risk manager may recommend appropriate storage and ventilation to reduce the risk of fire. An insurer may then recommend appropriate measures that need to be taken.

Some recommendations are as follows:

- **Improve physical aspects of the property:** A risk management process will recognise the risk of flooding and the risk manager may recommend improving drainage measures or install additional drainage systems. Other physical aspects may include burglar alarms, fire extinguishing equipment or tracking devices.
- **Employee risks:** The Occupational Health and Safety Act no 85 of 1993 imposes health and safety requirements on all employers. This requires an employer to conduct its own risk assessment of its property, work processes and any other possible risk, to ensure the health and safety of its employees and their property. Employee risk assessments would include internal audits and personnel procedures.

The representative can also explain the following financial options for managing risks:

- ☐ **Transferring of risk:** The transfer of risk can be done by self-insurance, risk transfer or alternative risk transfer. Risk Transfer refers to the shifting of the responsibility, for paying for losses through insurance, from the client to the insurer.

- **Creating a cell captive (alternative risk transfer):** A cell captive only applies to very large commercial companies, which create an “in house” insurance entity that exists solely to underwrite the insurances of the parent company. Premiums are based on the experience of the parent company and not the general market. Reinsurance protection is usually purchased. The advantages therefore are retention of the premium within the organisation, lower premiums and special cover that might not be available elsewhere.
- **Self-funding:** Self-funding works on a planned retention of risk based on sufficient capital resources of the client and must be accompanied by a risk management strategy. The advantage of self-funding is that the fund, if not utilised, accumulates an amount which can then be utilised to take on a larger self-insured proportion in the following insurance year. It also creates greater risk management awareness. The disadvantages are the same as those listed under self-insurance. For commercial risks, insurance cover is needed against catastrophes.

1.6 COMPARE THE TYPES OF COVER AVAILABLE TO THE CLIENT

The first step in comparing types of cover for a proposed client is to evaluate the cover and benefits he currently enjoys. The client may provide a copy of the current cover for this evaluation to take place.

It is especially important to check whether the client may have existing cover for his assets which may have been arranged during finance negotiations for personal accident or credit risk cover that the client may not remember.

This evaluation would include the following:

- The terms and conditions relating to cancelling or amending the current policy should this be necessary
- The sums insured per section of the policy.
- The premium and applicable excesses per section.
- Any loadings, endorsements or restrictions of cover per section.
- Any additional benefits the policy provides.

The second step would be to prioritise the client’s need for insurance. In some cases, the person may prioritise motor insurance over household cover based on their affordability, or even the value of the items to be insured.

However, there may be instances where it is in the client’s best interest to be insured. These priorities should be considered very carefully, when providing the client with a quote.

Step three then relates to matching the client’s needs to alternative insurance products.

There are many existing policies that have been developed for niche markets even in the personal lines environment, such as Motor-only policies, third party only policies, or even limited mileage policies in which the client only pays for the category of mileage they use.

These policies all vary in terms of the cover and limit to cover in their terms and conditions and are in some cases more restrictive than a multi-peril policy, which provides cover for all of the various sections applicable to personal lines insurance.

This comparison must detail the differences between the client’s current cover (if any) and the alternative products considered, with regard to the following:

- Insurance cover provided.
- Limits to cover provided.
- Price for the cover.
- Loadings, discounts and additional requirements.

- ☐ Specific terms and conditions.
- ☐ Exclusions and exceptions to the cover suggested.

Topic 2 Aspects Relating to Specific Personal Lines Short-Term Insurance Products

LEARNING OUTCOMES

After studying the topic, the learner should be able to-

- Outline the different aspects relating to specific personal lines short-term insurance products.

2.1 INTRODUCTION

This section considers the detailed provisions of specific short-term insurance personal line policies.

2.2 HOUSE OWNERS INSURANCE

2.2.1 Introduction

House owners' insurance insure a building, outbuildings, swimming pool etc. against fire, lightning, explosion, earthquake, water, wind, storm damage etc. Banks who extends mortgage bonds to house owners will require that the owner insure the building on a domestic buildings insurance policy for the duration of the bond term.

Most home owner's insurance policies provide cover for more than just the walls and roof of the home. Cover for broken windows, geysers, bursting of water tanks and pipes (including the damage to it), malicious damage etc. are all usually included. Premiums are based on the area of the building, construction of the roof and walls (nonstandard walls and thatched roofs increases the risk and premium), the value of the home and the excess you agree to pay.

2.2.2 The Cover Provided Under House Owners Insurance

In terms of the house owners wording the insured is the person named in the schedule.

The insured will almost always be the person who owns the private residence. In the case of joint ownership for example husband and wife, both names should be shown.

In terms of buildings cover the insured is typically the person named in the schedule as the policyholder, as well as any members of his family who normally live with him.

Some insurers substitute the word family with household members. What is important is that they are living with the insured. Other insurers who use the word family will allow non-family members possessions to be covered under the policy, provided they are individually named on the schedule. The same would apply where someone lives on the premises of the insured but does not want any possessions covered. They would also need to be noted on the schedule to prevent possible underinsurance problems at claims stage.

The buildings section of the policy covers the immovable property or building and fixtures and fittings of the insured at the address that will be noted on the schedule. The intention of buildings cover is to cover the structure of the building or property including ancillary structures such as gates, gate posts, walls and fences as well as improvements such as swimming pools and spa baths etc. Certain policies may require the client to take out additional cover in order to cover boreholes and swimming pool equipment such as pumps and motors.

Under certain circumstances items that will be attached to the building may be covered as contents.

Example of a fixture and fitting covered under contents cover: A tenant who rents a house will not normally take out buildings cover but may have an item like a satellite dish which the tenant owns but is fixed to the landlord's building. In situations like this some insurers may cover the satellite dish under contents cover.

2.2.3 The Difference between Household Contents and House Owners' Insurance

The main difference between house owners' and household insurance is that household insurance usually covers the movable contents of a building against loss whereas building insurance covers the immovable property including the building, fixtures and fittings.

2.2.4 The Main Events Insured Under House Owners' Insurance With Examples

House owners' insurance provides protection against most risks to property the main events including perils such as fire, storm, theft, impact and explosion. A house owners' policy is in most cases a named peril policy which indicates that only perils mentioned in the policy wording is in fact covered. Perils which may generally be covered by this section can be summarised in Figure 2.1

Figure 2.1: Perils which may be covered under house owners' insurance

Natural perils		Manmade perils
▪ Storm	▪ Hail	▪ Bursting and overflowing of water tanks
▪ Wind	▪ Snow	▪ Impact
▪ Water	▪ Fire	▪ Malicious damage
▪ Lightning	▪ Explosion	▪ Theft
▪ Earthquake	▪ Thunderbolt	

Common exclusions include damage resulting from wear and tear, vermin, defect in design, earthquakes as a result of underground mining activities, nuclear incidents, acts of terrorism and war.

Buildings which will be unoccupied for a period longer than 30 – 60 consecutive days (dependent on insurer) will have theft cover automatically lapse unless an additional extension is added to the policy. This would be advisable in the case of for example, holiday homes.

The subsections following explain each of these perils likely to be covered under house owners' insurance.

I) Fire

The generally accepted definition of fire for insurance purposes is actual combustion or ignition which is accidental in origin and not in the place where it is intended to be. This is not a perfect definition because arson is the deliberate setting of a fire and damage arising from arson is insured, as long as the act is not perpetrated by the insured.

Arson, unless set by the insured, is still accidental to the insured and hence covered. Arson of course started by rioters would be covered in terms of the SASRIA policy.

Damage caused as a direct consequence of fire is considered to fall within the scope of fire also. This concept is referred to as proximate cause. Examples include the following:

- ☐ Damaged caused by the water used to extinguish a fire.
- ☐ Damage caused by the firemen whilst extinguishing the blaze.
- ☐ Property damaged or destroyed to prevent the fire spreading.
- ☐ Smoke damage to goods. Often foodstuffs have to be destroyed because smoke has damaged them.
- ☐ Damage caused by the collapse of the walls of burning buildings.

II) Lightning

Lightning, a form of visible electric discharge between rain clouds or between a rain cloud and the earth. The discharge is seen in the form of a brilliant arc, sometimes several kilometres long, stretching between the discharge points. The discharge also sets up a sound wave that is heard as thunder.

Buildings are protected from lightning by providing them with metallic lightning rods, extending to the ground from a point above the highest part of the roof. These rods form a low-resistance path for the lightning discharge and prevent it from travelling through the structure itself. This is particularly important when insuring thatch or wood shingle roofed premises.

III) Explosion

Explosion is defined (not in the policy) as an expansion of gas, liquid or substance causing a substantial increase in pressure of the surrounding air, which in turn radiates pressure outwards in all directions. Depending on the force exerted by the expansion an explosion can cause death, injury or damage to property

Concussion damage i.e. from shock wave, is insured and does not have to be preceded or followed by fire

IV) Storm, Wind, Water, Hail and Snow

Storms and floods not only damage property and endanger the lives of humans and animals but have other effects as well. Rapid runoff causes soil erosion as well as sediment deposition problems downstream. Spawning grounds for fish and other wildlife habitat are often destroyed. High-velocity currents increase flood damage; prolonged high floods delay traffic and interfere with drainage and economic use of lands. In South Africa we have had large scale flooding in some years whilst in others we have had droughts. This makes prevention much harder.

Storm may be defined as a violent atmospheric disturbance involving conditions of lightning, thunder, wind, rain, hail or snow either singly or in a combination.

Flood is defined as inundation overflowing or eruption of a body of water over land which is not normally submerged.

A major problem with storm, flood and hail damage is that they normally do not damage just one house, but rather affect a whole area and it is normal for insurers to purchase catastrophe reinsurance cover to protect them against this.

In terms of the storm, wind, water, hail and snow perils there are specific exclusions. These are as follows:

- ☐ **Loss or damage caused by subsidence or landslip:** Some insurers will give cover where water has come along as a flood and removed soil. Just as waters cuts a riverbed through soil, so it can cut away the foundations or soil around your house. Insurers do not normally include cover where the damage is an inherent flaw of the soil, for example clay soil expands and contracts quite dramatically depending on the amount of available water. This can cause cracking and severe damage to foundations.
- ☐ **Damage to gates and fences:** Gates and fences are not as strong as walls or buildings and therefore, they are prone to damage by storms. Normally a fence is constructed of wire, mesh or wood and is therefore flimsy, whilst a wall is built of concrete, stone or brick.
- ☐ **Damage to retaining walls:** A retaining wall is a wall that retains soil or loose rock behind it. It is similar to a dam wall but instead of retaining water it retains or keeps in soil or loose rocks. It is also known as a revetment. When it rains soil becomes much heavier and a retaining wall whilst holding back the soil, if there are no drainage holes, will collapse because of the pressure. When a retaining wall is built there should be holes left for the water to run-off. Otherwise the wall cracks and eventually will burst open.

Note that these are only excluded if the proximate cause was the storm, wind, water, hail and snow perils. If the damage is caused by fire, there is still cover.

2.2.5 Extensions

Subsidence refers to the ground giving way downwards whilst landslip refers to the vertical movement of the land, both eventualities could be responsible for damage such as cracking and breaking of structures but could also refer to more severe damage such as total loss resulting from a severe subsidence event like a sinkhole or landslip event like a mudslide.

Subsidence and Landslip is specifically excluded under the insured perils. In the policy wording however, there is provision for it to be added back in – at an additional premium.

Cover is in respect of loss or damage caused by subsidence or landslip, but excludes the following events:

- ☐ Damage to drains, water courses, boundary walls, garden walls, retaining walls, gates, posts and fences, unless specifically insured.
- ☐ Damage caused or attributable to:
  - ▪ Faulty design or faulty construction of the buildings or weakening of support.
  - ▪ Workmen engaged in structural alterations, additions or repairs to the buildings.
  - ▪ Excavations other than mining operations.
- ☐ Consequential loss of any kind.

An excess will normally always apply, and it is usually, but need not be, 1% of the sum insured with a minimum of R500.

2.2.6 Variations

Some insurers have altered the "standard wording" of this extension and they also exclude the following:

- Damage arising from the compaction of landfill (as could happen when houses are built on reclaimed land or old rubbish dumps).
- Normal settlement, shrinkage or expansion of the dwelling

- Damage to solid floor slabs, swimming pools, tennis courts, patios, driveways, septic or conservancy tanks and paths, unless the dwelling itself is damaged at the same time.

In the marketplace, many of the banks and financial services providers will have this built into their house owners wording. In the rest of the market, it can be difficult to get cover and if added is very costly.

2.2.7 Exclusions

Every policy wording for cover within the borders of South Africa will include the standard SAIA exclusions. These exclusions refer to the exclusion of cover for a number of events including but not limited to,

- Civil commotion, labour disturbances, riot, strike, lockout, public disorder or any act or activity which is calculated or directed to bring about any of the foregoing.
- War, invasion, act of foreign enemy, hostilities or warlike operations (whether war be declared or not) or civil war.
- Mutiny, military rising, military or usurped power, martial law or state of siege, or any other event or cause which determines the proclamation or maintenance of martial law or state of siege.

- The underwriting criteria applied a domestic buildings policy and an indication of how each can affect the risk
- The concept of average applied to domestic buildings insurance claim for two different scenarios
- The consequences of giving incorrect advice in terms of FAIS, Policyholder Protection Rules and Professional Indemnity
- The relationship between excess and premium with examples

2.2.8 Underwriting Criteria

It is during this process that the insurer investigates the risk attached to a certain insurance portfolio in order to determine the probability of a loss occurring. This will in turn determine whether the insurer will accept of decline a risk and if accepted, the premium, terms and conditions which would be applicable.

Some of the underwriting criteria which would have an effect on a homeowners' policy include:

- ☐ Construction of the building
- ☐ Use of the building
- ☐ Location of the building

I) Construction

The construction of a building provides the insurer with a fair indication of how vulnerable the building is when it comes to certain perils. It also provides insight into how large the expected loss may be should the peril occur. For example, a home with a thatch roof is seen as a high risk for fire as the dry grass is more likely to catch fire and also acts as an accelerant which would mean that the fire would spread much faster than for example a tiled roof home. The loss is therefore more likely to be suffered and to be more severe.

II) Use of Building

This refers to the activities and individuals living in the building. For example, a building with tenants is much more likely to be neglected and damaged by the occupants than a building where the owners are living as the owner would want to protect his investment.

III) Location of the Building

The location refers to the physical situation of the insured property. This could refer a location which is conducive to high crime such as areas with a statistical high crime rate, or possibly areas with open fields and isolated areas. It could however also refer to areas where the insured property is exposed to environmental risks. For example, the risk of flood is significantly increased for a home built on the banks of the Vaal River.

The rate applied in the above mentioned high risk cases would be higher than usual and the insurer might include additional warranties and excesses in order to ensure that the insured acts with the due care required.

2.2.9 The Concept of Average Applied to Domestic Buildings Insurance Claim for Two Different Scenarios

Average is a policy provision, which has the effect of reducing a claim payment where under-insurance is discovered.

The average clause refers to a clause in a policy requiring that, where assets are insured for less than their full value, the insured is required to bear a portion of any loss. The portion of self-insurance is proportionate to the amount by which the assets are underinsured expressed as a percentage of its indemnity value, at the time of the loss.

The following formula can be applied to calculate the level of underinsurance:

$$(Insured\ Value\ /\ Actual\ Value)\ x\ Loss$$

Average as applied to house owners' insurance would be the same as average applied in general insurance.

It is important to understand however that in a total loss situation, the full sum insured will become payable. This would be because the client has lost 100% of their property and therefore 100% of his sum insured is payable. He will only carry the portion of the property that was not insured.

To further illustrate this point, we will apply the formula to a total loss situation:

$$Actual\ value: R2,000,000$$

$$Sum\ Insured: R1,000,000$$

$$(R1,000,000/R2,000,000)\ x\ R2,000,000\ *$$

$$=\ R1,000,000$$

*Remember, these amounts refer to the value of the loss and NOT the sum insured.

2.3 PERSONAL LIABILITY INSURANCE

Some insurers provide liability cover under the home owners' policy extensions, whilst others provide for this as part of the personal line wording or as part of a separate personal liability section.

Personal liability covers the insured and members of the insured's household who live with the insured, where they are legally responsible for the following:

- Accidental death or bodily injury to people other than members of the insured's household or domestic employees.
- Accidental loss of or damage to property belonging to people other than members of the insured's household or domestic employees.

This cover will include legal costs which someone can recover from the insured and which the insurer will agree to in order to settle or defend a claim against the insured.

In order to gain a clear understanding of the liability cover offered by a specific insurer the policy wording of that insurer needs to be analysed.

There is no cover for liability arising out of business or employment.

2.3.1 The Cover Provided Under a Personal Policy for a Specific Policy

The personal liability section of the policy provides cover for a number of additional liability type events, albeit sometimes limited cover. These are discussed in the subsections following.

I) Liability to Domestic Employees

Personal liability insurance also covers an injury or death to your domestic employee because of an accident at your home while he/she was working. Cover is not provided for the following:

- Fire damage to a thatched-roof building.
- Fire damage if home or outbuildings have a thatched roof unless the schedule states that it is covered.
- Damage to non-approved buildings.
- Any damage if the relevant local authority did not approve or would not have approved the construction of the building.
- Liability claims for death, injury or damage caused by, resulting from, or due to the following:
    - the ownership, possession or use of lifts or vehicles.
    - the pursuit or exercise of any trade, business or profession.

II) Security Companies / Garden Services

The assumed liability exclusion is not applicable to liability assumed in terms of a written contract entered into with any entity providing security or armed response services, in respect of property insured.

III) Wrongful Arrest

Personal liability insurance can also include compensation up to a certain amount for damages resulting from the wrongful arrest or wrongful searching of any person (including assault in connection therewith).

2.3.2 Exclusions Under a Personal Liability Personal Policy

Liability cover have various exclusions attached to the cover. These exclusions may relate to activities, use, possession or ownership. It is important to note the exclusions relevant to the specific insurer's policy.

The subsections following considers the exclusions that may be applicable to a personal liability policy.

I) Family Member

There is no cover for liability in respect of death of or bodily injury to or illness of any person who is a member of the insured's household or family whether residing with the insured or not.

II) Custody and Control

Loss or damage to property in the custody and control of the policyholder or his domestic servant is excluded.

The property of guests is not specifically excluded by this exception, but this does not imply that liability for guests' property is covered. Insurers may argue that the property of guests is in the custody of the policyholder while it is on his premises.

III) Professional Liability

Legal liability arising directly or indirectly from the policyholder's profession, employment or occupation. The word "indirectly" gives this exclusion extremely wide meaning and must be interpreted correctly. Remember that "policyholder" includes all members of the family normally resident with the insured. Therefore, liability arising out of part-time employment of a child is excluded.

The policy wording does not state that occupation or employment must be full-time or that self-employment does not fall into the exclusion. If insurers define employment as broadly as an "activity for reward", then even side-lines and paying hobbies would be excluded.

IV) Liability to Employees

Liability to anyone under a contract of service or apprenticeship with the insured which arise out of their employment is specifically excluded. Therefore, there is no cover here for liability to domestic servants or gardeners, except as defined under the householder's policy.

V) Motor Vehicle and Animals

Liability arising from the use of any of the following is also excluded from the cover provided in personal liability insurance:

- ☐ Mechanically propelled vehicle
- ☐ Trailer
- ☐ Animal drawn vehicle
- ☐ Animal (other than a horse, dog or cat)
- ☐ Aircraft
- ☐ Watercraft (other than a rowboat, surf board, paddle ski or canoe)

Some policies use the term "mechanically propelled" vehicle, which would of course exclude liability arising from the use of a pedal cycle. Others however specifically refer to motor vehicles in which case pedal cycles would be covered.

VI) Other Buildings

Liability arising from the ownership, tenure, possession or use of any land or buildings by or on behalf of the insured is excluded. This would be property owner's liability which would fall either under the House owners section or if owned by the insured as a business would require public liability cover in terms of a business policy.

VII) Contractual Liability

Liability accepted by agreement, which would not have attached in the absence of the agreement is, contractual liability. However, contractual liability in terms of agreements with security firms are not excluded.

Tenants liability may conflict with this exclusion because the liability of the tenant to his landlord is often spelled out in the lease, which is legally binding on the tenant.

We must remember though that this is insurance of legal liability - delictual liability - and not contractual liability. For this reason, liability that would have attached to the policyholder notwithstanding the lease or contract - that is, at common law - will be covered.

VIII) Other Exclusion

Insurers' wordings vary, and some insurers have different and/or additional exclusions to these. For example, some insurers exclude liability arising from:

- The use of fire arms
- Lifts or elevators
- Intentional acts
- Seepage and pollution unless arising from an unintended and unexpected event
- Punitive, exemplary or vindictive damages, fines or penalties
- Costs and expenses subsequent to the date on which the insurer has paid or offered to pay the full amount of the claim.

It should therefore be obvious that individual wordings should be examined by the intermediary and the client very carefully.

2.4 HOUSEHOLD CONTENTS

In order to understand contents, the following analogy can be made, "contents are something contained in a receptacle". Everyone who has personal possessions has the need to insure them so that they can replace them should something happen to them. The possessions would be the "something" and the house would be the "receptacle".

2.4.1 The Insured And Insured Property

In terms of contents cover the insured is typically the person named in the schedule as the policyholder, as well as any members of his family who permanently reside with him. Some insurers substitute the word "family" with household members. What is important is that they are living with the insured. Another important factor is that there should always be a financial or legal relationship between the insured and the items insured. Meaning that he will suffer financially if a loss occurs. We call this, insurable interest. If an individual living with the insured does not require cover for his possession however, this needs to be noted on the policy to prevent possible underinsurance problems at claims stage.

The contents section of the policy covers the movable possessions of the insured at the address that will be noted on the schedule. Most policies will cover possessions inside of the house and any outbuildings. The intention of contents cover is to cover household goods and personal possessions either belonging to or for which the insured is responsible.

Examples of content items include the following:

- Fridge

- ☐ Television
- ☐ Microwave
- ☐ Dining room table
- ☐ Lounge suite, et cetera

Where items are stolen from the outbuildings visible signs of forced entry will normally be a requirement. Some insurers will cover money under contents, but this is provided as a bonus benefit and cover will be strictly limited, as well as require visible signs of forced entry to the insured premises.

Under certain circumstances items that will be attached to the building may be covered as contents.

EXAMPLE

A tenant who rents a house will not normally take out buildings cover but may have an item like a satellite dish which the tenant owns but is fixed to the landlord's building. In situations like this some insurers may cover the satellite dish under contents cover.

Under contents cover a tenant would normally be covered for accidental damages caused to a landlord's fixtures and fittings.

Some insurers will allow for and cover certain contents items used for selective business purposes. This will mainly be limited to office administrative type work. Items like a fax machine or personal computer used at home for business purposes would be covered. This cover will not cover a full business operation being run from a home and as soon as the business alters the risk, the insurer will require the insured to take up business insurance.

2.4.2 Insured Events

Whilst every policy may vary in the cover that it offers, most insurers will be consistent in the events for which they provide cover under the household contents section. Insured events, also referred to as perils, are the events for which the insurer is willing to indemnify the client should the event result in a loss.

Some of the most common insured events / perils listed in the household contents section are:

- ☐ Fire, lightning, explosion, thunderbolt and earthquake
- ☐ Wind, water, flood, storm, hail and snow.
- ☐ Damage resulting from the bursting and overflowing of geysers and water pipes.
- ☐ Theft
- ☐ Power surges
- ☐ Impact
- ☐ Accidental breakage
- ☐ Subsidence and landslip (limited cover)

2.4.3 Accidental Breakage

Accidental breakage under a contents policy is limited to television sets, mirrors and glass forming part of any furniture. No other contents items will be covered if accidentally broken.

EXAMPLE

A client decided to dust under his TV set and lifted it to move it to a nearby table. Whilst walking with the TV the client slipped on a loose mat and the TV crashed to the ground. The broken screen in this case would be covered.

Of late, some insurers have chosen to include accidental damage cover in the contents section on a blanket basis but limit the amount of cover provided. This ensures cover for accidental losses on other contents as well.

2.4.4 Listed Perils Policy Wording Versus an All Risks Policy Wording

A listed peril policy refers to a policy where the insurer describes the events that they are prepared to provide cover for. In other words, an event is only covered if it is listed or defined in the policy wording. The insurer will then include several exclusions restricting cover further. For example, earthquake as a peril will be listed and therefore loss as a result of earthquake is covered, but the exclusions might state that earthquake due to underground mining activities is excluded.

Other examples of exclusions for a listed peril policy include:

- Wear and tear or gradual deterioration
- Inherent defects
- Damage by vermin such as rats, mice or termites

An all risk policy wording is also often referred to as a policy of exclusions. This means that the cover provided simply states “any loss or damage” to insured items will be covered but will eliminate certain losses by listing exclusions. The all-risk section of the policy wording provides much wider cover and is usually recommended for items of high value or which may be at a higher risk for loss not ordinarily covered by a standard listed perils policy.

Examples of exclusions found in an all risk policy wording will be similar to the ones found in a listed perils policy, but will also include exclusions such as:

- Items in an unattended vehicle to kept in a locked compartment.
- No cover for sports equipment whilst in use.
- Limits on cover of jewellery unless a valuation certificate is provided.

2.4.5 Limitation On Cover for Computers Provided Under Household Contents

Some insurance companies place limitations on the cover available for computers. Examples of limitations/exclusions for computers used for private purposes may include the following:

- Electrical or mechanical breakdown.
- Recovery of Data.
- Business use – Some insurers provide limited cover but will require the insured to take up a business policy should the activities of the business alter the risk.
- Computer viruses.
- Portable electronic equipment – some insurers do not provide cover for these items under household contents and they must be specified under an all risk policy.

Recently, more and more insurers opt to create an additional section to insure household computers, thus allowing them to provide more specific cover for these items.

2.4.6 The Two Bases of Indemnity

There following are two bases of indemnity that insurers make use of:

- New for old (replacement value)
- Market value

The two bases of indemnity are discussed in the subsections following:

I) New for Old (replacement value)

When items are covered for the current replacement value it means the items will be covered for the amount it will cost an insurer to replace them with a new item at today's prices, this is referred to as new for old. With contents cover insurers will require the client to cover the contents for its total current replacement value. This is done to ensure the client is not underinsured and that indemnification can take place.

Even though this is not indemnifying in its true sense the following serves as an example of being covered for the current replacement value of an item.

EXAMPLE

A client has a 2002 TV, which he bought for R2, 000. Today it will cost the insurer R4, 000 to replace the 2002 TV with a new one of the same specification, which means the client needs to cover the old TV for R4, 000. The client will be paying a premium on R4 000, but in the event of a claim the client will receive a brand-new TV.

II) Market Value

The other form of indemnity that some insurers may use is called market value. This would typically refer to the resell value of an item if you would have to sell it in its current state and condition. On this basis the insurer will usually settle with the insured for a cash value.

In practice clients will often be unhappy when covered for market value because they will be paid out an amount that will not be enough to replace the item with a new one of the same specification. In our example of the television for instance, the client might receive R1,500 for his television, considering that he bought is for R2,000 and would not be in the same condition as it was when purchased. The client would only be able to afford a much smaller and probably less reliable brand of television meaning that he would not be in the same position as he was before the loss.

While the "new for old" system is not a true form of indemnification, it does result in happier clients as they will be able to replace their lost/damaged items and the insurer would have received a premium based on the new replacement value.

2.4.7 Optional Covers Under a Household Contents Insurance Policy

All insurers will have optional covers, which can be taken to supplement standard contents cover. These may however differ from insurer to insurer. Clients will need to pay an extra premium when taking out any of the optional covers.

Examples of optional covers under the contents section of a policy wording:

- ☐ Theft cover for unoccupied buildings
- ☐ Goods used for business purposes
- ☐ Theft of contents being transported
- ☐ Theft from buildings unoccupied for longer than 60 consecutive days
- ☐ Extended liability

These covers may be requested by the insured but will only be added at the discretion of the insurer and as previously mentioned, will result in additional premium.

2.4.8 Extensions

Besides the insured events and optional covers mentioned above, many insurers provide cover for certain "bonus benefits" subject to specific limits. These are automatically included over and above the basic contents cover. Unlike with optional cover, these automatic extensions do not affect the premium and in most cases will have no excess. These automatic extensions will however be subject to very small limits of indemnity.

The following are examples of extension that may be added to household contents cover:

- ☐ Theft of the following:
  - Garden and leisure equipment.
  - Guest's property.
  - Clothes stolen from the washing line.
  - Domestic employees' contents at the address noted on your schedule.
  - Groceries from a vehicle.
- ☐ Spoiling of the contents of a fridge or freezer following a power failure.
- ☐ Fraudulent use of credit-, cash- and account cards, except fraudulent use by members of your household.
- ☐ Veterinary costs resulting from a motor accident in which a household pet is injured.
- ☐ Compensation for the death of a spouse caused directly by a fire or theft at your home.
- ☐ Loss of or damage to locks, keys and remote controls for your home.

Other automatic extensions offered by insurers may relate to "home assistance" benefits such as plumbers, locksmiths and security.

2.4.9 Exclusions

All policies will have exclusions on the cover. Exclusions are very important to both the insured and the insurer, as there might be no cover if they are the proximate cause of the loss. Policies have general exclusions applying to the entire policy, as well as exclusions that are relevant to each section. An insured will need to be aware of both sets of exclusions.

Most policies will exclude loss or damage arising from theft, whilst the building is sub-let or let unless there is forcible and violent entry. Typically, damage caused intentionally by the insured or with his collusion will also be excluded.

Other exclusions may relate to the following:

- ☐ Money
- ☐ Vehicles and vehicle parts or accessories

- ☐ Wear and tear and gradual deterioration
- ☐ Damage caused by household pets
- ☐ Damage caused by vermin such as rats, mice and termites

The above exclusions are an indication only and are in no way a comprehensive list of exclusions under a typical policy. It is therefore important for an insurance advisor to be able to identify and interpret these exclusions to a policyholder.

2.4.10 Determining the Needs of a Specific Client and Making Suggestions for Additional Cover

During the conversation with the client it is important that the advisor analyses the needs of the client and suggests possible additional cover based on the analysis.

EXAMPLE 1

If a client places a holiday home on cover (this is a question that is asked as part of the underwriting) then it is the advisor's responsibility to offer the client, the extended theft cover (theft cover for unoccupied buildings) as well as to inform the client of the condition for theft (visible signs of forced entry).

EXAMPLE 2

If the client says that there are business activities at the risk address (this is also a question that is asked as part of the underwriting) the advisor must probe to find out what these activities are. Let's say for instance the client is a graphic designer that works from home, and she has a computer, plotter, printer and fax machine, the advisor must inform the client that these items will not be covered under the standard contents cover, and that the client would need to take the optional cover for "goods used for business purposes" in order to enjoy cover.

2.4.11 Underwriting Criteria for Household Contents Insurance

The following underwriting criteria may be relevant to contents cover:

- ☐ Previous losses or damages suffered in the last three years whether a claim was submitted or not, on any contents previously insured or contents the insured intends covering.
- ☐ Activities at these premises and the type of business.
- ☐ Location of the risk address and details of adjacent properties.
- ☐ When the premises are occupied.
- ☐ Who the premises are occupied by.
- ☐ What the dwelling type of the building is.
- ☐ Whether there are any vacant/non-residential areas adjacent to the property.
- ☐ What the building is constructed of.
- ☐ Whether the relevant authority has approved the building construction.
- ☐ What the roof is made/constructed of.
- ☐ Whether there is a lightning conductor.
- ☐ Whether there is a Lapa or Thatch, its size, its distance from the main house as well as if it has been treated or not.
- ☐ Security devices are installed at the house.

- ☐ What the full current replacement value of the contents is.
- ☐ Cover required.

Each of these factors will assist the insurer to determine the probability of a loss occurring and in doing so, the premium and any other terms and conditions which may be required.

For example, if the building has a thatch roof, it increases the probability of a fire occurring as the thatch is flammable. It will also increase the speed at which the fire spreads and therefore the severity of the loss increases. The premium in respect of fire, will therefore be adjusted upward in accordance to the higher risk.

Another example would be a building which is situated on the banks of a river known for flooding. The increased risk of flooding will warrant a premium loading, however an insured who lives in an area which is considered safer statistically and has brought additional security to his home such as burglar bars and a linked alarm, will warrant a reduction in premium as the probability of the loss occurring has been significantly reduced.

2.4.12 Tenants Liability Cover

Liability cover under the contents and buildings section is very similar. Property owner's liability falls under buildings cover and tenant's liability falls under contents cover. As such a person who stays on the property he owns will have no need for liability cover as a tenant.

With tenant's liability the client will be covered for all amounts, which the client is legally liable to pay to his landlord arising from accidental loss of or damage to the rented building where the client is living permanently.

The insured is the policyholder and members of the policyholder's family normally resident with the policyholder.

If the policyholder becomes legally liable to pay compensation for accidental death, injury or illness to persons or accidental damage to or loss of property occurring during the period of insurance and arising as a private individual the insurers will indemnify the policyholder up to the specified limit. There is no cover for liability arising out of business or employment.

I) Limit of Indemnity

The limit of indemnity under tenant liability policies is normally substantial with anything between R1 000 000 and R10 000 000 being the norm. The insured requires a large limit as court awards are increasing and any award over the policy limit will be for the insured's own account.

It is not just the amount the third party is awarded that is covered and we look at the various other items covered under this policy.

Legal costs and expenses incurred with the insurer's consent are also covered.

2.5 PERSONAL MOTOR INSURANCE

Motor vehicle refers to a car, 4x4, LDV, SUV, motorcycle, caravan, trailer which belongs to the client. Depending on the cover chosen, it covers the vehicle against perils (sudden unforeseen events) such as theft and hijacking, accidental damage, intentional damage, acts of nature and fire. Should the driver of the vehicle cause an accident with the vehicle and damage other people 's property, or injury other persons (including death) this will also be covered under the section liability to other parties.

The limit of indemnity will be noted on the schedule. For the car itself, it usually does not exceed the retail value (current selling price at a dealer) and for liability, the limit is usually R5 million, however under certain circumstances, at most insurers, this can be increased to R20 million.

Standard factory fitted accessories are covered, but any extras or modifications need to be specified, with an additional premium paid, in order to enjoy cover.

All insurers will include additional benefits, some do so free of charge, such as road side assistance and car hire. However, most insurers charge an additional premium for some of these benefits. It is also possible to elect additional cover at an additional premium for benefits such as credit shortfall cover, non-standard accessories, extended territorial cover, off road 4x4 cover and so forth.

The exclusions on motor, and the general exclusions in the policy wording refers to circumstances under which there will be no cover, for instance driving under the influence of drugs and alcohol, mechanical breakdown or wear and tear.

2.5.1 Types of Vehicles Insured

Vehicle in most instances refers to the following types:

- ☐ Motor vehicles including minibus designed to carry up to 12 persons and station wagons.
- ☐ LDV's (Light Delivery Vehicles, in other words, Bakkies, 4x4, 4x2).
- ☐ Motorcycles (for instance Superbikes, Cruisers, Tourers and Scooters, quad bikes) and golf carts.
- ☐ Caravans (Note that the contents of caravans are not insured as part of the caravan – that would usually be insured under the All Risks section, however, the permanent fixtures and fittings are). Motorised caravans are insured as motor vehicles
- ☐ Trailers

The maximum allowable mass of the above is 3 500 kg (3.5 tons) to be insured under a personal lines policy.

Insurers usually specify that the vehicle must belong to the client and it cannot be a vehicle that has been hired, leased or temporarily used by the client, although some insurers would also cover same up to a maximum amount noted in the client 's schedule.

2.5.2 Vehicle Usage

Insurance companies need to know for what purpose the vehicle will be used for, as this determines the premium. Some vehicle uses are excluded under personal lines motor.

The vehicle can be used for:

- ☐ Private use
- ☐ Business use
- ☐ Professional use (only available at some insurers)

The subsections following consider the different vehicle usages

The following uses are excluded (most of the below are excluded by all insurers):

- ☐ Commercial travel.
- ☐ renting the vehicle out.
- ☐ carrying fare-paying passengers.
- ☐ Driving instruction (for reward).

- ☐ Racing or speed contests.
- ☐ Vehicle is kept at a motor dealer to sell it on the client ‘s behalf.

I) Private Use

Covers the vehicle when being used for social, leisure, pleasure and driving to work and back. The vehicle is not being used for any business purposes whatsoever.

Please note however that some insurers will accept less than 8 business trips per month on private use and the advisor will probe in terms of the nature and frequency of business trips and possibly leave the client on private use if it is short trips to the same destination (like collecting post at the post office twice a week on behalf of their employer as part of their duties). The premium for private use is based on the fact that the vehicle will not be used during the day but parked at the day-time risk address.

II) Business Use

Covers the vehicle for private use and where the vehicle forms an essential part of any work function. This could refer to a person ‘s full time or part time job.

For example, Sophie is a sales representative for Revlon. She uses her car to drive to different outlets all day long. She needs to cover her vehicle for business use. Jim, on the other hand, works at Steers during the day, and therefore leaves his car at his work all day long (private use) - however, in the evening he works for Mr. Delivery to earn some extra cash. He must then cover his vehicle for business use, as he uses it to earn an income in the evening.

Some insurers will have brackets within business use, therefore depending on the frequency that the vehicle will be used for business use, the premium will differ. The example above used under the heading of private use refers to persons using the vehicle less than 8 times per month, which in most cases will still be insured under private use.

The next bracket could be 8 – 25 times per month, so if the client uses the vehicle for business, but not on a full-time basis, an increased premium is charged, but not as high as would be the case for full on business use.

III) Professional Use

This cover is only available at some insurers and will only apply to qualified and practicing lawyers, accountants, doctors, architects etc. They will be covered for business use, but their premium would be less expensive due to their profession.

The usage of the vehicle is a material fact that must be disclosed to the insurer. Material facts influence the insurer ‘s decision of acceptance of a risk, and if accepted, the premium, terms and conditions that will apply.

2.5.3 The Regular Driver

The regular driver refers to the person that drives the vehicle most often in any given monthly period. Again, it is vital that the insurance company knows who the regular driver is because once again it will influence the probability of an incident happening, and therefore it will influence the premium. Should an insured supply the incorrect information of the regular driver, it may lead to the cancelation of the insurance contract due to misrepresentation.

Younger people usually pose an increased risk due to the fact that they have limited driving experience. They also have a need for speed and lack the instinctive avoidance that older drivers have due to their experience. Younger drivers usually have more incidents, which affect their driving ability.

Therefore, the regular driver's age, driving History (how long he/she has had their license), driving Ability (severity and frequency of previous incident, and on the positive side, whether the person did an advanced driving course) will influence the premium.

2.5.4 Underwriting Criteria for Personal Motor Insurance

During the process of underwriting, an insurer will ask the client a number of questions of which the answers will influence whether the insurer will accept the risk, or not. If the risk is accepted, it will influence the terms, conditions and the premium.

Insurers use statistical data and actuaries determine how certain factors would influence the risk and what the probability is that a claim will occur. They also attempt to determine how soon the insured will claim, what amount the claims will be, as well as how often claims will be submitted (in other words, the frequency and severity of the risk). Based on this, the premium will be determined.

In insurance, the past is a very good indication of the future. Therefore, if a client claims for an accident once a year, the client will most probably continue to do so.

Where a person lives, how far he drives to work, the conditions where the vehicle is parked, the client's claims history, his marital status, the work he performs, his financial history, the kind of vehicle he drives and for some insurers, the colour of his car will all influence the probability of an incident happening (the risk) and would include the frequency (how often) and severity (how large the claim will be) of the risk. The underwriting unit standard explores this concept in greater detail.

The subsections following consider the criteria assessed in the underwriting process for personal motor insurance.

I) Regular Driver

As discussed previously, the regular driver 's age, driving history and driving ability will influence the premium being charged.

Taking all other factors out of consideration, the younger the person, the shorter the driving experience, therefore the higher the premium.

Clients know this, and some clients will purposefully lie or withhold information on younger drivers on the vehicle, for instance a son or daughter, which could have serious consequences as claims stage due to misrepresentation and non-disclosure.

II) Risk Address

The area where the client lives and works will influence the premium

Areas that pose a higher than usual risk for theft and hijacking for instance, will attract a higher premium.

For example, and client that lives in Soweto and works in Braamfontein can expect to pay a higher premium than a person that lives in Steenberg Estate in Tokai, Cape Town and works less than 5 km from their home.

Police statistics as well as the insurers own statistical data will be used to determine the areas that are seen as high-risk areas that would attract a higher premium or ask for additional conditions of cover, such as installing a Vesa 4 immobiliser or tracking device.

III) Area Where the Motor is Parked

In addition to the risk address, the circumstances under which the car is parked overnight or during the day will influence the premium.

Parking a car in a locked garage behind locked gates should attract a lower premium than a car that is parked in the street.

Not only theft and hijack premiums are affected here. Cars parked in the street have a higher probability of accidental or intentional damage.

IV) Other Factors

Not all insurers would use the following factors, but some do, and for that reason a few are briefly explained:

- Marital status: It is argued that a married person or widow(er) would pose a lower risk than divorced or single persons as they should be at home more and go out less than the latter. Single and divorced people usually go out at night more often, possibly parking in unknown areas and staying out late, which all increases the risk on the vehicle
- Financial background: Persons with an adverse financial background might be more prone to not pay their premiums regularly and on time and could pose a higher risk of instituting fraudulent or dishonest claims.
- Colour of the vehicle: Usually the lighter the vehicle, the cheaper the premium, the darker the vehicle, the higher the premium. The reason being that lighter cars are easier to see whereas a darker car is more difficult to see in bad weather conditions or in the dark, therefore the accident risk is increased on darker vehicles.

As mentioned, some insurers would base their premium on 3 or 4 aspects, whereas others would use a lot more criteria when determining their premium.

We understand that not all persons are the same. There are young persons that are careful drivers and there are older persons that drive recklessly and irresponsibly.

And there are persons with a less than favourable credit record that would never institute a fraudulent claim.

We do not mean to stereotype or show prejudice against any person; the above is merely discussed as they are taken into consideration and therefore a certain degree of generalisation applies.

Lastly, please note, that the applicable underwriting criteria are taken into consideration as a whole, and the above discussed in isolation is merely done to realise the impact that certain factors could have on cover and premium.

2.5.5 Territorial Limits for personal motor insurance

Most insurers will cover the vehicle when used for private use in the following countries besides South Africa:

- Swaziland
- Lesotho
- Mozambique
- Botswana
- Namibia
- Malawi
- Zimbabwe

The vehicle will not be covered for business in these countries, only private use. Should the vehicle be used for business use in one of these countries, some insurers will be able to offer optional (additional) cover at an additional premium.

2.5.6 The different types of cover:

Insurers offers the following types of cover:

- ☐ Comprehensive cover
- ☐ Third party, Fire and Theft (also referred to as Limited cover by some insurers)
- ☐ Third party only (also referred to as Liability cover to other parties only or Balance of third party cover)

The widest cover is offered under Comprehensive cover. It is also compulsory to cover your car for Comprehensive cover should your vehicle be financed. The Bank will require from you to cover it for Comprehensive cover in terms of the agreement they sign with you, as technically the car still belongs to them until you settle the outstanding balance with them. Due to the fact that the financial institution has insurable interest in the item, meaning that they will be prejudiced in the event of loss or damage, they need to ensure that it is comprehensively insured and that they will be indemnified in the event of loss.

The subsections following consider the perils covered under each type of cover.

I) Comprehensive Cover

Comprehensive cover typically covers the following:

- ☐ Liability to Other Parties (3rd party cover)
- ☐ Accidental Damage to own vehicle
- ☐ Theft and hijack
- ☐ Intentional Damage (caused by others to your vehicle)
- ☐ Fire, explosion and lightning
- ☐ Acts of Nature

II) Third Party, Fire and Theft Cover (Limited Cover)

Third Party, Fire and Theft Cover (Limited Cover) covers the following:

- ☐ Liability to Other Parties (3rd party cover)
- ☐ Theft and hijack
- ☐ Fire, explosion and lightning

2.5.7 Third Party

Third Party covers liability to other parties only.

The client‘s vehicle is not covered AT ALL. Only damages and injuries caused to other people and/or their property with the client‘s vehicle will be covered.

Please note however, that cover is limited to the provisions in the Road Accident Fund and does not cover injury and/or death caused to household members and employees, or damage to their property. Also, death, injury and damage caused and covered under the Road Accident Fund is excluded from this cover at most insurers.

Comprehensive, third party fire and theft (Limited cover) as well as liability to other parties only (3rd party) cover all includes cover for liability to third parties. In this section the legal liability following damage to property of others or injury to others (third parties) is insured.

2.6 PERSONAL ACCIDENT INSURANCE

In South Africa, sickness benefits are very rare in terms of short-term insurance policies. Clients would be better off purchasing a permanent health insurance policy.

Personal accident can be defined as an event that causes you injury, disability or death. It can be a simple fall that results in a broken leg, or something more serious like a car crash that leaves you in a wheelchair.

An accident isn't always easily defined, but it is commonly accepted that it is an unforeseen or unexpected event that has undesirable consequences. Accidental injury is defined as: "bodily injury caused by accidental, violent, external and visible means.

Thus, if the insured is injured through over exertion in cranking a car or ejecting a drunken man from his place of work, or in running to catch a train, the injury in each case is not accidental. But, if on the other hand, the insured slips while cranking the car or suffers a blow while ejecting the drunken man, or stumbles while running to catch the train, the injury is accidental. There is then an "intervening fortuitous cause"

Each claim should be scrutinized carefully in terms of the circumstances surrounding the accident. Therefore, it is important to obtain a clear description of the incident.

Compensation for personal accident is paid, in terms of the policy, when the insured person sustains bodily injury or dies resulting from an accident. Some examples of death or injury due to accident would be as follows

- ☐ Drowning
- ☐ Snake bite or poisonous sting from an insect
- ☐ Death due to exposure after injury in motor accident
- ☐ Injury or death due to an intentional act by another person

Benefits would not be payable were death arose from an illness or disease that is unrelated to an accident.

2.6.1 Benefits

Personal accident insurance typical pays out a percentage amount of the maximum value under a personal accident insurance policy in the event of the physical impairment or loss of a limb due to an accident – this is called a benefit.

For example, the loss a hand will result in 100% of the maximum amount payable under the policy to be paid out as a benefit whereas the loss of a thumb will result in 20% of the maximum amount payable to be paid as a benefit.

The assessment criteria are objective and disclosed upfront, resulting in less confusion at claim stage.

This also helps and protects employers against having to fund this benefit out of their cash flow.

Expenses are cumulative in terms of multiple injuries of one event but may not exceed more than 100% of the sum insured.

The insurer normally pays the benefit to the insured, on behalf of such person or his estate, the compensation stated in the schedule in the event of accidental injury to any such person directly and independently of all the other causes resulting within a specified period (normally 12 months) in death or disability as specified in policy.

2.6.2 Extensions

Some policy wordings automatically include the following extensions as a result of bodily injury:

- ☐ Passive War
- ☐ Disappearance
- ☐ Disfigurement (not limited to burns)
- ☐ Funeral Costs
- ☐ Rehabilitation Costs
- ☐ Mobility Costs
- ☐ Body Transportation Costs
- ☐ Emergency Transportation Costs
- ☐ Relocation Costs

Optional Extensions may be provided for at additional cost and these will include the following:

- ☐ Active service extension.
- ☐ Temporary Total Disablement following illness.
- ☐ Dread Disease coverage.
- ☐ Daily Hospital Cash Benefits - as a result of accident or illness.
- ☐ Trauma coverage is available.

2.6.3 Exclusions

The Insurers shall not be liable to pay Compensation for Bodily Injury in respect of any Insured Person in the following circumstances:

- ☐ Caused by such person's suicide, attempted suicide or intentional self-injury or deliberate exposure to obvious risk or injury (unless in an attempt to save human life).
- ☐ Whose death or disability is directly or indirectly caused by, arising or resulting from or traceable to any physical defect or infirmity which existed prior to the accident, provided that if the disability of the Insured person is merely aggravated by such pre-existing conditions, the Insurer may in its discretion pay an amount which it considers would have been payable but for such aggravation.
- ☐ Under 16 or over 70 years of age.
- ☐ Whilst the Insured Person is traveling by air other than as a passenger (and a passenger does not include a member of the crew or any person being conveyed for the purpose of any trade or technical operation relating to the aircraft)
- ☐ As a direct result of the insured person being under the influence of alcohol, drugs or narcotics unless such drugs or narcotics were administered lawfully by a medical practitioner (other than the Insured Person) or unless prescribed by and taken in accordance with the directions of a medical practitioner (other than the Insured Person).
- ☐ As a direct result of the insured person driving a motor vehicle and having more than the legal limit of alcohol in his/her blood.

- ☐ Whilst participating in any riot, strike, civil commotion, public disorder, or as a result of deliberately committing a criminal offence.
- ☐ Arising from war, invasion, act of foreign enemy, hostilities or warlike operations (whether war be declared or not), civil war, mutiny, insurrection, rebellion, revolution, military or usurped power, or any events or causes which determine the proclamation or maintenance of martial law. Whilst such Insured Person is on active service with the military, naval, air or police services of any nation, provided that this Insurance shall continue to apply in respect of Accidental Bodily Injury sustained independently of such contingencies.
- ☐ Whose death or disability is directly or indirectly attributable to Human Immunodeficiency Virus (HIV and/or any HIV related illness) or Acquired Immunity Deficiency Syndrome (AIDS) including derivatives or variations thereof howsoever caused. The onus of proof shall always be upon the Insured to show that death or disability of an Insured Person did not arise through or was not caused by AIDS or HIV.
- ☐ Whilst participating in sport as a professional player, hang gliding or micro lighting.

2.6.4 Optional Cover Available Under Individual Personal Accident Insurance

Some personal accident policies offer the following options to be added to the cover for an additional fee:

- ☐ Additional cover on top what is stated on the schedule. In other words, if for example the policy only offers R250 000 cover up to the age of 65, you may be able to increase that amount available and just pay an additional premium for it.
- ☐ Very limited cover might also be offered for accidental death or disability due to any acts of terrorism.
- ☐ Waivers of pre-existing medical condition cover.

Individuals may prefer to effect personal accident coverage on a 24-hour basis. This is normally done in terms of vehicle rentals or any exposure whilst flying as a passenger or pilot. Alternatively, coverage may be arranged so as to apply only during the specified risk situation.

Personal Accident coverage will provide fixed, pre-agreed, benefits in the event of death, permanent or temporary disability of a total or partial nature, as well as medical expenses arising from accident.

2.6.5 The Limitations on Children

By law, the amount of personal accident cover a parent can buy on behalf of a child is limited to R10 000 up to 6 years, and R30 000 up to 14 years.

2.6.6 Personal Accident Insurance as a Non-Indemnity Contract

Personal accident insurance is mostly non-indemnity insurance. Therefore, the holder will receive the benefit irrespective of the financial loss incurred due to the impairment.

However, in terms of personal accident policy, the insurer can elect to insure for medical expenses that could be incurred due to an accidental injury. Most personal accident policy wordings refer to “medical, surgical or hospital expenses”, but these can be deemed to include dental expenses too.

Other expenses directly connected to the injury, such as the cost of artificial limbs, neck braces, etc. are not specified but may be deemed to be included by some insurers and may have to be negotiated with others. In stricter terms these are “medical expenses”.

2.6.7 Group Scheme Personal Accident Insurance

Personal Accident cover for specific groups could be aimed at the following types of groups:

- ☐ Employees
- ☐ A group travelling together on holiday
- ☐ Race car drivers
- ☐ A specific sports group etc.

2.6.8 Underwriting Criteria for a Personal Accident Insurance Policy

The subsections following considers the criteria applicable when underwriting a personal accident insurance policy for individuals and groups.

I) Occupation

The occupation of the insured should be considered when personal accident cover is negotiated.

It is important to know the occupation of the insured, not only in terms of which limbs and functions would be most valuable to the client in terms of his job, but also what types of accidents are prevalent in a specific occupation.

For example, for a radio announcer the loss of speech or hearing will be the most risk and 100% cover must be taken for these impairments. Whereas for a plumber the loss of fingers will be the greatest risk.

In terms of adjustments to suite the clients' needs for additional cover on specified areas, the premium of the policy would normally be adjusted in terms of covering the additional benefits.

II) Age

The age of the individual plays a role in the vitality of the person to bounce back from accidents. The older the individual, the more pre-existing conditions need to be considered. This affects the optional cover and exclusions in terms of cover and premium.

III) Life style

Some policies exclude the following activities and/or hobbies:

- ☐ Mountaineering
- ☐ Motor racing
- ☐ Private aviation etc.

2.6.9 Territorial Limits

Cover applies anywhere in the world unless specifically stated otherwise in terms of endorsements on the policy and / or schedule.

Coverage applies 24 hours a day, 7 days a week unless otherwise restricted by endorsements on the policy or schedule.

2.6.10 Personal Accident Cover as a Supplement to Other Covers Available

I) The limitations on life cover that can be supplemented by personal accident insurance

The majority of the population cannot afford or do not have sufficient life cover. This is due to affordability, lack of awareness and perhaps the ostrich head in the sand mentality where one hopes it will never happen to them.

Personal Accident cover should be offered as an added benefit on a personal insurance policy especially as South Africans, perhaps more than most nations, face a greater threat of harm through violence due to high levels of crime in the country.

Furthermore, our roads are perhaps among the most dangerous in the world and every year tens of thousands of lives are lost, leaving uninsured families destitute or certainly in financial difficulty.

Personal Accident cover offers a quick (generally underwriting free) solution to the above risks which can be sold in addition to the individual's current life covers, providing funds in time of need. A death in this instance is unexpected and no planning can be made thereby increasing costs at the worst possible time.

Personal Accident insurance is cheaper than comprehensive life cover and can be taken as a stand-alone benefit. The benefit pays a lump-sum and the sum assured can be any amount chosen by the policyholder, subject to the relevant minimum and maximum benefit limits. It can also simply be added onto an existing life insurance policy and will double up life cover if the death was a result of an accident. There are less exclusions on cover and the cover is global.

Most young adults do not consider life insurance as a necessary expense. However, given the high accident rate in South Africa, particularly among young people, it is important that anyone who has a young family to look after or who has credit taken out in their name, ensures that they have a policy in place to ease the financial burden on their loved ones if the worst happens.

2.6.11 Personal Accident Cover as a Supplement to The Road Accident Fund

Personal accident cover can be used to cover the shortfall between medical expenses incurred and the amount recovered for the Road Accident Fund.

The probability for a shortfall is great as the road accident fund only covers for medical costs based on public health tariffs and compensation for loss of income is capped at a certain amount.

The injured person is also not permitted to sue the person responsible for the shortfall if a pay-out has been made by the Road Accident Fund.

The article in the next page was taken from www.persfin.co.za (Personal Finance). Read through the article to see where shortfalls under the Road Accident Fund Act can be supplemented by Personal accident insurance.

I) Personal Accident Cover as a supplement to the Compensation for Occupational Injuries and Diseases Act (COIDA)

Under the terms of the Workmen "s Compensation Act, 1941, there had also been specific maxima applied to compensation benefits received by employees who suffered an accident in the workplace. This meant that only those whose annual earnings were lower than the prescribed maximum was covered for accidents in terms of the Act.

Those employees earning more than the prescribed limit were then not classified as workmen and could receive no compensation for accidents. These employees had to rely on restitution under common law, which meant that they had to rely on the courts to receive compensation for accidents caused by the negligence of the employer, or to provide their own personal accident cover for accidents occurring without this negligence.

Whether the employer provided this cover or not, basic protection for employees against accidents arising in the workplace, were expensive, and often cover provided was insufficient. The implementation of COIDA did away with this split definition of workmen, to broaden the base of compensation, both in terms of benefits and assessment contributions. Under the Workmen "s Compensation act 1941, and COIDA, the rights of all employees at common law to pursue recoveries for accidents against their employer were withdrawn.

From time to time COIDA may be amended by parliament to cater for changes to the work environment that may impact on benefits needed for employees or on assessment rates for employers. COIDA effectively provides cover across five classes of insurance:

- ☐ Death benefits in respect of deceased employees. These may take the form of lump sum payments, or as pension payments. In the insurance industry, these risks are written in the long-term sector (life and pensions), or in the short-term industry under personal accident and stated benefits policies
- ☐ Benefits for Temporary Partial, Temporary Total and Permanent Disablement. These are short-term insurance risks, (stated benefits and personal accident). They are also offered in the long-term market as income protection covers, or permanent health covers
- ☐ Medical Expenses are written either in the short-term market as an adjunct to stated benefits and personal accident cover, or in the healthcare sector as medical aids
- ☐ Occupational Disease cover is written in the short-term market following stated benefits or personal accident, or in the long-term market as dread disease and life cover and as permanent health cover
- ☐ Funeral cover is offered in the long-term market, as a separately written class of business

www.acts.co.za - short term insurance act Part VII

2.7 ALL RISK INSURANCE

All risks insurance coverage is defined as: property insurance covering loss arising from any fortuitous cause except those that are specifically excluded. This is in contrast to named perils coverage, which applies only to loss arising out of causes that are listed as covered.

Insurance providers generally offer two types of property coverage for homeowners and businesses – named perils and all risks. A named perils insurance contract only covers the perils specifically stipulated in the policy. For example, an insurance contract might specify that any home loss caused by fire or vandalism will be covered. Therefore, an insured who experiences a loss or damage caused by a flood cannot file a claim to his or her insurance provider, as a flood is not named as a peril under the insurance coverage. Under a named perils policy, the burden of proof is on the insured.

An all-risks insurance contract covers the insured from all perils, except the ones specifically excluded from the list. Contrary to a named perils contract, an all-risks policy does not name the risks covered, but instead, names the risks not covered. In so doing, any peril not named in the policy is automatically covered. The most common types of perils excluded from all risks include: earthquake, war, government seizure or destruction, wear and tear, infestation, pollution, nuclear hazard, market loss, etc. An individual or business, who requires coverage for any excluded event under all risks may have the option to pay an additional premium, known as a rider or floater, to have the peril included in the contract.

2.7.1 Burden of Proof

The trigger for coverage under an all risks policy is physical loss or damage to property. An insured must prove physical damage or loss has occurred before the burden of proof shifts to the insurer, who then has to prove that an exclusion applies to the coverage. For example, a small business that experienced a power outage may file a claim citing physical loss. The insurance company, on the other hand, might reject the claim stating that the company experienced a loss of income from a mere loss of property use, which is not the same thing as a physical loss of property.

Because all risks is the most comprehensive type of coverage available and protects the insured from a greater number of possible loss events, it is priced proportionately higher than other types of policies. The cost of this type of insurance should, therefore, be measured against the probability of a claim.

It is possible to have named perils and all risks in the same policy. For example, an insured may have a property insurance policy that has all-risks coverage on the building and named perils on his personal property. Everyone should read the fine print of any insurance agreement to ensure that they understand what is excluded in the policy. Also, just because an insurance policy is termed “all risks” does not mean that it covers all risks since the exclusions reduce the level of coverage that is offered. Make sure you look for the exclusions in any prospective policy.

2.7.2 The Concept of Personal Effects

Personal effects are provided cover for of loss or damage by an all risk policy.

Personal effects are the items that you carry on your person on a regular basis. When you leave the house in the morning there are certain items that you always carry with you outside of your home (risk address).

Examples of these items are:

- Wearing apparel, including furs
- Luggage containers, handbags and briefcases
- Sporting equipment, but excluding pedal cycles, motor vehicles, trailers, hand gliders, aircraft or watercraft
- Watches, jewellery, trinkets and toilet requisites
- Photographic equipment, pocket calculators and binoculars
- Other personal effects generally carried on the person, but excluding contact lenses, radios and sound reproductive equipment, firearms and cellular telephones.

2.7.3 Events Covered

An all risk policy is what may be described as a policy of exclusions. Most other policies will provide a detailed list of the perils which they provide cover against.

Should the cause therefore not be mentioned in this list, the loss would not be covered.

A policy of exclusions like the all-risk policy, states simply that “loss or damage” is covered and then will proceed by simply identifying what is NOT covered. By this we can infer that as long as the cause of the loss is not specifically excluded, then it will be covered.

This allows the all-risk policy to provide cover against all of the perils provided for by listed peril policies, but also for additional cover not usually afforded by other policies. Examples of the perils covered would include the following:

- ☐ Loss or damage is covered
- ☐ Full accidental loss or damage
- ☐ Theft

Examples of events covered under this section:

- ☐ Having your suitcase stolen while on holiday.
- ☐ Losing your handbag during a mugging
- ☐ The theft of items from your car
- ☐ Misplacing your watch or wedding rings
- ☐ Accidently dropping your cellular phone in the swimming pool

The value that each specified item must be insured for, is the current replacement value of a new item of the same specification. The basis of indemnity will be new for old and the sum insured must therefore be sufficient in order for the insured to replace the used item with a new one should a loss occur.

There are however certain items for which the insured limits their liability in terms of value on the cover that they provide for some of the events. These include the following

- ☐ Collectables such as, coins and stamps
- ☐ Wheelchairs
- ☐ Contents of caravan
- ☐ Car radios

2.7.4 Territorial Limits on an All Risks Policy

There are no territorial limits specified in the all-risk policy as worldwide cover is provided. Because it refers to items that you carry on your person that is specifically defined and insured, this would also be the case should you leave the borders of your own country. It is always advisable to check your policy documents to ensure that this is the case as some companies might choose to apply limits to this section.

With most insureds though, the coverage is worldwide. If you go on holiday to America, you would need to insure your personal effects (clothing etc.) as well as specific items like cameras, video equipment and cell phones etc.

The only limit often imposed on the worldwide coverage would be a time limitation. Meaning that should you leave the borders of South Africa for longer than a specified period of time, cover will cease. These limits range from 90 days to 12 months. The reasoning behind this time limitation is to ensure that no insured who is permanently residing in foreign territory enjoys cover in terms of a South African policy.

2.7.5 Advantages of Having an All Risks Insurance as Well As Household Contents Insurance

When claiming for Jewellery under the contents section of your policy, the cover is very often limited to 20% of the amount specified for contents. If you have opted to specify your jewellery, you will not only prevent yourself from being underinsured in terms of your contents cover, but you will be able to claim for 100% of your loss if the insured amounts for the items are current.

People are tempted to keep computers covered under contents cover only. Laptops and notebooks however, are portable items which may be removed from the home (risk address), even when used for personal use only. Thus, must be specified, in order to enjoy cover.

Bicycles have limited cover under contents but will enjoy full cover when specified and the insured amounts are current.

Furthermore, in terms of most household contents policies, accidental damage is excluded, therefore should an item be dropped or accidently damaged, the insured will enjoy limited or no cover whatsoever, depending on the insured and product.

2.7.6 Underwriting Criteria for an All-Risk Policy

In order to ascertain the risk involved, the insured will seek to determine as much detail as possible. These are referred to as underwriting criteria.

As the nature of all risk items are extremely variable along with the situations they may be found in, the underwriting criteria at initiation of cover would mainly consist of information such as:

- ☐ Current replacement value
- ☐ Use
- ☐ IMEI numbers for cellular phones
- ☐ Serial numbers for other electronic items where applicable and IMEI numbers and serial numbers will assist with identification of the property and will further assist in “blacklisting” processes after a loss in order to render the item unusable, therefore making these items more unattractive in respect of theft.

As explained previously, insurers always insure items at the current replacement value. It is the responsibility of the client to ensure that they regularly update the values of the insured items under this section of their policy.

The insured will only pay the maximum value of the item at the time of the loss even if the sum insured is more. If the sum insured is lower than current replacement, they will only pay out up to value of the sum insured.

Valuation certificates and proof of ownership are requirements in terms of determining the value of expensive items once they have been lost or stolen.

In order to reduce the risk in terms of all risk items, insurers will add additional underwriting requirements with which the insured must comply in order to enjoy cover. Depending on the particular insured these could include the following.

- ☐ Proper precautions must be taken by the insured to safeguard his/her belongings. As a client you have to look after your belongings as if you don’t have insurance.
- ☐ Items must be kept in a locked compartment of a locked vehicle if left in an unattended vehicle.
- ☐ As far as possible, items must be hidden and not left in plain sight

2.7.7 Specified and Unspecified All Risks

An all risk policy is divided into two sections; specified all risks and unspecified all risks. These two risks are considered in the subsections following.

I) Unspecified Risks

Unspecified items are also known as the Clothing and personal effects section of all risks. The items insured under this section are usually low in value and might include the following:

- ☐ Property not referred to in detail
- ☐ Items of a reasonable low value
- ☐ Items might be likely to change daily
- ☐ Limited cover provided per item and per incident
- ☐ Not otherwise excluded in terms of the unspecified items definition as provided in the policy wording

This cover is provided for the items with which we leave the home, but where the value does not justify them being insured. These items are also likely to change on a regular basis. For example, clothing, shoes, jackets and bags etc. These are all items of a reasonably low value.

One global amount is provided to cover an event. An additional limit per item will also imposed. For example, the overall unspecified sum insured may be R5 000, and the limit per item might be R1 000. In other words, the insured enjoys cover up to R5, 000 should an insured event occur, but if one of the items lost exceeds the value of R1, 000, the insured will only pay up to R1, 000 regardless of the number of items being claimed for.

These limits will differ from insured to insured.

In order to limit liability in respect of high value items, the insured will provide a definition of what they view as unspecified items in which they will list the items which may not be claimed under this section. These items will differ from insured to insured but will often refer to items such as cellular phones, reading glasses and hearing aids. All of which must be specified in order to enjoy cover away from the insured premises.

II) Specified Risks

Higher valued items and items which are precluded from unspecified cover, needs to be insured under a different section of the All Risks policy, known as the “Specified all risks” section. Each item under this section will have its own value assigned to the item. At the time of a claim the insured might request proof of ownership or value of the item lost or damaged before any claims are paid. Claims may be repudiated if no such proof can be provided. Examples of the above would be quotations, till slips or valuation certificates. When insuring cameras, radios, cell phones etc., serial numbers should be provided to the insureds.

The insured has the option to replace or repair the item at the time of loss, or to pay the client out.

Thus, specified risks only insure property, which is referred to in detail, the insured amount is specific, and the premium is charged per item on risk.

Typical items which may have to be specified to enjoy cover, is as follows:

- ☐ Bicycles
- ☐ Contact lenses
- ☐ Furs
- ☐ Borehole and swimming pool equipment

2.7.8 Valuation Certificates

Insured's require valuation certificates for items that exceed a certain amount. Items that require these certificates are jewellery, Persian rugs, furs, antiques and paintings. It is advised that the insured keep these certificates updated and have the items re-evaluated every 3 to 5 years. Proof of purchase will also be accepted if the purchase was made within that recent period.

For items like cameras, radios, cell phones, etc. a supplier can be contacted to provide a quotation of what the item would cost to replace. It is important for these items to be insured at replacement value and the values have to be updated annually to keep them relevant.

It is important to note that a valuation certificate does not necessarily prove ownership, but it does confirm the value of the item.

Valuation certificates are very important in terms of the prevention of fraudulent claims. It serves as a confirmation that the item actually existed and the true value thereof.

2.7.9 Exclusions to an All-Risk Policy

Many insurers will provide for exclusions pertaining to the specified and unspecified sections separately.

However, there are a number of exclusions that will apply on a blanket basis across the entire all-risk policy.

For example, although sporting equipment may enjoy cover away from home, they might not enjoy cover whilst being used in a competition. An example would be to have your bicycle destroyed in a fall while you were competing in a bicycle race.

There are also some policies that don't cover the equipment whilst it is being used, for example, covering the tennis racquet on your way to the courts, but not actually during your session on the court.

Other exclusions that would apply to both is considered in the subsections following.

I) Detention

The holder does not enjoy cover for your items lost or damaged due to the following processes:

- Detention
- Confiscation
- Destruction
- Requisition

II) Theft from Motor Vehicles

Items lost or damaged during theft or attempted theft of a vehicle will not be covered unless the items were inside the glove compartment or boot and there has to be signs of forced entry.

III) Wear and Tear

Cover is not provided for the following

- Wear and tear
- Depreciation
- Rust

- ☐ Moth, vermin, insects or larvae
- ☐ Any process of cleaning, dyeing, repairing or restoring
- ☐ Gradual deterioration, which includes the action of light; atmospheric, or climatic conditions

IV) Breakdown

Mechanical or electrical breakdown is excluded unless a policy specifically offers this cover. This is normally done at an additional cost to the insured.

V) Cash

An all-risk policy usually does not provide cover for the following:

- ☐ Cash, bank notes, currency notes
- ☐ Bonds, coupons
- ☐ Stamps
- ☐ Negotiable instruments
- ☐ Title deeds
- ☐ Manuscripts
- ☐ Securities of any kind
- ☐ Travel tickets

VI) Data

Software and data is never covered on computers or other electronic devices.

VII) Business Use

Items that are solely used for business use will not be not enjoying cover.

These exclusions may be similar from policy to policy, however it is still the responsibility of the financial service provider to be able to analyse these exclusions and relay them correctly to the insured especially if any of these exclusions may pertain to their specific circumstances.

2.7.10 Limitations on Cover of Items Stored in a Bank Vault

Each insurance company has a different view on how they insured items that are stored in a bank vault.

Generally, the insured will be required to specify the item under the all-risk policy. Cover will then be provided for the item whilst it’s in the bank vault, at a reduced rate due to the additional precautions taken by the client. Should the item be removed from the bank vault however, then cover will fall away unless the insurer is advised in advance.

2.7.11 Additional Cover

Additional cover is sometimes provided at no extra cost to the insured. This cover is very limited and can seldom or never be increased. Examples of this cover are as follows:

- ☐ Clothing & personal effects
- ☐ Personal docs
- ☐ Transport of goods & groceries

- Wheelchairs
- Bicycles

2.7.12 The Cover Under the Pairs and Sets Clause

The "pairs and sets"- clause refers to items that would normally come in a pair or a set. Examples of such items would be earrings and cufflinks etc.

Insurers who have this clause in their policy wording do so to limit the liability to paying only for the lost item and not the whole set. In a case where only one part of the set was lost or damaged and the insured opts to replace or indemnify the set instead of only the lost item, the insured will collect the remaining item as salvage.

One of the insured's wordings reads as follows: "Where an item consists of articles in a pair or a set the company will not pay more than the value of the parts lost or damaged."

Some examples of pairs and sets are a pair of diamond earrings, a set of golf clubs or an antique set of china.

An example of a claim where the pairs and sets clause may apply would be for a pair of antique statues, whilst the pair together may be worth a substantial amount of money, if one is accidentally damaged the pair's value is substantially decreased. In terms of the pairs and sets clause it is not the responsibility of the insured to compensate the policyholder for the loss of the pair, but to merely indemnify the policyholder for the actual value of the one statue that has been broken.

2.8 MULTI-PERIL INSURANCE

Traditional insurance practice dictated that a separate policy be issued for each class of business where the insured required protection. This practice invariably left the Insured with numerous policies, all with different renewal dates, different premiums payable and several separate debit orders to manage.

The result was a cumbersome administration process for the Insurer – imagine all the additional staff required to manage all these policies, all with different renewal dates to keep track of for one client – policy reviews could only have been a nightmarish operation with large margins for error and omission.

Not only was the process laborious to the extreme, but also the cost to Insurance carriers must have been prohibitive, and the inconvenience factor to an Insured beyond tolerable. A better mousetrap had to be invented!

The Multi-peril policy developed as a result of such a consumer move as described above and the resulting research by the insurance industry as a whole and was instituted in the insurance market place with great success.

The easiest description of a multi-peril policy is that it is a number of different policies are incorporated into one document. A typical multi-peril policy consists of different sections, each offering a particular type of cover.

In South Africa, cover offered by some policies used to be subject to a market agreement, and all companies offering this product offered the exact same policy cover. This product was referred to as Multimark III which, apart from packaging, printing and marketing features, was identical in cover with a standardised wording offered by all insurers. This product was however withdrawn by SAIA in 2007, fearing that it may be deemed uncompetitive by the Competitions Board.

Many of the features of Multimark III can however still be found in Commercial Multi-Peril policies today. Premiums charged, and other terms and conditions, such as deductibles, or survey requirements may vary, but the policy wording does not. There are not many market-agreed wordings, and most insurers offer specifically written policy wordings to their customers. This means that the product, in most instances, is unique and readily identifiable as an offering by a specific insurer.

Personal lines wording has been standardised to a degree, but it is acceptable market practice to have unique cover and wording for personal lines in different companies.

2.8.1 Advantages of the Multi-Peril Product

The multi-peril policy is convenient for the client for the following reasons:

- ☐ The insured only has to remember one renewal date
- ☐ All types of insurance are paid with one premium only
- ☐ It is cost effective in that only one or two at most, debit orders have to be paid.

The multi-peril policy is convenient for the Insurer: for the following reasons:

- ☐ Administration requirements are reduced.
- ☐ It is more cost and time efficient to operate one or two policies per client.

2.8.2 A Multi-Peril Policy Document

I) Standard Features of Multi-Peril Policy Documents

A multi-peril policy document that is sent to a client typically has a number of parts, the main being the policy schedule; the policy wording and disclosure documents. Aspects common to all sections of the policies are grouped together to avoid repetition. Most Insurers have adopted this approach. Individual sections then have their own "defined events" against which cover is given, as well as exclusions and specific exceptions.

II) Policy Schedule

The policy schedule is the evidence that a contract exists between the Insurer and the insured. It also personalises the insurance cover for each client. The following items are described in every schedule:

- ☐ The risk
- ☐ The insured
- ☐ Special terms and conditions that apply to a particular policy

There is normally a main typed schedule giving the details that apply to the individual Insured, and further schedules with specific descriptions and sums insured for the sections of cover.

The main schedule page contains the following important detail:

- ☐ Insurer s identification: name, physical address.
- ☐ Insured's name, title and address
- ☐ Policy number
- ☐ Territorial limits
- ☐ Business of the insured
- ☐ Period of insurance and renewal / anniversary dates

- ☐ Summary of cover and premium summary for cover
- ☐ Attestation by the Insurer

The further schedules will now describe in detail the following:

- ☐ Section of cover (i.e. e house owners insurance)
- ☐ Description of the risk
- ☐ Value at risk
- ☐ Premium
- ☐ No claim bonus
- ☐ Excesses
- ☐ Requirements
- ☐ Endorsements applicable to the section
- ☐ Specific exclusions and exceptions

Anything that is written into the policy schedule overrides what is printed in the standard policy wording. It will also be stated that policy schedule and wording must be read as a whole and not as separate parts to avoid disputes.

III) The Policy Wording

The pre-printed policy wording is included with the schedule for the client's information, to be read as a whole with the personalised schedule.

All multi-peril policies have the following sections included as standard:

- ☐ The heading
- ☐ The preamble or recital clause
- ☐ The operative clause
- ☐ Exceptions
- ☐ General conditions

The heading contains the name of Insurer and registered head office address. It may also have the Insurer's logo and some form of decoration.

The preamble/recital clause names the parties to the contract, i.e. the Insured and Insurer. The preamble clearly states that the proposal is the basis of contract between insurer and insured. A premium payment condition is also included, which means the contract only becomes enforceable when the insured has paid a premium to the insurer.

- ☐ For new business, premium is payable at, or before inception.
- ☐ Renewal premium is due on or before renewal date.
- ☐ Re – instatement of policies requires that all outstanding premium be paid before the policy is again in force.

The operative clause is where the insurer agrees to pay a claim when a loss, covered in terms of the policy wording and conditions, occurs. The insurer will not pay more than the amount specified on the schedule.

The insurer's option of indemnity (not the choice of the insured) can be cash payment, repair, reinstatement or replacement.

The exceptions state what an insurer will not cover. Naturally, insurers cannot provide cover for absolutely everything if premiums are to be kept economical and fair.

2.8.3 Standard General Exceptions on-a Multi-Peril Policy

Multi-peril policies have certain standard exceptions, included in all the policies, based on market agreements. These exceptions will be included in products of all Insurance companies and apply to all sections of the policy. Exceptions can never be covered in terms of the multi-peril policy, even if the client is willing to pay extra premium.

The following are general exceptions:

- ☐ Riot and labour unrest/strike (covered by SASRIA)
- ☐ War and war damage (covered by the government)
- ☐ Nuclear exclusion including radiation, contamination by nuclear fuel or waste; or nuclear weapons. Excluded are radiation and isotopes from medical apparatus.
- ☐ Cover for properties also covered by marine policies.
- ☐ Standard general exclusions

Items that do not comply with an insurer's general underwriting guidelines may be become acceptable later when risk improvements have taken place.

Exclusions may also be added to a policy at payment of additional premium to the insurer and does not form part of the basic package of risk cover.

The difference between an exclusion and an exception

Exclusions may be removed from the policy wording and be included and covered at the payment of extra premium.

Exceptions can never be covered under the multi-peril policy and cover is either through compulsory insurance or covered by the government.

2.8.4 General Conditions on a Multi-Peril Policy

All Multi-peril policies have general conditions that are included as standard practice. Conditions minimise the chance of disputes arising. General conditions state what the insured must do in certain circumstances, and also what the insurer will do in certain situations.

The following are common general conditions of multi-peril policies:

- ☐ Misrepresentation, miss-description and non-disclosure of material facts renders a policy voidable
- ☐ Other insurance –the policy will only pay its rateable loss and including application of average.
- ☐ Cancellation conditions and refund of premium
- ☐ Continuation of cover condition and when a policy will lapse
- ☐ Premium adjustments to be made
- ☐ The insured's duty to prevent loss or minimise danger after loss
- ☐ Claims procedure and conditions, rights of parties after claims, handling of fraudulent claims, subrogation, contribution, prescription period, and reinstatement after loss, collective insurance.
- ☐ Terms of contract is between insurer and insured and rights may not be transferred

2.9 SASRIA

The 1976 Soweto Students Riots lead to the formation of SASRIA. Insurers realized that they could no longer underwrite the losses arising from the politically motivated riots of the time, as it was almost equal to giving cover for civil war risks.

The aim of the rioting was to change social and political conditions, and this was therefore a fundamental type of risk, which affected everyone in the country.

As a result, SASRIA was formed and it opened its doors for business on 1 April 1979.

Originally only political riots were covered, but today non-political riots and strikes are also covered as reinsurers withdrew their support for the non-political covers in 1987. War risks are however still excluded.

SASRIA is for risks in South Africa however a similar arrangement (NASRIA) applies in Namibia. In other territories, normal insurers can issue riot cover if they are prepared to do so.

2.9.1 The SAIA General Exceptions in a Short-Term Policy

Most insurers are also registered agents of SASRIA for the purposes of handling the SASRIA administration of coupons and claims. They receive a commission for this purpose in terms of the SASRIA regulations. A confidential "Agency Agreement" contains the working details

SAIA is the South African Insurance Association. The members of this association the South African registered Short-Term Insurance companies.

The original SAIA Exceptions, also known as the "Standard SAIA Exceptions" includes general exceptions. These exceptions appear virtually on all Property and Motor policies issued by SAIA members.

The can be broken up into the following major event divisions:

- ☐ Non-political disturbances
- ☐ War risks
- ☐ Political riot risks
- ☐ War damage act risks
- ☐ Acts of terrorism
- ☐ Nuclear risks

With most of these events the reverse of onus of proof clause applies. This means that if an insurer alleges that one or more of the excepted events apply, the burden of proving that they do not apply, rests on the insured. Normally, the insurer has to prove that an exception applies.

Thus, the overall effect of the SAIA Exceptions on an underlying single or multi-peril policy is to automatically exclude the events listed above from the "underlying policy" cover(s).

Some of these excluded "events" can be "bought back" for an additional premium, which is payable to either the underlying insurer or to SASRIA, whichever one is providing the insurance or compensation cover in or beyond the RSA borders.

Very broadly, this would be for one of the following:

- ☐ Non-political disturbances excluding RSA - SAIA members
- ☐ Political/non-political riot, strike, labour disturbance, lockout, public disorder and acts of terrorism in RSA - SASRIA

- ☐ War damage Act risks - Government
- ☐ War risks - Uninsured (apart from above)
- ☐ Nuclear weapons risks - Uninsured

2.9.2 The Concept of Malicious Damage to Property

The term underlying policies refers to Property policies (or sections of policies) to which SASRIA insurance coupons can be attached. These "underlying policies" (which must include the Fire peril) cover basic accidental material damage to insured property such as by fire, lightning, hail, water, earthquake, impact by animals or vehicles and the like. These differ in nature from the more wilful events brought about by people in unrest and covered by SASRIA.

In terms of the SASRIA Regulations, there has to be a valid underlying policy (or section) issued by a SASRIA agent company, in force at the time SASRIA cover is taken out and at the time of any loss or damage occurs.

Full SASRIA "policies" exist for Standing Charges, Project Delay (Advance Standing Charges) and Motor.

Most of the terms and conditions of these underlying policies (or sections) are incorporated into the SASRIA coupon and become part of the coupon. In particular, the underlying SAIA Exceptions become part of the coupon (the SASRIA policy).

I) Malicious Damage Extension

This extension is not directly related to the Riot/Terrorism class of business in that there is no corresponding initial exclusion in the SAIA Exceptions that needs to be over-ridden. The exceptions to the Extension are, however, similar to those of the Riot & Strike Extension.

The intention of this Extension is to cover (non-fire) wilful physical damage to property by persons who maliciously intend to cause such damage, for whatever reasons other than those accepted.

2.9.3 Difference between SASRIA Coupons/Policies

There are five types of SASRIA cover available. Cover is issued, and the insured is provided with the appropriate coupon to prove that cover exists.

SASRIA documentation comprises of a certificate and a policy wording. It is normal in the insurance industry to refer to them as coupons.

The different coupons are outlined in Table 2.1

Table 2.1: Different coupons

Type of cover	Risks covered
Material damage	This is the coupon used to cover all risks other than those listed below.
Contract works and/or construction works	This covers some of the engineering type risks.
Consequential loss	This is for the Business Interruption Section.
Motor policy	This is for all types of motor vehicles.
Marine and inland transit	These are special arrangements for SASRIA cover for this type of risk as marine insurance normally covers strike, riot and civil commotion.

Marine/Goods in Transit are however mentioned separately only because a special scale of rates applies to these.

In the case of all the covers - except motor - there must be an underlying policy, issued through an insurer.

The insurer who issues the underlying policy must also issue the SASRIA coupon.

Only the material damage and motor policy is applicable to short term insurance personal lines and is considered in the subsections following:

I) Material Damage

The SASRIA Material Damage coupon is a cover document that rides in tandem with an underlying property policy or section that includes the Fire peril. Hence it is a coupon and not a policy itself.

The exceptions (SAIA Exceptions), terms, conditions, exclusions and warranties of the underlying policy are incorporated into the coupon and the two works as "one" SASRIA cover document.

When you read through the SASRIA material damage coupon/schedule, you should have a multi-peril policy at hand, so you can simultaneously refer to it and see –

- ☐ How the SAIA Exceptions are incorporated into the SASRIA coupon.
- ☐ How an underlying section (say Fire section) is incorporated into the coupon.
- ☐ How the riot, strike, labour disturbance, lockout, public disorder and terrorism perils are covered or excluded by the coupon.
- ☐ How the "one insured" concept is incorporated into the coupon.
- ☐ How the period in the schedule links with the underlying policy period.
- ☐ How the coupon schedule is signed.
- ☐ How the coupon excludes nuclear/bio-chemical terrorism.

At the same time, you should also read through the SASRIA regulations on material damage coupons to pick up additional information.

II) Motor Policy

The SASRIA Motor policy/schedule is a stand-alone policy and does not require an underlying motor policy. It can be issued for a single vehicle or for a fleet of vehicles.

As you read through the SASRIA Motor policy, you will find it quite easy to follow.

You should also read through the SASRIA regulations on Motor policies to pick up additional and necessary information.

2.9.4 Territorial Limits

SASRIA operates only in respect of risks within the Republic of South Africa and its territorial waters. A similar arrangement, called NASRIA (Namibian Special Risk Insurance Association) operates in Namibia. To make things easier for holiday makers and others:

- ☐ Vehicles registered in the Republic of South Africa, and insured with SASRIA, may travel in Namibia without the need for separate cover;
- ☐ Property in transit from South Africa to Namibia remains covered including the return journey but cover ceases if it is permanently handed over to anyone in Namibia.
- ☐ Cover for South African goods imported or exported through Namibia may be issued through SASRIA.

This is so that one does not need to take out two coupons, SASRIA and NASRIA, to cover the same journey. Similar arrangements apply to vehicles and property insured with NASRIA and passing through South Africa.

2.9.5 The Loss Limit on an Insured Entity

SASRIA, in providing insurance cover, limits its exposure to widespread national incidents and/or to a single major loss event, by using several “limitation mechanisms”.

The reasons for this are that, SASRIA’s funds may be inadequate to fully compensate everyone for widespread and/or major unrest losses at any one time.

The limitation mechanisms used are fairly simple in the way they work together and are as follows:

- ☐ **Monetary:** SASRIA limits it’s per insured entity liability to units of R300 000 000.
- ☐ **Time:** The monetary limit applies to any per insured entity’s losses in a “calendar year”.
- ☐ **Documentary:** The monetary limit applies over Material Damage/Standing Charges covers.
- ☐ **Family tree:** The limit applies over any one Holding Company and all its Subsidiaries.

While limiting SASRIA’s financial liability in various ways, the arrangement also affords the “One Insured” group a variety of compensation possibilities including the following:

- ☐ One or many subsidiaries could claim.
- ☐ One or more coupons/policies could be claimed under.
- ☐ Where insurance periods cross two calendar years, a further R300 000 000 becomes available.

Where higher limits are required, as is the case for very large corporations, application can be made to SASRIA for dispensation to obtain additional cover elsewhere.

2.9.6 Annual Adjustments to the Premium

Premiums must be paid over by insurers within 45 days of the month in which cover begins. Penalties are charged where the member fails to observe this requirement.

SASRIA premiums are normally annual premiums; however, because of the volume of monthly policies today, there is a facility for a monthly SASRIA policy.

- ☐ This is available to clearly identifiable group schemes, or a clearly identifiable group of individual policies.
- ☐ It is only available for true monthly policies and not for annual policies paid monthly.

A coupon is issued at the end of each month, providing details of the aggregate sum insured and/or the total number of vehicles listed.

Records of individual underlying policies will only be required by SASRIA in the event of a claim.

The calculation of premiums is a key office function and involves applying the correct property or other values to the correct SASRIA rates and discounts, to arrive at gross or net premiums for SASRIA coupons and policies. It is best done on an Excel or similar worksheet.